

THE RUSSIAN INDUSTRY IN MARCH 2015

S.Tsukhlo

According to business surveys carried out by the Gaidar Institute¹, in Q1 2015 the Russian industry managed to escape the crisis output gap despite a slow recovery of demand after January holidays. The latter factor does not suit a growing number of enterprises which judging by the estimates of stocks of finished products confidently control for the time being the balance between demand and supply. Slowdown of growth in prices, reduction of the banking rate and breaking of the negative trend in investment plans appear explicitly positive.

Demand on the industrial produce

In March, industrial produce sales kept recovering after a traditional dip in January though with a lag from the schedule which was typical of the past years. At present, the rough balance (rate) of change in sales volumes amounted only to the zero level, while in the previous years it amounted in March to +5 ...+10 points. As a result, clearing of the seasonal factor shows low rates of change for that month, but they are not crisis ones. It is to be noted that similar rates were already registered by surveys in H2 2012. In such a situation, satisfaction with sales volumes keeps falling. In Q1, the share of the "below the norm" estimates increased by 5 points and became equal to that of the "normal" estimates of the current demand on the produce.

Sales forecasts failed to gain proper optimism, too. In February, they amounted only to +7 points, though earlier that month they were as high as +20 points. In March, the balance of forecasts traditionally decreased, but was not a negative one. So, the data cleared of the seasonal factor showed a drop in the index in Q1 to the worst values from mid-2009. Thus, further decrease in demand cannot be excluded.

Stocks of finished products

However, estimates of stocks of finished products (Fig. 1) show that the industry confidently controls the balance of demand and supply in expectation of the crisis and there is for the time being no evidence of the forthcoming crisis in those estimates. From July 2014, the balance of estimates has been consistently in the range of -2...+4 points with the record value (73%) of the share of the "normal" answers. The industry pre-

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%.

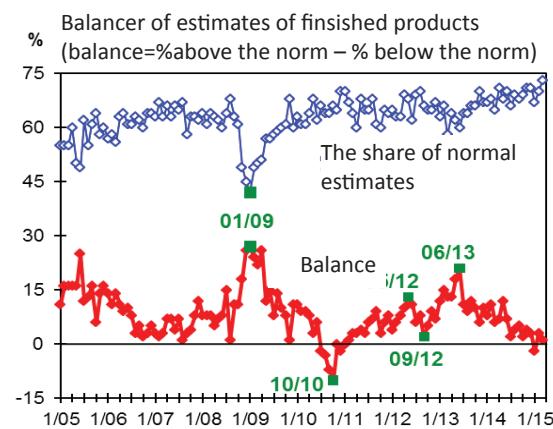


Fig. 1

vents a possible future crisis drop in output from an additional impact due to a need of "crisis clearing" of warehouses of finished products.

The output

However, it seems the industry has no need to clear warehouses in the near future. Quite on the contrary, enterprises' output plans point to the positive scenario of development. In March the balance of those plans increased by the mere three points (after seasonal clearing) and thus broke the negative trend of October 2014 – February 2015 when the balance fell by 11 points.

The actual dynamics of industrial output looks positive (for the "crisis" period), too. In March, it stayed away from a crisis slump and showed after clearing of the seasonal factor former modest growth rates of output (Fig. 2). So, for the Russian industry Q1 of the crisis 2015 year happened to be far from the actual crisis, at least, as regards the volume of industrial output.

Enterprises' prices

The Russian industry has started to lay foundation for future growth in demand on its produce – this is how enterprises' pricing policy can be interpreted

(Fig. 3). In March, the industry continued to slow down growth in its prices; the most intense growth in the past four years was registered in January 2015 when the balance ("growth" – "decrease") amounted to +42 points, while the share of the "no change" answers fell to 49%. The latter value has become the post-default minimum of the index, that is, since January 1999 the number of enterprises which kept their prices unchanged has not been that small as in January 2015. At present, the level of stability of prices in industry rose to 69% – that is the percentage of enterprises which reported that they did not change their prices in March as compared to February 2015. The absolute record of that index (in the entire 1992–2015 period of monitoring) was achieved quite recently: in August 2014 87% of enterprises reported about stability of their prices. However, the Russian counter-sanctions and depreciation of the ruble in December reduced by nearly 40 p.p. the level of stability of enterprises' prices.

Enterprises' plans point to enterprises' intentions to reduce their prices even further. In March the balance of price plans fell by another 9 points, while the aggregate reduction in February–March amounted to 19 points. Such a dramatic adjustment of that index has not been registered by the surveys after the 2008 crisis.

Actual dynamics and lay-off plans

In a situation of lay-offs which began (or were declared) in other sectors of the economy and slowdown of growth in wages and salaries, the Russian industry in general got more opportunities of solving its personnel issues. According to business surveys (Fig. 4), even in Q1 2015 (when panic crisis sentiments of economic agents reached the maximum level) a quarter of industrial enterprises experienced a lack of the personnel to ensure the current volume of the output, while 15% of enterprises expected it to remain unchanged in the short-term prospect with taking into account the expected changes in demand.

