

RUSSIAN INDUSTRY IN AUGUST 2015

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According to Gaidar Institute business surveys¹, industrial enterprises continue to exercise a commanding control over slow rolling downturn in the sector. Estimates of finished stock, demand and employment are far from traditional (as was in 2009) crisis ones. However, projections of demand, output, employment and investment show rather readiness to break through the bottom of 2015 crisis than a wish to bounce back from the bottom.

Demand for industrial products

In August, demand for industrial products movement did not undergo essential changes compared to July. Neither initial nor seasonally adjusted data on actual sales failed to demonstrate neither across-the-board (as in 2008) contraction of sales nor pickup of the positive (similar to 1998) growth trend (Fig. 1). However, the result of such sales dynamics got a high estimates by enterprises: in August, satisfaction of demand in Russian industry went up by 10 p.p. and reached 59%. Thus, industry for the twentieth time in the course of one or two recent years managed to “take a breath” amid constantly whipping up nervousness and expectations of across-the-board or nearly instantaneous slump which in no way comes...

However, expectations to preserve this (no crisis according to previous parameters) situation became less in August. Projections of demand shed 11 points on initial data and 7 points on seasonally adjusted (Fig. 1). The latter went into significant red territory but failed to reach panic levels characteristic of early months of 2015 when the indicator demonstrated worst values starting from May 2009.

Stock of finished products

Estimates of finished stock reduce feasibility of a catastrophic scenario in the Russian industry according to the set of indicators used by officials and experts. Slow rolling 2015 crisis and early preparation of all the participants allowed businesses to reduce surplus stocks. In 2015, the share of responses “above norm” remains at the rock-bottom level for the entire 23-year life of IEP surveys (from 1992). Similar situation folds up regarding shortage of finished stocks: in 2015 the all-time minimum was reached. As a result, the bal-

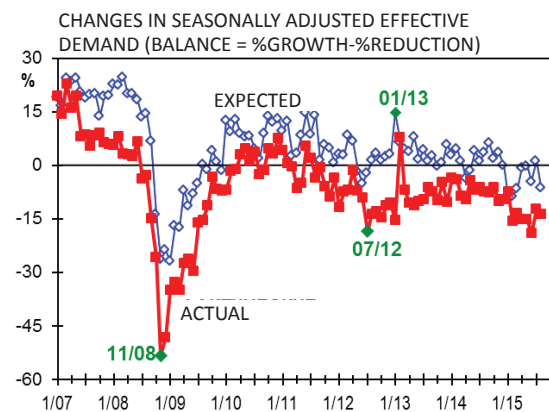


Fig. 1

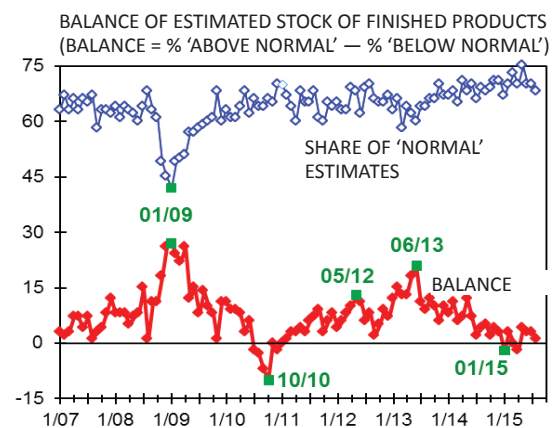


Fig. 2

ance of estimates of stocks steadily remains around zero (Fig. 2). The share of responses “norm” on the contrary reached the absolute minimum.

Output

The initial output movement so far can not rebound following traditional May slump which it overcomes (by the way, previously did it successfully) each year. In 2015, unadjusted indicator balance remained in June-August about zero. Seasonal adjustment preserved the zero level in June and reduced it to -6 points in July-August (Fig. 3). However, these levels are far from

¹ Business surveys of 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%.

usual and expected crisis values and already occurred in previous crisis year.

Industrial plans do not prognosticate long awaited slump. Although in Q3 they turned out to be below Q2 levels, but as before are far from negative indicators and exceed certain indicators of crisis years.

Constraints on Industrial Growth

Quarterly monitoring of industrial growth constraints (Fig. 4) does not contain traditional as in previous years signs of awaited by the majority of experts manifestations of crisis in the Russian industry.

Firstly, insufficient demand although remains the most common constraint on output growth but solely 45% of businesses mention it. This indicator is at the minimum level for the entire post crisis period of 2009–2015 and speaks of the fact that the industry has strongly adjusted to the actual volume of sales and does not perceive it at the critically low level.

Secondly, “uncertainty of the current situation and its prospects” steadily secured second place and hampers output increase in Q2 and Q3 2015 of 38% of businesses.

Financial issues concern enterprises solely on a tertiary basis. In Q3 2015, the shortage of current capital and high interest rates on credits indicated solely 28% of businesses. This outcome is somewhat better (i.e. less) of Q2 estimates. However, growth of non-payments with negative impact is unfolding. From the turn of the year, their reference went up by 5 points and reached 26% and took 4th place, although in 2013 it was 9th with 13% of references.

Fourthly, shortage of personnel whose negative impact on industrial growth declined over H1 of the current seemingly crisis year from 33 to 22% again grows in “popularity”. In Q3, this problem was mentioned by 23% of businesses. In ordinary 2009 crisis year, its references declined to 14%.

