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Russian Industry in October 2012

A detailed analysis of the October data of the surveys carried out by the Gaidar Institute¹ showed that the main indices of the demand, output and prices in industry started to slow down again. Employment rate is falling too because due to low wages and salaries workers quit their jobs and there is no confidence that even stagnating output volumes can be ensured.

The Industrial Optimism Index points to a halt of growth in positive sentiments in industry (Fig. 1).

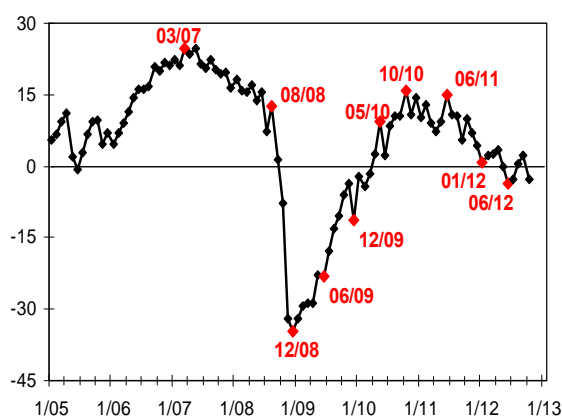


Fig. 1. The IEP Industrial Optimism Index, 2005-2012

The latest industry forecasts do not promise a change for the better in the situation until the end of 2012 (Fig. 2).

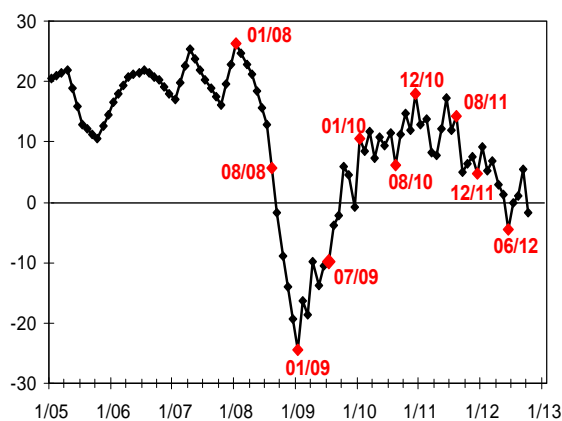


Fig. 2. The Industry Forecasts Index, 2005-2012

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%.

The Demand on Industrial Produce

The initial data on the dynamics of the demand showed growth in the downfall rates to -19 points. The more intense drop in sales after the dramatic phase of the crisis was registered before only in January 2010, 2011 and 2012. However, with the seasonal factor cleared such a sharp drop was smoothed to -15 points. So, the October result turned out to be better than in July 2012 when the demand dipped dramatically. A lack of positive changes in the dynamics of the demand gave rise to a higher discontent with its volumes. At present, the “below the norm” estimates account for 49%, while the best result of the year (41%) was registered in April.

The dynamics of the forecasts of the demand does not suggest optimism, either. The initial data became 11 points worse, while that cleared of the seasonal factor, 7 points worse and got negative one again (*Fig. 3*). In industry (on the basis of all the data) expectations of a decrease in sales prevail over forecasts of their growth.

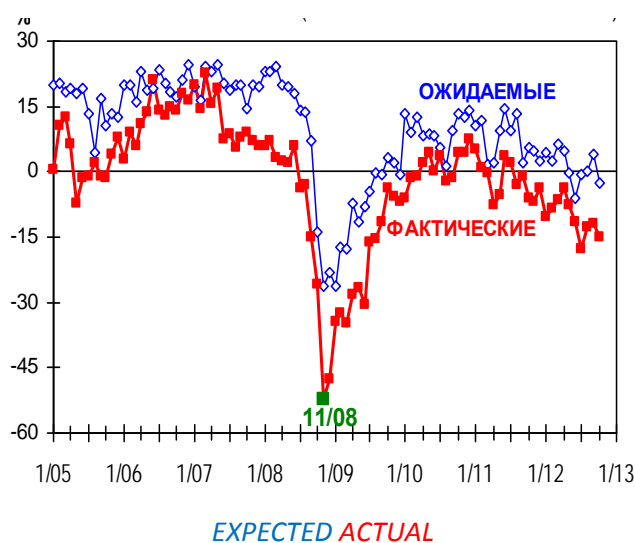


Fig. 3. CHANGES IN THE SOLVENT DEMAND CLEARED OF SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)

Stocks of Finished Products

The balance of estimates of stocks of finished products got worse (increased) by 2 points as compared to the September level, but preserved the most modest values in the past year and a half (*Fig. 4*). The above points to the fact that the policy of management of stocks is carried out carefully and it is confirmed by answers of enterprises to the direct question about the measures which were actually taken by them for preparation to the second wave of the crisis. Enterprises' plans show their intension to stick to that policy: the balance of the expected changes in the index currently amounts to 12 points. In the beginning of the 2nd quarter, it was equal to 23 points and reflected industry's readiness to reduce the existing surplus of stocks which happened to be the 34-month maximum. The industry succeeded in it; by the end of the 3rd quarter the balance of estimates of stocks fell by 11 points.

