

THE RUSSIAN INDUSTRY IN APRIL 2015

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According to the data of business surveys of the Gaidar Institute¹, in April the Russian industry escaped again the crisis slump both of demand and output with consistent control over stocks of finished products, further slow-down of growth in prices and radical positive revision of its sales and output plans.

Demand on industrial produce

There was neither crisis slump (like that in November 2008), nor exit from the stagnation (as late in 1998 after the notorious default) in the beginning of Q2 2015. In April, demand on industrial produce showed some slowdown as regards the initial data, though it was quite an ordinary one in the past few years. As a result of clearing of the seasonal factor, the rate of change in sales remained at the level of the previous months which as was stated above were characterized by weak recovery of demand after holidays in January and surprises late in 2014.

In such a situation, satisfaction with demand is a weak one, but, no matter how strange that may be, it was better than in the same months of 2013 and 2014. In the first months of 2015, the share of “normal” answers was always higher – by just 2–8 points – than that of “below the norm” answers. It is to be noted that even in a situation of powerful crisis rhetoric both on the part of officials and analysts the industry did not give way to the official panic. However, such continuous stagnation low growth rates of demand and output with high investment pessimism entail the danger of a loss of motivation (stimulus) to growth (and risk). Such a situation once happened in the latest Russian economic history when after the 1998 default the industry – judging by the estimates of stock of finished products – could not believe in stability of growth which just began in solvent (not barter) demand and kept for a long time the stocks of finished products at the minimum level.

However, it seems that a change in rhetoric of officials who were happy about the Q1 results – which were far from being typical of a crisis – in the economy in general and the industry in particular had an effect on enterprises. Forecasts of demand in April under-

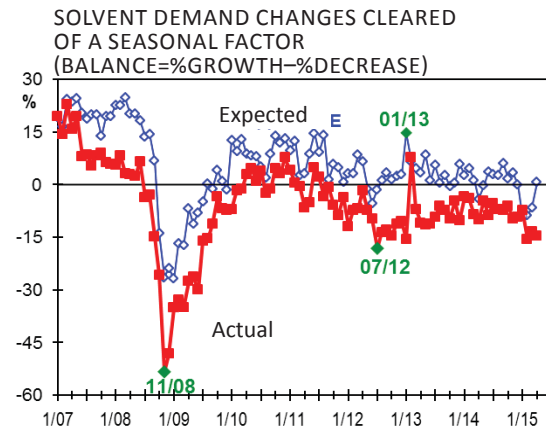


Fig. 1

went a dramatic positive surge after staying for three months at the level of the 69-month minimum (Fig.1).

Stocks of finished products

The estimates of stocks of finished products point to a high extent of adjustment of the Russian industry to a rather uncertain economic situation. The share of “normal” answers is at the level of the historic maximum, while the balance (difference) of “above the norm” estimates and “below the norm” estimates is close to zero (Fig. 2). The official statistics of reserves

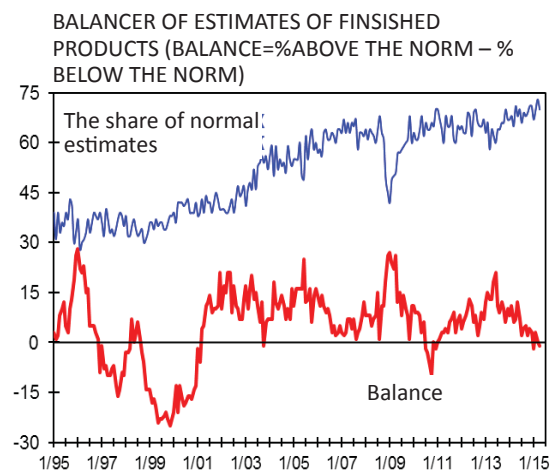


Fig. 1

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%.

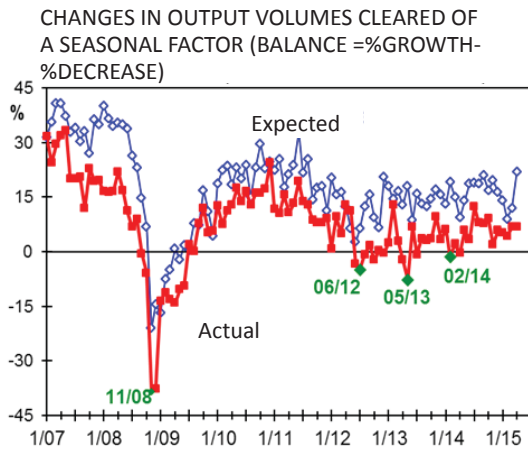


Fig. 3

shows that the latter is not replenished which situation is quite a logical one as it either creates both an additional positive impulse in case of the beginning of discernable industrial growth or prevents a possible slump from acceleration due to the need to clear warehouses from finished products.

