

## RUSSIAN INDUSTRY IN JULY 2015

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*Analysis of July data regarding the state and expectations for businesses covered by the Gaidar Institute business surveys<sup>1</sup> demonstrated further bogging down of the Russian economy into the slow rolling 2015 crisis. Not a single major indicator has so far demonstrated chronic crisis adjustments. July negative dynamics of demand and supply bears little resemblance to the across-the-board slump of 2008 year-end.*

### Demand for industrial products

In July, the initial dynamics of demand for industrial products demonstrated somewhat improvement in comparison with the previous months. This looks unusual because in H1 2015 the balance of demand adjustment usually has a negative trend and at best maintains approximately similar indicators following the May seasonal slump of sales. Nevertheless, following the low data on sales for H1 2015, aforementioned “upsurge” barely improved seasonally adjusted (Fig. 1) July result; however, this has not released it from the crisis weakness.

This fact is supported by estimates for satisfactory demand: the share of “below norm” responses in July went up to 53%. Such insignificant level of unsatisfactory demand amid ongoing/unfolding/ending crisis speaks, at least, about two its features. First, prolonged drawing into the crisis accompanied by a powerful PR drive initiated by the authorities in preparation for crisis management allowed the industry to implement preventive measures and psychologically get ready for the demand and output slump. Second, highly modest scale of the aforementioned indicators’ slump is by no means perceived by the businesses as the crisis one after relatively recent across-the-board slump of 2008 year-end.

Third feature, (or if you like – weakness) of the ongoing crisis was instability (uncertainty) of the business demand forecast. If in 2008 this indicator began sharply tumbling from September reaching minimum in December 2008, and already in January equally sharply surged, although remained later on very modest levels over entire 2009. Currently the situation is different.

### Stock of finished products

Fourth feature of the slow rolling industrial crisis of 2015 is the lack of any problems with the stock of

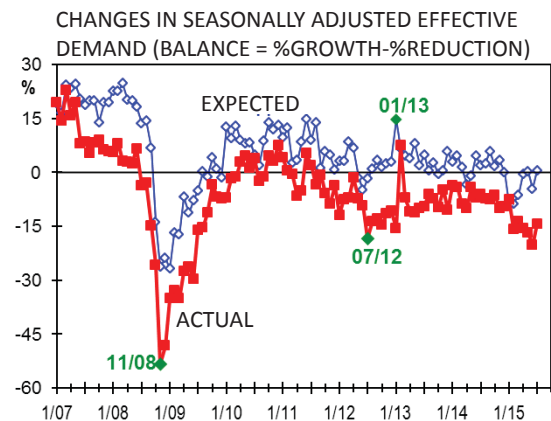


Fig. 1

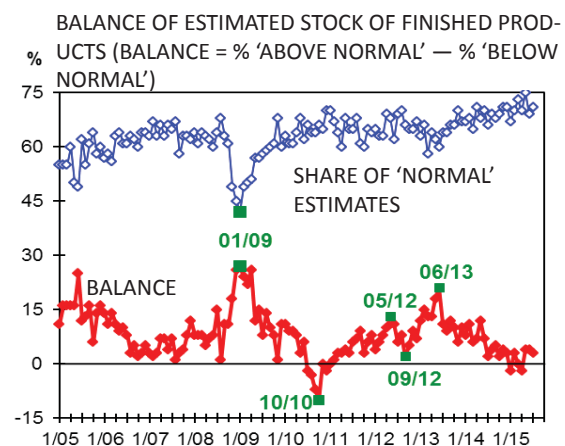


Fig. 2

finished products. Estimates of this stock along scale “above norm”, “norm”, and “below norm” demonstrates a positive control of businesses over the balance of demand and supply even in the circumstances of high volatility (Fig. 2). At the same time, the share of “normal” responses (i.e. adequate current economic climate) has reached in 2015 its all-time maximum of 75% constituting on average over last seven years 71% and never going below 69%. All time minimum, this indicator registered according to the IEP surveys in 1995 when it constituted 33%.

<sup>1</sup> Business surveys of the managers of industrial enterprises have been conducted by the Gaidar Institute using a European harmonized method in monthly cycles since September 1992, covering the entire territory of the Russian Federation. The panel size is about 1,100 enterprises employing over 15% of industrial employees. The panel is shifted towards large enterprises for each of the segregated sub-industries. The ratio of returned questionnaires is 65-70%.

The balance of estimated stock of finished products (“above norm” – “below norm”) over last twelve recession months steadily remains in the interval -2 +4 points, in other words, around zero. Thus, on average in industry the surplus of stock is almost wholly nutilralized by their shortage.

### Output of products

The industrial estimates of the output volume demonstrated growing negative trends in the dynamics of this indicator. The initial balance (growth rate) dropped 6 points in July, while general and sustained decline following the March peak constituted 32 points. Such shift in balance regarding responses to “growth” – “reduction” distorts familiar sight formed in the course of previous years.