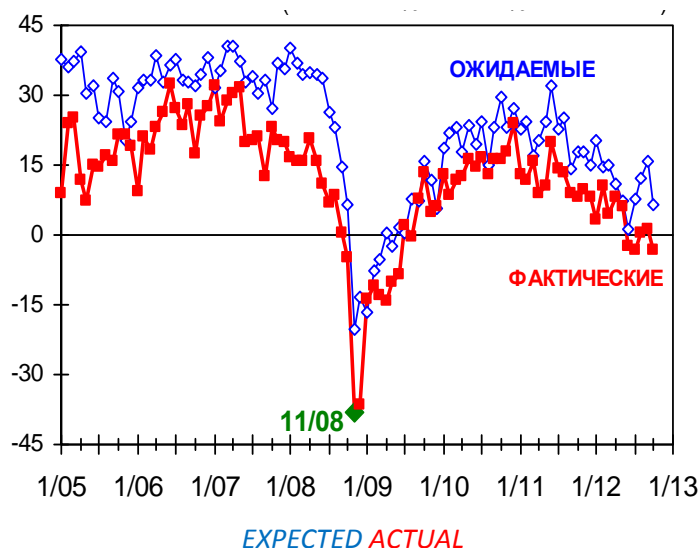


**Fig. 4. BALANCE OF EVALUATIONS OF STOCKS OF FINISHED PRODUCTS
(BALANCE=%ABOVE THE NORM-%BELOW THE NORM)**

The Output

Following the demand, the dynamics of the output dipped, as well. The above dynamics was virtually the only indicator on which basis analysts and officials judge on the state of the industry. The initial rate of change in the index fell to -7 points. In the past three years, the more intense drop was registered only in January 2010, 2011 and 2012. With the seasonal factor cleared, the output downfall rate in October is comparable with the results of June-July 2012 when the worst values of that index were registered since the mid-2009 (*Fig. 5*).

The output plans underwent explicit negative changes: initial plans lost 17 points and became negative ones, while those cleared of the seasonal factor, 10 points and remained (so far?) in the positive zone. Downward revision of the initial output plans to such a low level was usually registered in the previous post-crisis years one or two months later (that is, in November-December). As a result, rapid growth in optimism in the 3rd quarter (the balance of plans grew by 15 points then) was replaced by pessimism which was untypically low to October.



**Fig. 5. CHANGES IN OUTPUT VOLUMES CLEARED OF SEASONAL FACTOR
(BALANCE=%GROWTH-%DECREASE)**

Prices of Enterprises

Russian industrial enterprises remain to be cautious about their pricing policy. After quite a logical spike of prices in July caused by the government decision on price increase by natural monopolies, in August-October their dynamics returned to the minimum growth. The main factors behind that are the weak demand in industrial produce and preparation efforts to the second wave of the crisis.

Enterprises' forecasts show that they are prepared to keep in check their prices in future. In October, their expected growth rates lost another 5 points and fell to the 12-month minimum (Fig. 6).

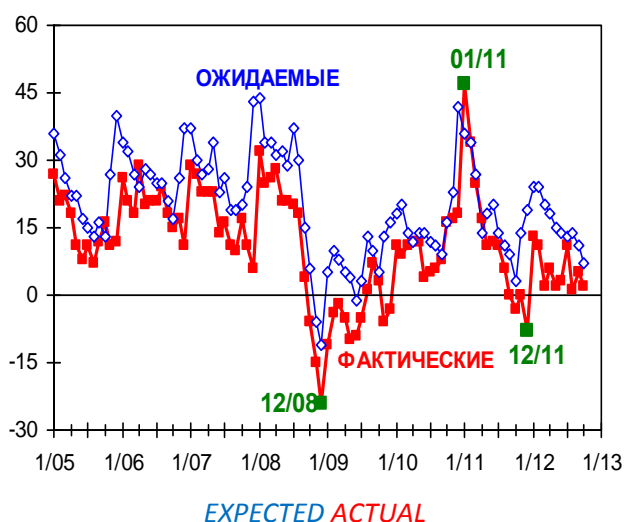


Fig. 6. CHANGES IN SELLING PRICES (BALANCE-%GROWTH-%REDUCTION)

Actual Dynamics and Lay-Off Plans

In October, the number of the employed in industry kept decreasing. In 2012, that process began as early as June and reached its peak in July and September-October. Forecasts of change in employment reached the negative zone in June, while in October attained the level of November 2009-2011. The number of workers at industrial enterprises will keep going down (Fig. 7).

