

## THE RUSSIAN INDUSTRY IN SEPTEMBER 2014

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According to the data of business surveys of the Gaidar Institute<sup>1</sup>, September showed that most indices remained at the same level. The stable dynamics of demand permitted to maintain the previous growth rates of output with invariable estimates of reserves of finished products and stable pricing policy of producers. Positive changes were registered in forecasts of sales and production, while negative ones, in availability of loans.

**The Demand on Industrial Produce<sup>1</sup>**

In September, the dynamics of demand on industrial produce showed some worsening on the basis of the initial data, but with clearing of the seasonal factor it recovered (Fig. 1). As a result, the rate of change in demand remained at the same level which was registered by means of business surveys for five months running. So, according to the estimates of enterprises no principal changes in the dynamics of sales volumes took place.

However, such stabilization is assessed differently by enterprises. In August–September, satisfaction with demand rose to 60%, while in June–July it amounted to 53%. It turns out that such a modest dynamics of sales and its result in present-day conditions are regarded by enterprises as success.

In the past few years, forecasts of demand showed a fair level of optimism which reached the 16-month maximum in September.

**Stocks of Finished Products**

In September, estimates of stocks of finished products underwent the same modest changes as those of sales volumes (Fig. 2). The balance of the index got worse by 1 point, while for the past two months it fell by 3 points after reaching the 40-month maximum level in July. At the same time, maintaining of stocks at the minimum level of redundancy may point to uncertainty as regards demand growth in the near future.

**The Output**

Unlike the data of the past three years, the initial data on the dynamics of the actual output in Q3 2014 is much better; it points to higher and more

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%.

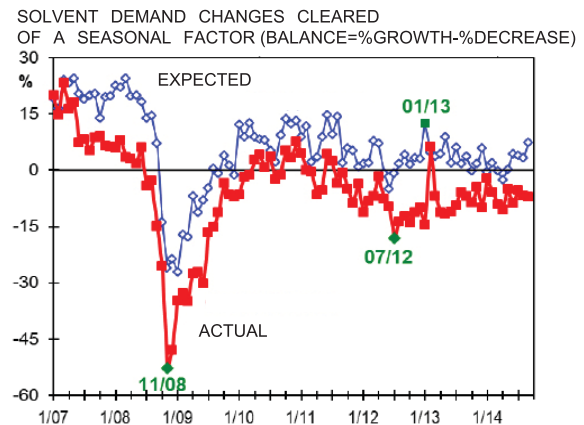


Fig. 1

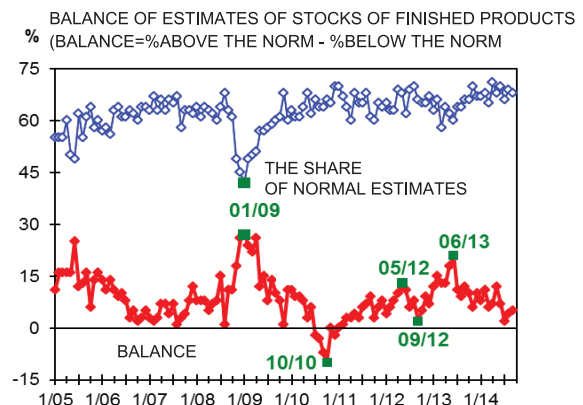


Fig. 2

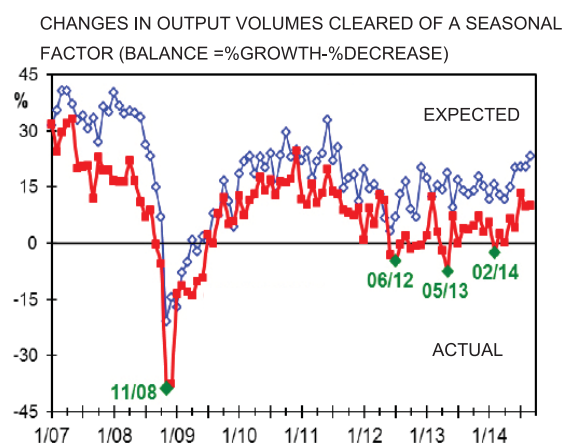


Fig. 3

stable growth rates of output. With the data of business surveys cleared of a seasonal factor, in July–September 2014 the output growth rates turned out to be the best ones in the past two years and a half (Fig. 3).

A similar situation takes place with output plans of enterprises. From May, they have remained almost at the same and very optimistic level, though usually after a surge in January–February they lose optimism and enter the negative zone in October–December (that is, expectations of a decrease in output should prevail over plans of its growth). As a result, clearing of a seasonal factor showed that in September the optimism of output plans reached the 3-year maximum and did not look incidental after consistently high expectations of June and August.

### Prices of Enterprises

In 2014, enterprises' pricing policy is characterized by a relative stability (as compared to previous years) at the level of the index's moderate growth. An exception so far is April and partially May when the Ukrainian conflict affected the exchange rate of the ruble. However, after that even growth in tariffs in the beginning of H2 2014 and Russia' retaliatory food sanctions did not have an effect on the dynamics of prices of Russian enterprises. As a result, from June growth rates of prices have been virtually at the same level and in line on average with enterprises' pricing forecasts of July–September (Fig. 4).