Fifthly, results of the first (December 2014) wave of the ruble devaluation exhausted its positive effect by July 2015 but saved (and even increased) the negative one. This is supported by businesses estimates movement regarding the impact of exchange rate policy on industrial output (Fig. 5). Downward pressure of import which is really competing with domestic products as a result of the first wave of devaluation fell from 27 to 11% over the first two quarters of 2015 and declined by April to its fifteen-year minimum. Lower negative effect of import was registered by the Russian enterprises following 1998 default through 2000 year-end. In 2015, the positive effect lasted solely half year but will be, most likely, extended as a result of the second August “wave” of devaluation. Although, it is possible, that its effect will be less profound and sustain-

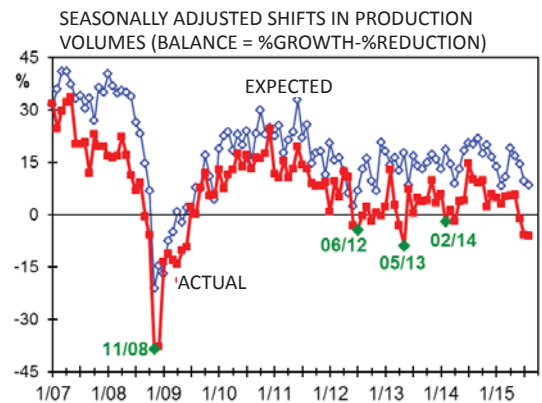


Fig. 3

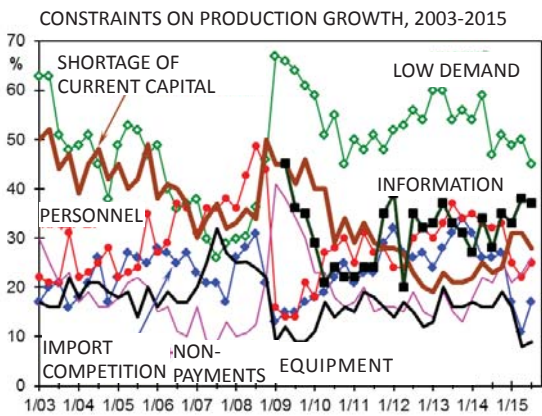


Fig. 4

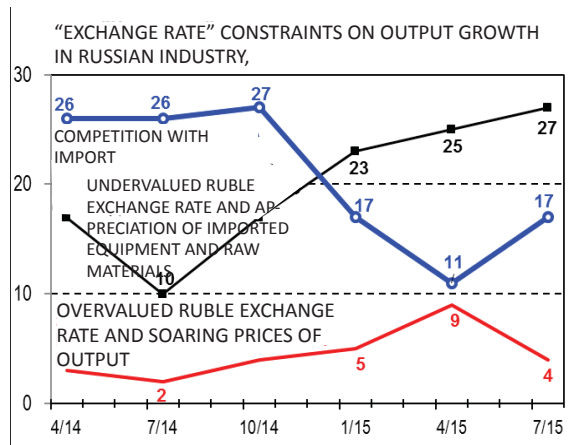


Fig. 5

able: adaptation of sellers and buyers of imports will tell. And the negative effect of devaluation continues increasing its impact on the Russian industry. Growing prices on imported equipment and raw materials has led to growth of costs and prices, reduction of demand and output at over quarter of the Russian industry in July 2015. Although a year before (in July 2014) this effect registered solely 10% of businesses. One can strongly assume that the second wave of devaluation will increase this negative effect from the depreciation

of the national currency amid shortage of many type of equipment, components and raw materials so badly needed by many Russian enterprises which gradually makes its economy closed.

Business pricing policy

In August, the industry managed to reduce the pace of the price growth of H2 which was launched by planned tariffs increase. The balance (rate) of change fell from +11 to +8 points (Fig. 6). However, further growth slowdown of producers' prices in industry even in 2015 crisis year is highly unlikely. Businesses' plans have demonstrated a symbolic but increment of this indicator by 3 points. To note, these price plans still do not fully register August ruble devaluation and inevitable price hike both on imported goods used by the industry and the Russian products.

Price growth of goods leaving the factory gate was stimulated by a stable growth of Russian industry costs. In Q3 2015, the pace of their increment again went up. Of course, not up to +53 points as it occurred in Q1 2015 but already to +30 points where as in the prices the latest share of devaluation has not been fully compensated.

Actual dynamics and plans for layoffs

In August, the Russian industry reduced the pace of layoffs following the July hike of shedding workforce (Fig. 7). However, July and August remain most negative months regarding this indicator for the industry. Employment movement in H1 looked more positive both in comparison with last years and compared to other sectors of the economy. However, businesses' forecasts accumulated a rather large share of pessimism and demonstrated the highest feasibility of layoffs over two-three months to come.



Fig. 6

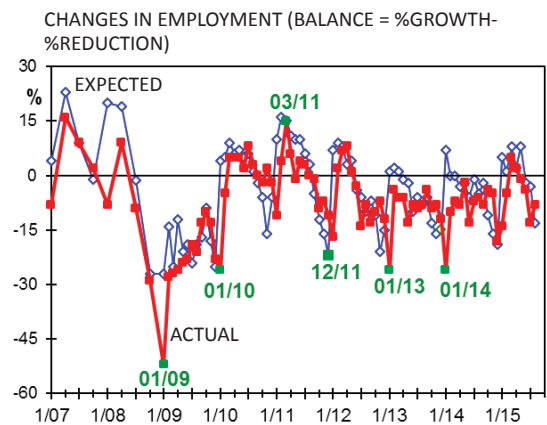


Fig. 7