In such a situation, achievement of the positive dynamics of employment in March 2015 (that is the share of reports on hiring was higher than that on lay-offs) appears quite logical. It is to be noted such a situation has not been registered in the industry in the past three years, that is, only early in 2012 the industry managed to increase the number of workers. However, the subsequent growth in wages and salaries in other sectors of the economy (particularly, in the public sector) deprived the industry of the competitive edge on the labor market and resulted in sustained decrease in the number of workers in

Changes in output volumes cleared of a seasonal factor (balance =%growth-%decrease)

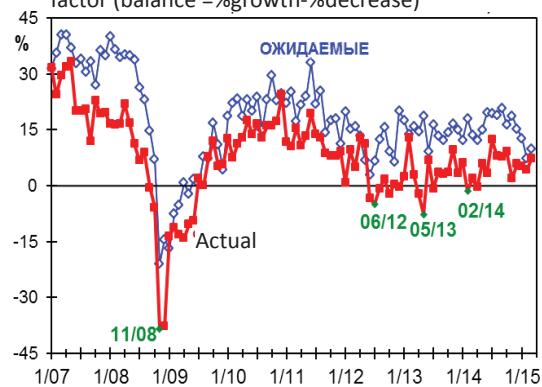


Fig. 2

Changes in selling prices
(Balance=%growth-%decrease)

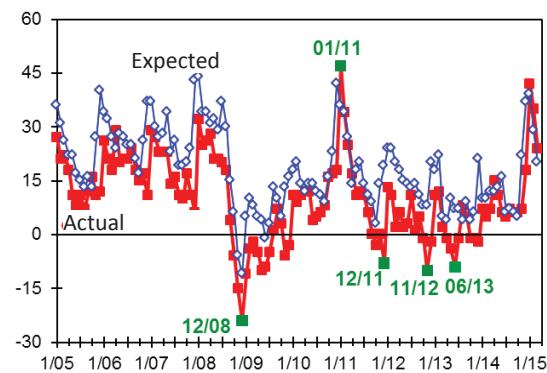


Fig. 3

Changes in employment
(Balance=%growth – %decrease)

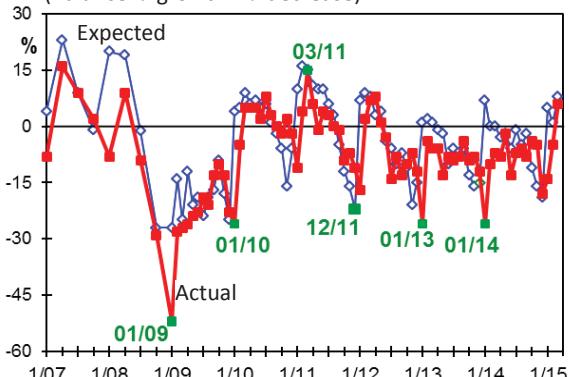


Fig. 4

the industry and personnel shortages at 37% of enterprises.

Enterprises' investment plans

In investment plans of the industry, a foundation of the future (so far distant) industrial growth – but now an investment one – is being laid (Fig. 5). A case for such a conclusion is a breaking point in enter-

prises' investment intentions. If in September 2014 – February 2015 the balance of those plans was steadily decreasing, lost 43 p.p. and eventually amounted to the worst level from October 2009, in March the above index improved by 10 points.

A factor behind such a breaking point in the sentiments of the Russian industry was the fact that satisfaction with the volumes of investments in industry fell dramatically. It is to be noted that only 42% of enterprises assessed investments in Q1 2015 as "normal" ones against 55% of "normal" assessments in Q4 2014. As a result, the index fell to the absolute minimum from the mid-2010 (when the monitoring of those assessments began).

Expected changes in investments in capital assets as compared to the previous year (balance=%growth-%decrease)

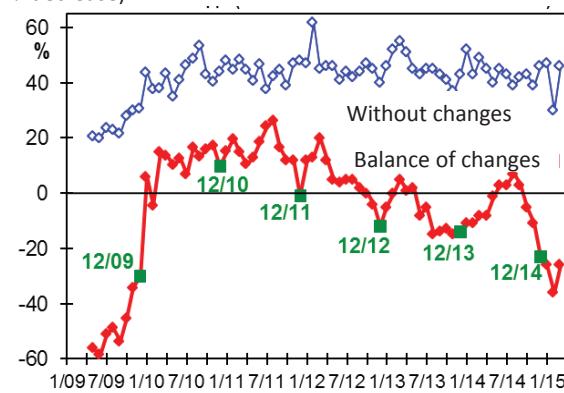


Fig. 5