### Actual Dynamics and Lay-off plans

In September, the actual dynamics of employment in industry did not undergo any changes. As before, lay-offs of workers prevail by 7 p.p. over hiring (Fig. 5). A similar situation has remained in industry from February, except for May–June, when the balance of changes of the index first rose to -2 points and then fell to -13 points. A similar situation was also observed in 2013. In the 2010–2012 period, industry managed to achieve prevalence of hiring over lay-offs late in Q1 and early in Q2 after large-scale exits of workers in January. In the past two years, enterprises failed to do that.

### Lending to Industry

In September, industrial enterprises started to experience worsening of the terms of lending which situation was long expected by experts. The aggregate availability of loans fell to the 54-month minimum (Fig. 6). At present, only 61% of enterprises is satisfied with the offered terms of lending. In the past four and a half years, the above index did not fall below 65%.

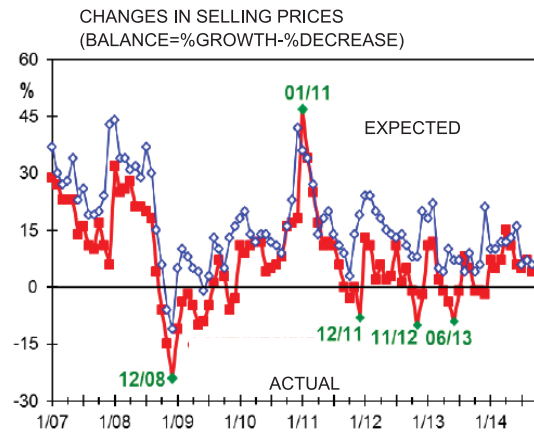


Fig. 4

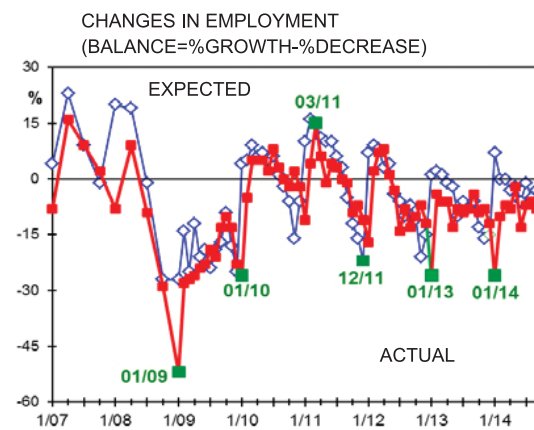


Fig. 5

THE SHARE OF ENTERPRISES WITH A NORMAL AVAILABILITY OF LOANS AND SUFFICIENT POTENTIAL TO SERVICE THEM, %

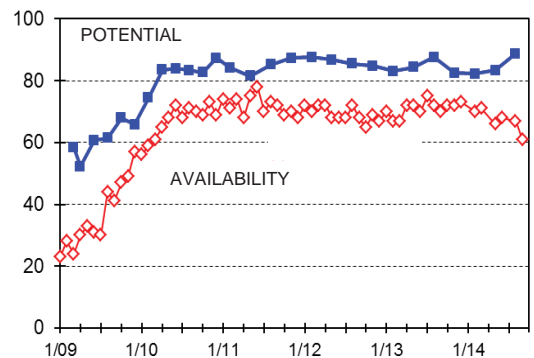


Fig. 6

However, so far the industry retains a high potential to service the existing loans. Moreover, in Q3 2014 it rose to 89%. Such is the share of enterprises which are able to service the existing loans. At present, that index reached the maximum level throughout the entire period of monitoring (from the beginning of 2009).

### Enterprises' Investment Plans

In September, the industry's investment plans consolidated at the level which was not observed du-

ring the past two and a half years (*Fig. 7*). In August–September, the balance of the expected changes in the index exceeded the level of June–July when the industry’s investment plans entered for the first time in 12 months the positive zone. At present, only 22% of enterprises plan to reduce investments in their own production; the above value is the minimum (that is the best result) since April 2013.

Despite slowdown of investment activities and modesty of investment plans which situation is of great concern to the authorities, enterprises regard the situation quite differently. In Q3 2014, 62% of Russian industrial enterprises is satisfied with investments. ●

EXPECTED CHANGES IN INVESTMENTS IN CAPITAL ASSETS AS COMPARED TO THE PREVIOUS YEAR (BALANCE=%GROWTH-%DECREASE)

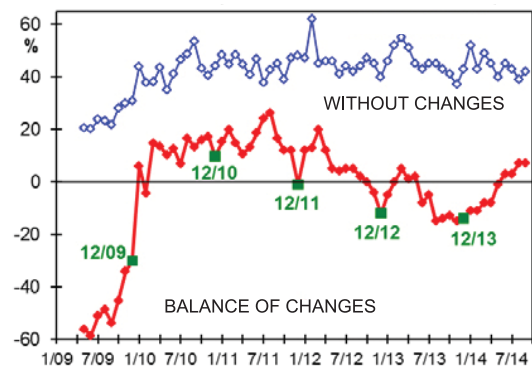


Fig. 7