Usually in the aftermath of the May seasonal slump output pick up returns and slows up equally naturally by the end of the calendar year. Now the picture is different: June and July have not demonstrated output recovery by the Russian industry. As a result, by July seasonal adjustment demonstrated balance reduction to -7 points (Fig. 3). This result bears very little resemblance to the across-the-board slump in 2008 (then it reached -38 points) while in 1998 (-31 points). Thus it can be argued about the fifth feature of the ongoing 2015 crisis: similar unimpressive dynamics of industrial production. And this development played Old Harry with the experts. First, everybody were expecting output slump at the turn of the year while the government rushed to save the industrial sector. Crisis which failed to materialize then allowed to talk about the “development agenda”. However, negative production dynamics has already by Q2 cut down optimism and yet again made experts to change their projections.

In 2015, businesses’ projections were not marked by stability. In Q1 2015, they dropped to the two-year minimum, and in Q2 2015, they went up to usual anything but recession indicators, while in early Q3 again dropped to the level of Q1 2015 indicators. However, all most negative results of this indicator for 2015 are also far away from the recession levels of expectations for 1998 and 2008. Then, the businesses forecasts’ balances fell to -16 and -21 points, respectively. Currently, balance of the Russian industry output plans constitute +8 points, in other words expectation for the output growth prevail in the sector over output contraction.

### Business pricing policy

Slowdown of the factory price growth registered in February-June 2015 in the aftermath of the January price hike safely terminated. (see Fig 4). In July 2015, the industry returned to increasing prices: the balance

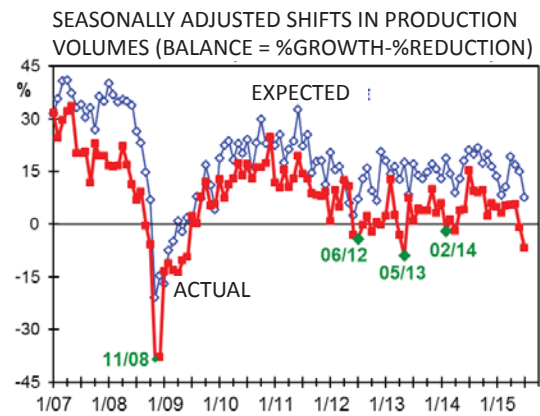


Fig. 3

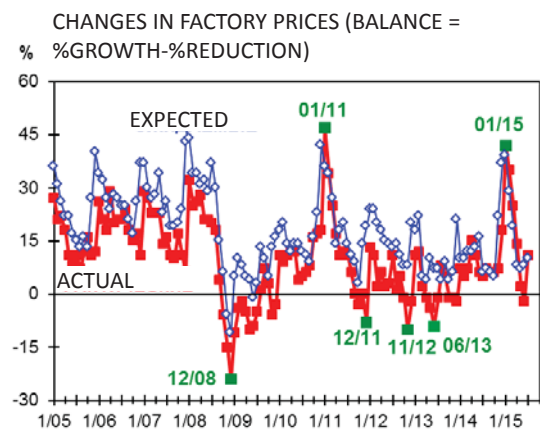


Fig. 4

(rate) of their change went up to +11 points following zero values registered in May and June. This turning point in the positive trend (in the event it stays on) is caused, most likely, by two reasons: a) surge of tariffs by natural monopolies tariffs registered in June; b) ruble weakness. “Positive” changes in demand dynamics (in July initial balance grew from -17 to -9 points) also affected the business pricing policy because in July calculations demonstrated recovery of direct dependence of price change from demand shifts. This dependence was stable up to mid-2014 and later demand stopped affecting constantly business pricing policy

From April, the industrial price forecasts indicated businesses’ rediness for price increasing, however lack of “good” reasons hampered implementation of such plans.

### Actual dynamics and plans for layoffs

In July, the industrial sector intensified shedding its workforce. The balance (rate) of change fell over the month from -4 to -16 points and reached levels registered in December 2014-January 2015. It is noteworthy that in March-June the industrial sector demon-

strated highly positive employment dynamics on the back of both other sectors of the economy and against previous years. This allowed businesses to resolve their personnel problems, in other words, reduce hampering effect of the shortage on work force on the current output dynamics to 22% and labor shortage amid expected change of demand to 11%. However, at the beginning of Q3 2015, aforementioned indicators deteriorated slightly. The first one grew to 26%

(current shortage of labor), second – to 16% (expected shortage). This allows to predict that July lay-offs took place, to a great extent, not at the initiatives of enterprises' administrations.

Forecasts of employment change have also lost optimism. In H1 2015, this indicator demonstrated exceptionally high and stable employment expectations. However, over June-July, the balance of plans lost 13 points and for the first time in 2015 went into red. ●