

RUSSIAN INDUSTRY IN MAY 2014

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According to business surveys of the Gaidar Institute¹ carried out in May, the situation in the Russian industry changed for the better. Forecasts of changes in demand, output and employment demonstrate positive dynamics. The stocks of finished products are successfully controlled by enterprises. The rate of employment keeps decreasing, but it is not excluded that additional workforce may be required.

The Industrial Optimism Index

The aggregate index of industrial optimism showed improvement in sentiments of the Russian industry (Fig. 1); it is based on three components out of four ones².

Demand on Industrial Products

In May, the initial data on demand did not show a traditional holiday decrease in sales as compared to April (as it was last year). As a result, clearing of the seasonal factor showed improvement in the dynamics of demand, but left the balance in the negative zone (Fig. 2). However, even that situation started to suit a slightly larger share of enterprises than before: the share of “normal” answers in evaluation of the demand rose to 50% and became equal to that of “below the norm” answers.

As a year ago, the forecasts of the demand increased by 7 points, however, with the seasonal factor cleared the total balance failed to enter the positive zone. However, minimum changes in the index justify a conclusion about its stability around the zero level, rather than any serious fluctuations from the beginning of the year.

1 Surveys of managers of industrial enterprises are carried out by the Gaidar Institute in accordance with the European harmonized methods on a monthly basis from September 1992 and cover the entire territory of the Russian Federation. The size of the panel includes about 1,100 enterprises with workforce exceeding 15% of workers employed in industry. The panel is shifted towards large enterprises by each sub-industry. The return of queries amounts to 65–70%.

2 The index is based on the arithmetic mean value of balances (different answers) of four questions from the IEP's monthly survey questionnaire: 1. Actual changes in demand, balance = %growth - %decrease; 2. Evaluation of demand, the difference of evaluations = % above the norm + % norm - % below the norm; 3. Evaluation of stocks of finished products, balance = % above the norm - % below the norm, the opposite sign; 4. Plans to change output; balance = %growth - %decrease. The index may vary from -100 points to +100 points. Positive values of the index mean that positive evaluations prevail. Negative values of the index mean that negative evaluations prevail. A decrease in the index value means worsening of the situation, while growth in the index value, improvement in the situation.

THE IEP INDUSTRIAL OPTIMISM INDEX. 2005-2014

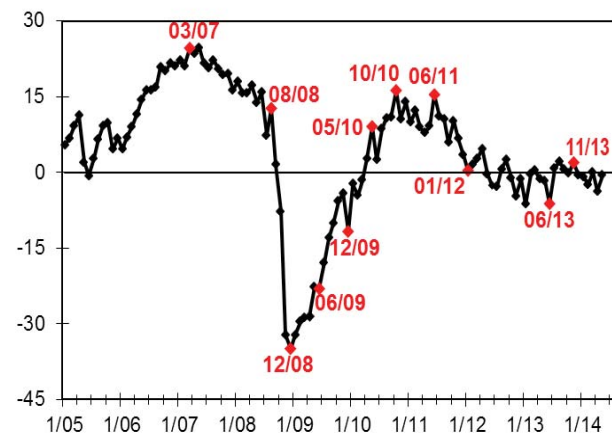


Fig. 1

SOLVENT DEMAND CHANGES CLEARED OF A SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)

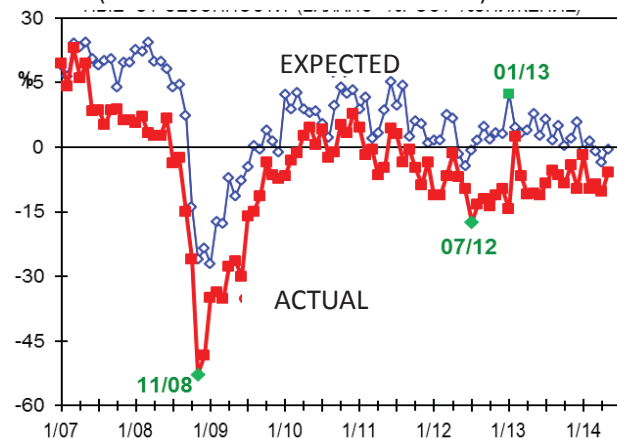


Fig. 2

Stocks of Finished Products

The balance of stocks of finished products rose (that is, got worse) by 5 points in May, but did not go beyond the band within which it stayed from July 2013 (Fig. 3). So, for 11 months running, industry demonstrated fairly successful management of stocks of finished products even in a situation of growing uncertainty and higher geopolitical risks. It is to be noted

that the share of the “normal” answers amounts at present to 69% and is close to the historic maximum level.

The Output

In May 2014, the output did not undergo downward changes which were typical of that month. The initial data of the survey showed that the output remained at the level of April, while the data cleared of the seasonal factor demonstrated growth whose rate was untypical of the past two years (Fig. 4). It seems the industry does not experience at all either the recession which was predicted, or sanctions on the part of Russia’s Western “partners”. The latest developments on Russia’ South-Western border sooner contributed to growth in output of the Russian industry due to both exit by Ukrainian competitors (for objective reasons) from Russian sales markets and markets of primary materials and subjective growth in military-political patriotism in new geopolitical conditions. Probably, it is an excessive one as pointed to by a small worsening of estimates of stocks of finished products.

In industry forecasts, growth in optimism was registered as well: growth of 12 points and 9 points as regards the initial data and that cleared of the seasonal factor, respectively. As a result, in March–April all the losses of that index were recovered and the balance of output plans returned to the level which was typical of that of expectations of the previous months, that is, a moderate one by standards of the pre-crisis years and first post-crisis years, but quite a good one with the prospect of the predicted recession taken into account.

