

## THE RUSSIAN INDUSTRY IN NOVEMBER 2014

S.Tsukhlo

*In November, according to the data of business surveys of the Gaidar Institute<sup>1</sup>, the industry failed to retain the positive impulse of previous months. The negative dynamics of demand failed to live up with enterprises' expectations as regards the effect of import substitution declared by the authorities, though in plans, forecasts and estimates of stocks of finished products positive sentiments still prevailed. A powerful wave of the rate of inflation affected both costs and pricing plans of enterprises. Investment plans are becoming more pessimistic, while terms of lending are getting tougher.*

### The demand on industrial produce

In October–November, the dynamics of demand on industrial produce is getting closer to the path of the index of 2013, though before September it demonstrated a change for the better. As a result, the rate of change in demand cleared of the seasonal factor got worse by 3 points (*Fig. 1*).

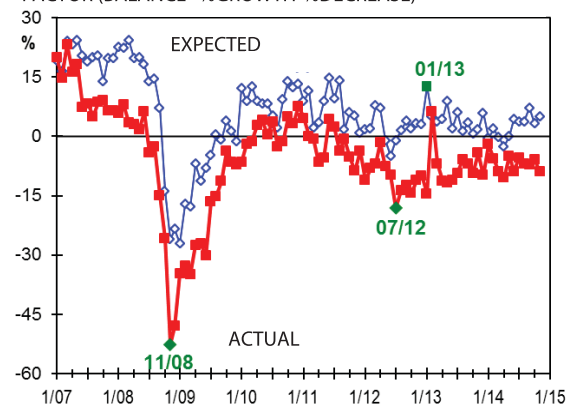
The above factor had an effect on estimates by enterprises of current volumes of demand. After a decrease of 3 points in October, in November the share of the “normal” answers fell by another 5 points. It seems the industry expected more from import substitution as a result of actions by both political and monetary authorities. However, due to explicit worsening of the Ukrainian crises the Russian industry still expects higher extent of import substitution which situation is pointed to by forecasts of demand that are better than those of the previous year both as regards the initial data and that cleared of the seasonal factor.

### Stocks of finished products

In the next few months, stock of finished products at warehouses may underpin industrial growth. In October–November, balances of estimates of stocks of finished products (“above the norm” – “below the norm”) are at the level of the post-crisis minimum. It is to be noted that the share of “normal” answers (70%) virtually attained the historic maximum level (71%) registered in April 2014. So, enterprises successfully manage their stocks of finished products; it is to be noted that rather weak dynamics of industrial production of the past few years contributed most probably to that.

<sup>1</sup> 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%.

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



*Fig. 1*

However, another scenario of developments cannot be excluded where the pre-crisis panic supported by authorities as well leaves no hope of output growth for enterprises and makes them reduce further their stocks of finished products. As a result of that, the balance may become a negative one (that is, the “below the norm” estimates will prevail). Such a situation was registered by business surveys in the 1999–2000 period and 2010 when that index amounted to rather substantial negative values.

### The output

In November, the output growth rates which demonstrated in the past few months unexpectedly positive values switched over to more expected levels. The initial values of the index lost 12 points and were equal to the zero, while those cleared of the seasonal factor fell by 7 points (*Fig. 2*). So, it seems that growth in industrial production which surprised everybody came to nought in November.

However, enterprises' plans did not turn out to be that negative so far. In November, they lost 4 points as regards the initial data which situation permitted formal methods of clearing to show improvement of

3 points in the final value of plans and kept the balance of plans close to the post-crisis maximum.

### Prices of enterprises

In a situation of a growing inflationary pressure, the Russian industry retains so far growth in its prices at the same level. No changes in the growth rates of that index took place in November, as well (Fig. 3). For quite clear reasons, the latter falls out from the normal dynamics of the index of the past few years when in final months of a year growth rates of the industry's selling prices used to slow down and even turned out to be negative (as assessed by enterprises).

The forecasts show that further preservation of relatively low growth rates of enterprises' prices is already impossible. In November, the balance of forecasts rose suddenly by 14 points after staying at the level of 6-7 points during four months. Such a surge in that index is normally registered later and is not that dramatic.

