

## THE RUSSIAN INDUSTRY IN MAY 2015

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According to the data of business surveys of the Gaidar Institute<sup>1</sup>, in May industrial output demonstrated more positive dynamics than demand which situation resulted in worsening of estimates of stocks of finished products by enterprises. It is to be noted that a dramatic slowdown of growth in costs and factory prices has had a weak effect on sales. In such a situation, forecasts of demand and output have ceased to gain optimism.

#### Demand on industrial produce

In May dynamics of the demand could not retain the modest achievements of the previous months and showed worsening of the balance (growth rates) as regards both the initial data and that cleared of the seasonal factor (Fig. 1). The initial balance of changes in sales fell to -15 points. Such a low value of the index was never registered by surveys in May in the 2010–2014 period. With the seasonal factor cleared the balance of changes in sales fell to the five-year minimum, that is, such weak rates were not registered from June 2009. However, even in such a situation in industry the “normal” answers prevail in assessment of actual volumes of demand. In May they even rose by several points.

During the first months of 2015, the forecasts of demand remained on the same low, but positive level which situation was not observed in the previous years. In 2011–2014 period, two peak points of that index – January–February and May – were registered by business surveys and followed by gradual waning of optimism which became the minimum one in December. In such a situation, clearing of the seasonal factor showed a rather low level of expectations early in 2015; only in April–May that level managed to approach the zero mark, but failed to surpass it.

#### Stocks of finished products

In May the balance of estimates of finished products (“above the norm” – “below the norm”) got worse by 8 points having achieved the value of +6 p.p. (Fig. 2). Though the May value of the balance of estimates became worse in the past 12 months, its absolute value does not appear to be too dramatic for the 2011–2015 period. The above value is sooner regarded as a

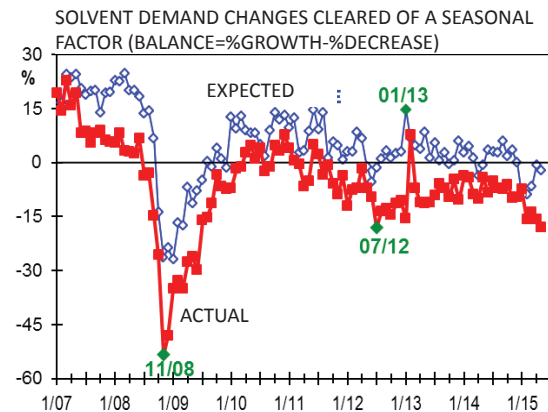


Fig. 1

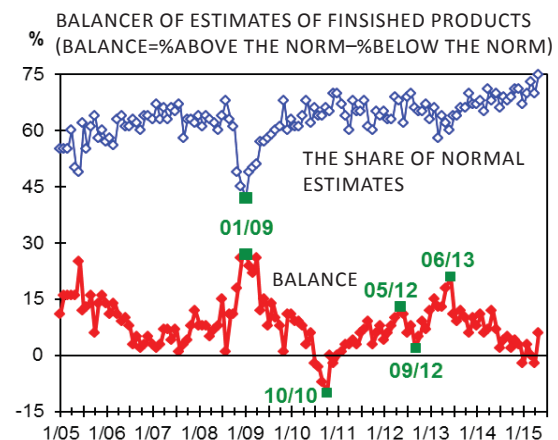


Fig. 2

small loss of control by the industry over the balance of demand and supply after successful management of stocks of finished products in the period of shocks late in 2014 and the authorities’ panic rhetoric early in 2015. However, the absolute majority of enterprises (75%) estimate their stocks of finished products as “normal” and in May 2015 that index amounted to its absolute maximum level (for all 23 years of monitoring!). The highest excess of stocks of finished products was registered in the building materials industry (+32 p.p.) and the forest industry (+24 p.p.), while

<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%.

the minimum one, in the food industry (+5 p.p.) and machinery (+2 p.p.). It was only the nonferrous industry that estimated its stocks of finished products as insufficient ones (-7 p.p.).

**The output**

A factor behind worsening of estimates of stocks of finished products was greater disagreement between the dynamics of demand and output of industrial produce. Judging by estimates of managers of enterprises, in a situation of explicitly nonpositive changes in sales the industry demonstrates a more positive dynamics of output. In May, the balance of actual growth (growth rates) cleared of a seasonal factor (Fig. 3) did not show any negative changes again, sooner vice versa. The index got better by 1 point and still remains in the positive area.

In 2015, the initial forecasts of output, as well as those of demand demonstrated lower volatility as compared to the previous years. The industry's expectations did not demonstrate either a peak upswing early this year or a subsequent drop with a small surge in May 2015. The initial balances of plans of output are within a narrow interval of +20 points..+29 points. With a seasonal factor cleared the data provided translated into the period of reduction of plans till February included to be followed by a surge in March and April and prevailed at that level in May.

