

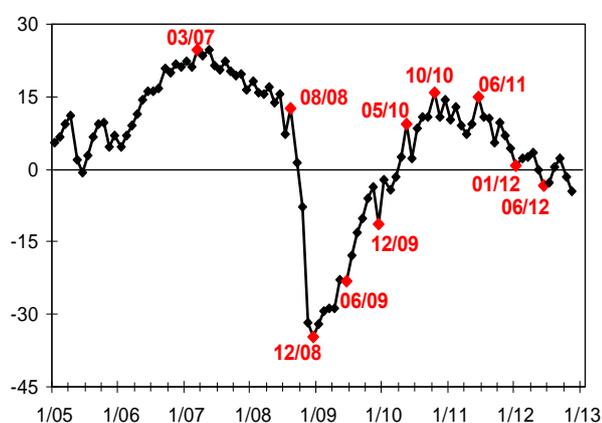
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## Russian Industry in November 2012

According to the data of surveys carried out by the Gaidar Institute<sup>1</sup>, the situation of enterprises changed sooner for the worse, rather than improved. The demand kept falling and its forecasts suggested no optimism. In such conditions, even the existing stagnation of production results in the advanced dynamics of output as compared to that of sales. Such a situation contributes to accumulation of risks of production failure and makes enterprises introduce serious negative adjustments into their output plans and use a price reduction as an incentive for the demand.

### The Industrial Optimism Index

In November, the Industrial Optimism Index (*Fig. 1*) kept falling due to weak demand on the output.



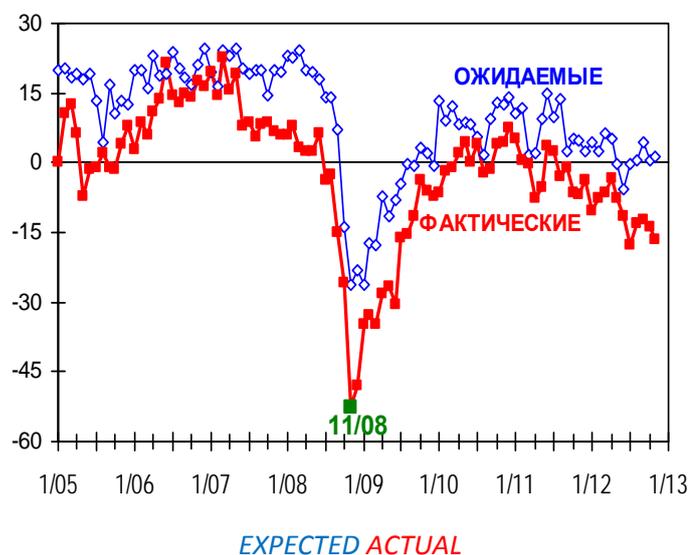
*Fig. 1.* The IEP Industrial Optimism Index, 2005-2012

### The Demand on Industrial Produce

In November, the rates of reduction of the demand on industrial produce increased. The initial data showed that it amounted to -22 points after -17 points in October and became the worst one in the past three and a half years if the January dips are not taken into account. The data cleared of the seasonal factor showed that it decreased to -17 points; a similar result was received in July 2012, as well (*Fig. 2*). The above values are the absolute minimum in the past three and a half years... The demand forecasts do not suggest optimism, either. According to the initial data, they were revised downward to the three-year minimum. With the seasonal factor cleared, they returned to the zero level at which they have remained from May 2012 (however, there were two exceptions in June and September).

<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%.

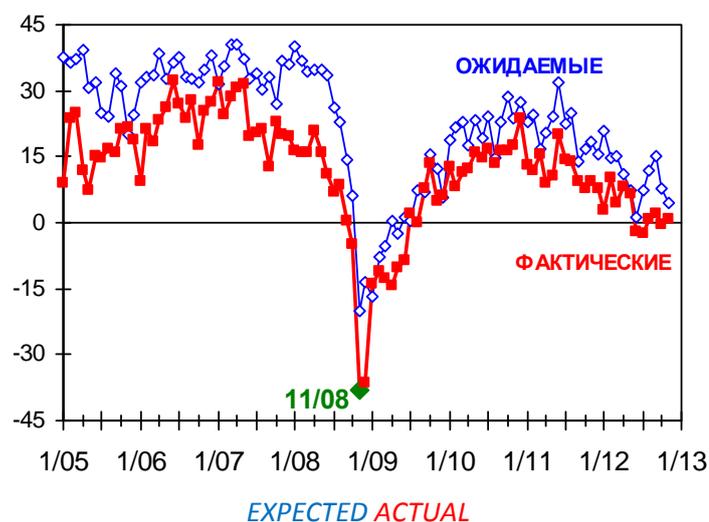
Both the negative dynamics of the demand and a lack of expectations of its revival (particularly on the threshold of the January national holidays) pushed significantly downwards the level of satisfaction with current sales. Within a month, the index fell by 18 points to the 32-month minimum. At present, 54% of enterprises regards their sales volumes “below the norm” against 45% of enterprises which assess them as normal. A month ago, the situation was quite the opposite. The demand started to get weaker again to the extent which is critical to enterprises.