### Enterprises' costs

Growth in prices forecasted by enterprises is consistent with the dynamics of costs. In Q4 2014, growth rates of costs of industrial production rose by 21 points. Such a dramatic change in that index was not registered by business surveys for seven years. As a result, at present the balance of changes (growth rates) in costs reached the maximum of the past 15 quarters. Forecasts of change in production costs underwent even greater adjustment. In Q3 2014, after registration of the minimum growth rates in the past 16 years (that is, in the entire post-default period!!!), they surged by 36 points.

### Actual dynamics and lay-off plans

In November, the Russian industry managed to retain the minimum rates (balance) of lay-offs at enterprises. The index did not virtually change as compared to October and remained at the level which was close to the two-year maximum (Fig. 4), that is, such a modest rate of lay-offs was not registered in industry for the past two years.

The above factor is undoubtedly an advantage to the Russian industry as the registered cuts in personnel take place more often not at the discretion of employers who optimize the number of the employed at enterprises in expectation of the promised crisis, but at will of workers who quit low-paid jobs. As a result, in Q 2 2014 the industry experienced a lack of workers "due to expected changes in demand" at 18% of enterprises against a surplus of workers again "due to expected changes in demand" at 9% of enterprises. The balance which was traditional to business surveys

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

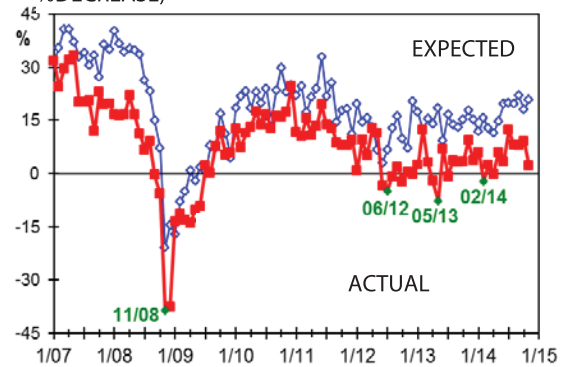


Fig. 2

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

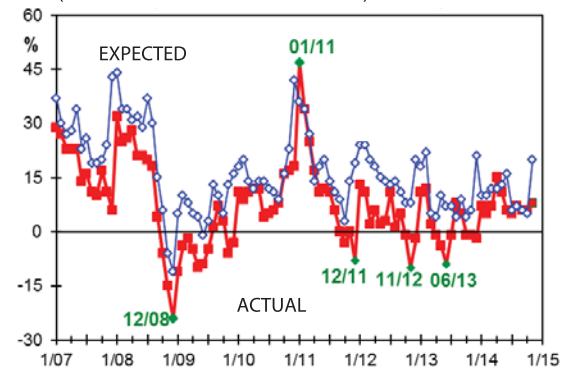


Fig. 3

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

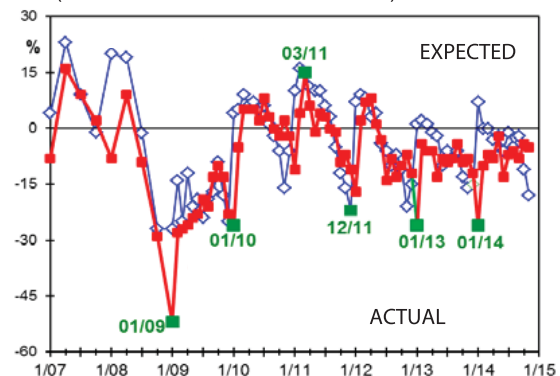


Fig. 4

turned out to be a negative one which situation pointed to a lack of the resource for meeting the dynamics of demand expected by the industry. The average annual data of the 2013–2014 stagnation period points to a lack of workers at 16% of enterprises which is equal to the average annual indices of the 2000–2006 period. In 2007, labor shortages were experienced at 23% of enterprises, against 26% in 2008.

**Enterprises' investment plans**

Enterprises' investment plans keep losing optimism. In November, their balance fell by another 6 points and amounted to the level of -11 points. The maximum investment pessimism was registered in the industry in August–December 2013 when the balance of plans fell to -15 points.

So, a short period of hope for a revival of investment activities (June–September) gave way to a sudden return to former rather pessimistic investment sentiments in the industry. So, a three-month long drop of 18 points in plans can be regarded as evidence of further worsening of the investment crisis in the Russian industry even in a situation of import substitution expected (planned) by the authorities. ●