The output

The data on the volumes of the industrial output did not undergo any principal (neither crisis, nor post-crisis) changes. The growth rates of production (which is measured in business surveys by the balance of “growth” – “decrease” answers) decreased on the basis of the initial data which situation is quite typical of April. After clearing of the seasonal factor, it remained at the level of the previous months of the 2015 crisis year (Fig. 3). The above factor will make analysts practice at clearing of the official statistics data from seasonal and calendar factors, compare sectorial data and try to identify “crisis points”. Earlier, they used to look for “points of growth”. So, the traditional index which is used by most analysts for assessment of the state and dynamics of the Russian industry is still of little use in conditions of delayed stagnation and prevents the authorities from developing efficient measures to launch industrial growth.

It seems that a chance of such growth has now emerged. In April, a sudden positive change in output plans cleared from a seasonal factor was registered (Fig. 3). As a result that index amounted to the 44-month maximum. Earlier (in October 2014 – March 2015) it used to go down falling to the 40-month minimum. A factor behind such a change in sentiments in the industry is probably the fact that some officials’ rhetoric has become positive and with expectations of economic growth as early as this year. The industry is prepared to support them even in conditions of the existing institutes.

Exchange rate related problems in the industry

Fluctuations of the exchange rate of the ruble in the past few months permitted enterprises to assess in full the effect of such fluctuations on industrial growth (Fig. 4).

According to the estimates of enterprises, depreciation of the ruble exchange rate and appreciation of the required industrial import is a problem to a quarter of the Russian industry in April 2015. It is to be noted that the authorities declared that the ruble exchange rate attained the equilibrium and suggested that it would be expedient to maintain it at that level in the interests of the budget and exporters. So, non-exporters in the Russian industry will have to “survive” in a situation of depreciation of the national currency and higher prices on import machinery, equipment and materials or switch over to Russian analogs within the frameworks of import substitution which is getting the status of a national program. It is to be noted that according to direct estimates made by Russian enterprises in January (2015) over 60% of enterprises encountered (or will encounter) a situation where they cannot simply find the much required Russian analogs in this country. In such a situation, even successful (efficient) implementation of import substitution programs which are being developed by officials will require time and investments. It seems that at present they lack them both.

Growth in the restraint effect of the overvalued exchange rate of the ruble in 2015 and some appreciation of the output are of interest, too. By April, the mention of that factor rose to 8%, though as early as July 2014 (that is in the period of relative stability of the exchange rate) only 2% of enterprises complained about appreciation of the ruble. It seems that a small portion of the industry failed to gain an advantage from depreciation of the ruble due to the fact that their foreign competitors did not raise their prices to

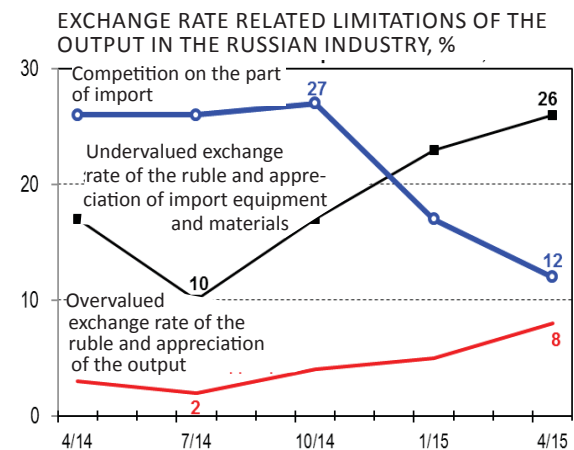


Fig. 4

such an extent that their place could be taken over by Russian enterprises, nor left the Russian market altogether.

However, the shock depreciation of the ruble (even in the period of strengthening of the ruble exchange rate) still has a positive effect on the Russian industry. The restraint effect of the import from January till April 2015 fell further by 5 points and is now registered by only 12% of enterprises. The inter-crisis peak late in 2013 was equal to 34%.

Prices of enterprises

In April, the industry kept slowing down growth in selling prices (*Fig. 5*). Within a month, intensity of growth in their prices lost another 10 points. It is to be noted that from the beginning of the year that index fell by 27 points. As a result, intensity of growth in the industry's prices is steadily approaching the values of 2014 when the index demonstrated a surprising stability till November. It is to be noted

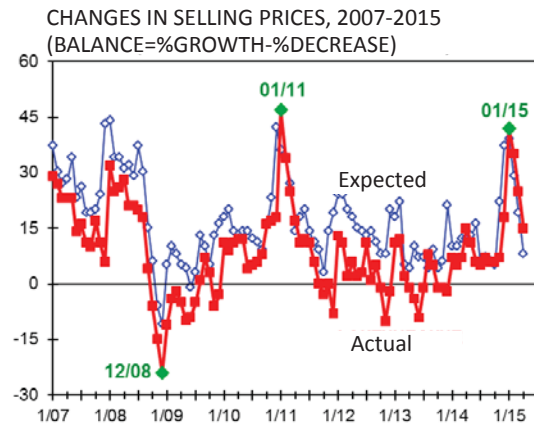


Fig. 5

that pricing forecasts point to enterprises' intent to slow down further growth in their prices. April plans (for May and June) fell by another 11 points and the general decrease after a surge in January amounted to 31 points. ●