**Fig. 2. CHANGES IN THE SOLVENT DEMAND CLEARED OF SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)**

### ***The Output***

In November, the output growth rates did not change and remained at the zero level. Such a situation is registered by surveys from June 2012 and confirmed later by the official statistical data. Clearing of the seasonal factor does not introduce any particular changes in the initial data and demonstrates changes in the output growth rates for six months running in the range of from -2 points to +2 points (*Fig. 3*). Output stagnation in Russian industry still prevails. Unfortunately, that stagnation may entail serious consequences which are not explicit on the basis of preliminary official data.



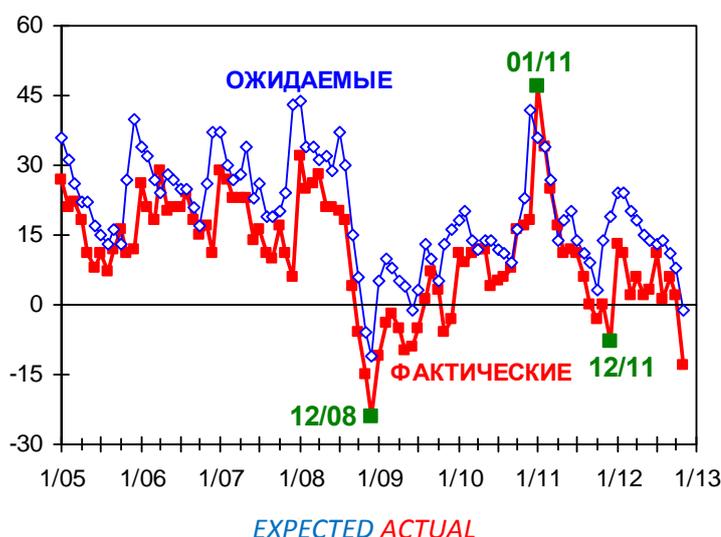
**Fig. 3. CHANGES IN OUTPUT VOLUMES CLEARED OF SEASONAL FACTOR  
(BALANCE=%GROWTH-%DECREASE)**

They include the advanced dynamics of changes in the output as compared to that of the demand. In November, the share of enterprises with the advanced dynamics of changes in the output as compared to that in the demand amounted to 31% though earlier in 2012 that index was in the range of 12% to 29%. So, the explicit stagnation of the output builds up production failure risks in a situation where enterprises will have to bring their output in line with the demand on their products.

The first signs of such an adjustment can be found in November output plans of enterprises. Within a month, the initial plans decreased straight by 15 points and turned out to be the worst ones in the 2010–2012 period having surpassed even traditional weak December forecasts. Clearing of the seasonal factor showed a decrease of the mere 4 points, but to the values which were the worst ones since the mid-2009 (if a dip in June 2012 is not taken into account). As a result, in November 2012 adjustment of output plans with demand forecasts amounted to 80% which is the record value in the 2009–2012 period. In November 2008, that index rose to 83%, while in December, to 88%.

### **Prices of Enterprises**

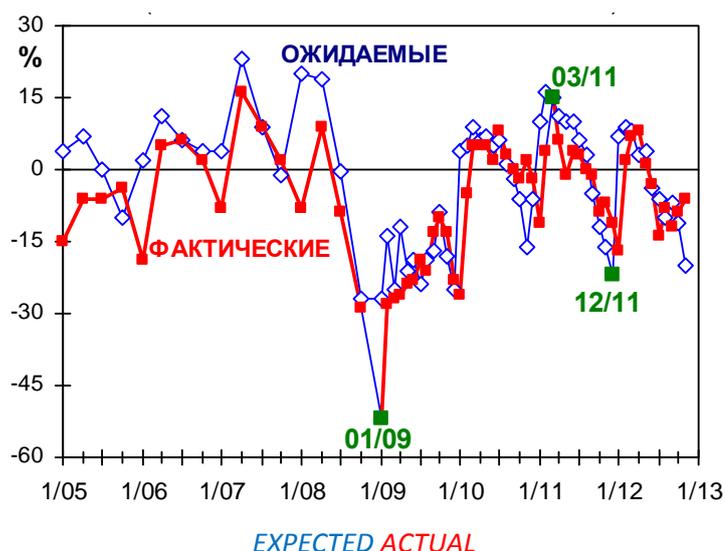
Another measure which was aimed at ensuring the balance between the output and demand was prices of enterprises. In November, the industry shifted from the minimum price rises (normally, in the range from +2 to +6 points) to sharp price cuts (*Fig. 4*). Within a month, the balance fell to -13 points and hit the absolute minimum of the 2009–2012 period; that is, selling prices never fell so sharply from December 2008 when the industry went through the peak of the current crisis. Enterprises' plans show that industry is going to use the pricing lever in future as well to promote actively the sales of its produce. In November, the balance of plans decreased straight by 9 points and hit the four-year minimum, too. Such dynamics of pricing plans is not typical of the last months of the calendar year and was observed only once late in 2008.