**Enterprises' prices and costs**

In May the industry continued the pricing policy of the previous months aimed at slowing down of growth in its prices. The balance (rates) of their growth (Fig. 4) fell by another 12 points (in February–May a decrease amounted to 40 points) and now amounts to +2 p.p. Such moderate growth in enterprises' factory prices was not registered from the beginning of 2014. The main factor behind almost complete suspension of growth in prices was sooner the industry's intension to promote demand on its produce.

However, pricing plans of April did not forecast such a sudden slowdown of growth in prices in May. The balance of April plans amounted to +8 points and remained at the level of that index in July–October 2014. In that period, the industry had quite stable and moderate pricing plans which were ruined by the inflation rate and depreciation of the ruble at the end of the year. The pricing plans of May remained at the level of April which situation points to the industry's intension to secure positive financial results. Another step in that direction was a sudden slowdown by enterprises of growth in their costs.

According to enterprises' estimates, in Q2 2015 the balance (rate) of growth in the cost of production col-

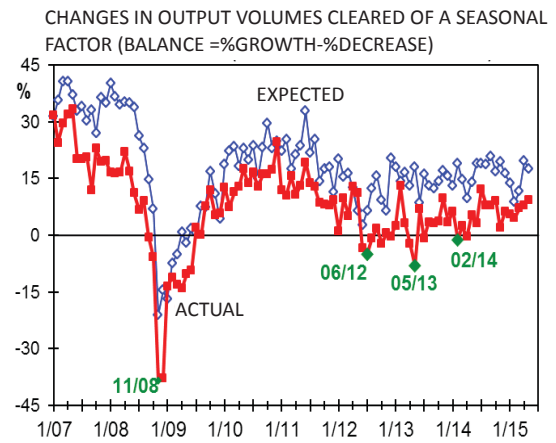


Fig. 3

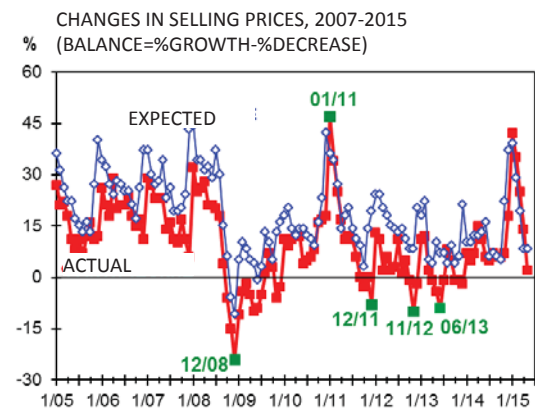


Fig. 4

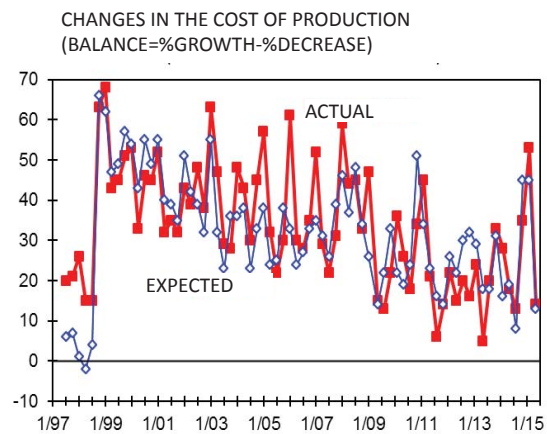


Fig. 5

lapsed by record 40 points from +53 p.p. to +13 p.p. (Fig. 5). Such a dramatic reduction of that index was never registered by business surveys during 19 years of monitoring. It is to be noted that in Q1 2015 the forecasts did not point to any decrease in the growth rates of costs – in that period (in conditions of a powerful inflation underpinned by depreciation of the ruble) the industry expected their growth to be retained. At present, the industry's plans underwent principal changes: after February forecasts of +45 p.p. the plans

of May amount to the mere +13 p.p. and are close to the minimum in the 1999–2015 period.

According to the crisis monitoring which has been carried out by the IEP from 2012 within the frameworks of business surveys, in 2015 a decrease in costs (a search for better providers) became the industry's large-scale preparatory measure for the crisis. In August 2014, only 23% of enterprises used such pre-

ventive measures. In April 2015 (only 8 months later) the need of reduction of costs increased by 100% (!) in industry and is now recognized by 47% of enterprises. As a result, that measure is rated the first in the industry's rating, while "the more careful pricing policy" measure, the second (43% of mentions). In 2014 it was used by only 19% of enterprises and rated the fourth. ●