Prices of Enterprises

In May, the industry returned to intense growth in prices it demonstrated in Q1 2014. So, a surge in their growth rates in April due to joint efforts by the Russian Central Bank and Russia’ Western partners was stopped by reverse actions by one authorities and indecisiveness by the other. However, the levels of the index of the beginning of 2014 and May 2014 exceed the respective values of 2013 and so far no decrease in that index is observed by the end of H1 as it used to be before.

A similar situation is observed with enterprises’ pricing forecasts. In May, they managed to return to the level of the beginning of the year after an unusual surge in March–April (Fig. 5).

Actual Dynamics and Lay-off Plans

In May, the industry demonstrated unexpectedly preservation of the former rates of change in the number of workers. As a rule, in that period the index

BALANCE OF ESTIMATES OF STOCKS OF FINISHED PRODUCTS (BALANCE=%ABOVE THE NORM - %BELOW THE NORM)

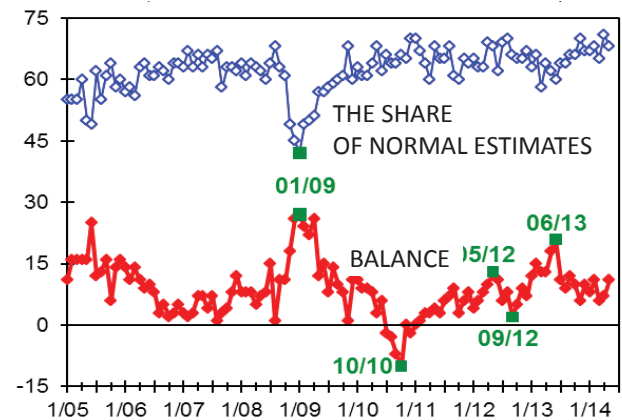


Fig. 3

CHANGES IN OUTPUT VOLUMES CLEARED OF A SEASONAL FACTOR (BALANCE = %GROWTH-%DECREASE)

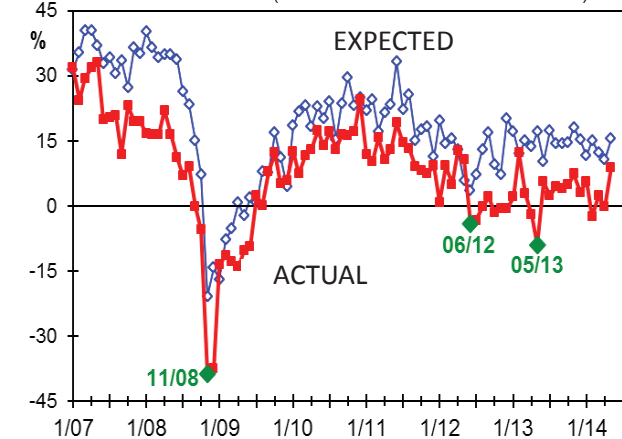


Fig. 4

CHANGES IN SELLING PRICES (BALANCE=%GROWTH-%DECREASE)

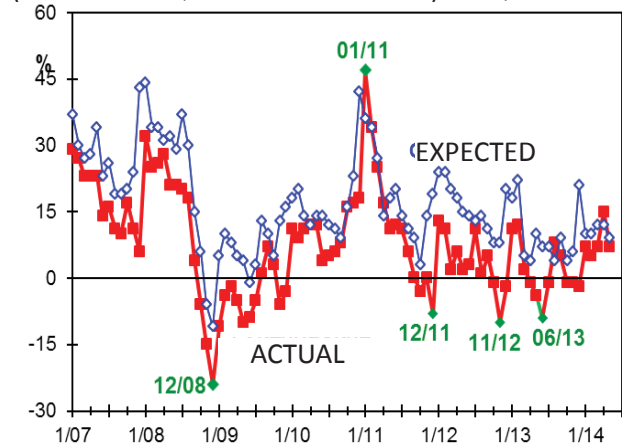


Fig. 5

normally changes for the worse as compared to the previous months. At present, it remains in the negative zone which fact points to continued reduction of the number of workers in the Russian industry. According to surveys, that process began in mid-2012 and since then enterprise have never succeeded in achieving the excess of the number of the employed over that of laid off.

Improvement in employment forecasts can be attributed to surprises of May 2014. Those forecasts rose by several points and entered the positive zone, though judging by the experience of the past few years they should have been negative ones. It seems the industry is seeking to realize its operating plans based on its output forecasts with employment of additional workforce (Fig. 6).

CHANGES IN EMPLOYMENT
(BALANCE=%GROWTH-%DECREASE)

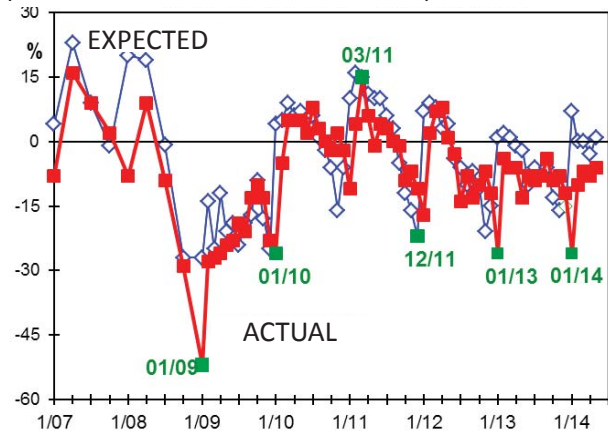


Fig. 6