Enterprises stopped to be content with such a situation. First, in the second half of 2012 a lack of personnel was a factor behind slow-down of output with 30% of enterprises. Second, late in 2012 enterprises became less provided with the personnel. At present, in industry there are more enterprises experiencing personnel shortages than those with a surplus of workers.

At first sight, the latest values of the above indices are not beyond the frameworks of the ones which were typical of late. However, if the dynamics of the main indices of industry is taken into account the evaluation of the situation with the personnel will change. Two year ago, the industry reported the highest growth rates of demand and output after the 2008–2009 crisis. At present, the situation is quite different: the demand and output do not grow and the optimism index shows that sentiments in the industry get worse. Forecasts point to growth in pessimism again. The number of the employed in industry is decreasing and there is less confidence with enterprises that they will manage to find workers to maintain even such output volumes.

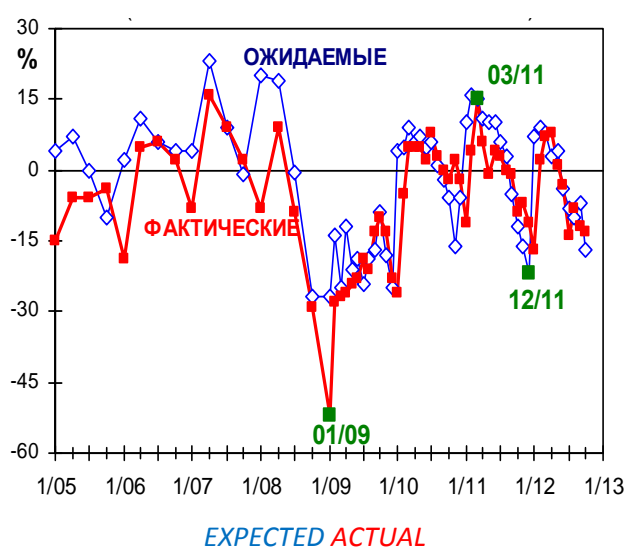


Fig. 7. CHANGES IN EMPLOYMENT (BALANCE=%GROWTH-%DECREASE)

Enterprises' Investment Plans

In October, investment plans of the industry became negative ones, that is, enterprises plan a total reduction of capital investments in the forthcoming months (Fig. 8). However, such a result is a logical continuation of the trend of slowdown of growth in investments, which trend was formed in enterprises' plans as early as May 2012. If officials and analysts express discontent with such results, enterprises, on the contrary, demonstrate growth in satisfaction. Late in the 3rd quarter, 63% of enterprises were satisfied with volumes of their investments; in the 1st quarter of 2012 that index amounted to 59%. There is no contradiction in such mixed

dynamics of volumes and their evaluations if other indices of surveys carried out by the Gaidar Institute are taken into account.

First, in industry there are still a lot of enterprises with excessive capacities. In the 4th quarter of 2012, they accounted for 23%. The result of the 3rd quarter was more impressive: 30%. At the height of the crisis (the 1st quarter of 2009), the share of enterprises with excessive capacities amounted to 43%.

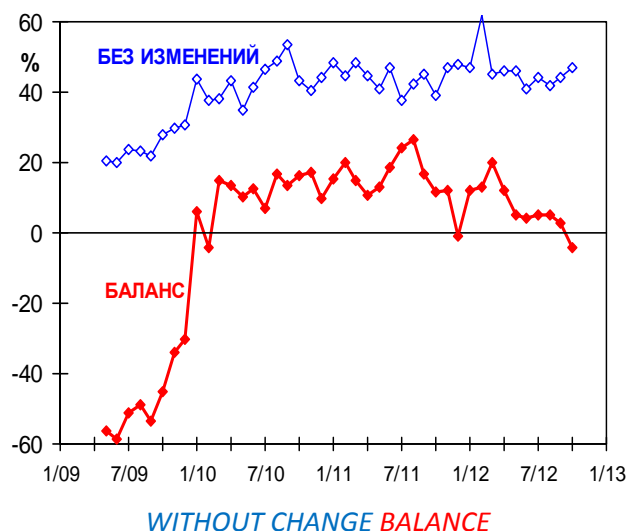


Fig. 8. EXPECTED CHANGES IN INVESTMENTS IN CAPITAL FUNDS ON THE PREVIOUS YEAR (BALANCE=%GROWTH-%DECREASE)

Second, a lack of equipment inhibits growth in output with only 13% of enterprises and it is rated the 8th in the rating of 13 monitored troubles. That is the best result in the past eleven quarters. Six months ago, lack of equipment was regarded as a trouble by 17% of enterprises, but even the subsiding investment activity permitted to diminish by 4 points the effect of that factor on the dynamics of the output. Third, at present the insufficient demand is regarded as a trouble by 59% of enterprises and its negative effect on the Russian economy is invariably growing. In such a situation, it appears illogical to expect revival of investment activities.