**Fig. 4. CHANGES IN SELLING PRICES (BALANCE-%GROWTH-%REDUCTION)**

### Actual Dynamics and Lay-Off Plans

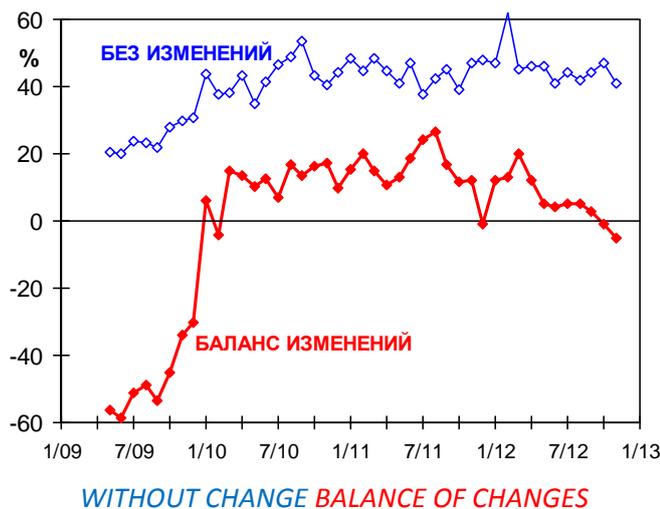
In November, the industry managed to slow down reduction of the number of workers, but at the level which is critical even to the stagnation period. (Fig. 5). The October forecasts showed that enterprises' ability to correct imbalances between the employment and demand decreased. In the beginning of the 4<sup>th</sup> quarter, only 62% of enterprises had such expectations of changes in employment as could reduce its redundancy, preserve the balance and ensure growth in the number of personnel in a situation of personnel shortages. November forecasts got even worse by another 9 points. The industry does not expect any principal changes in solution of its personnel problems. The above factor is a serious obstacle on the way of implementation of the official policy of modernization and upgrading of the competitive edge of the Russian industrial produce.



**Fig. 5. CHANGES IN EMPLOYMENT (BALANCE=%GROWTH-%DECREASE)**

## Enterprises' Investment Plans

Enterprises' investment plans keep losing optimism. In November, they fell by another 4 points, while during two months of the 4<sup>th</sup> quarter of 2012 they lost 8 points. It is to be noted that in the 3<sup>rd</sup> quarter the industry's investment plans stabilized at the lowest level since the beginning of 2010 after they had lost 16 points in the 2<sup>nd</sup> quarter. Enterprises keep reducing their investment intensions in a situation of excess capacities and pessimistic forecasts of both output and demand (Fig. 6).



**Fig. 6. EXPECTED CHANGES IN INVESTMENTS IN CAPITAL FUNDS ON THE PREVIOUS YEAR (BALANCE=%GROWTH-%DECREASE)**

In the 4<sup>th</sup> quarter, investment plans remained positive only in fuel industry, nonferrous-metals industry and lumber industry. In other sectors of industry, quarterly balances moved to the negative zone and were in the range of from -3 points in engineering to -17 points in light industry. Calculation of the index on the basis of the forms of incorporation showed that only state enterprises had a positive balance (+25 points) of investment plans.

## Lending to Industry

According to assessments of enterprises, in November terms of lending to industry did not undergo principal changes. The aggregate availability of loans ("above the norm" + "normal") amounts to 69% and corresponds to the average level of the current half-year. In November, the average minimum interest rate offered to industry amounted to 12.6% and preserved sectorial differences which are typical of Russian industry (Fig. 7).



**Fig. 7. Dynamics of the average minimum interest rate offered by banks on ruble loans, %**

In the 4<sup>th</sup> quarter of 2012, the ability of industrial enterprises which received loans to repay them did not change and amounted to 87%. Within a year, that index showed a striking stability and remained in the range of 86% to 88%. When monitoring of that index started in 2009, only 61% of enterprises stated that they were able to service outstanding loans, while within that year the share of such evaluations rose from 52% to