

## RUSSIAN INDUSTRY IN OCTOBER 2015

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*Even the minimum production growth forces enterprises to step up requirements to the demand, which is so far insufficient to bottom out. Meanwhile, according to the Gaidar Institute business surveys<sup>1</sup> enterprises still are ready to take risks and do not revise their estimates of finished products stock even amid output overtaking demand.*

**Output**

In October 2015, the Russian industry seems to stick to the production growth. Enterprises estimates of the output dynamics speak in favour of this scenario. The initial balance of this indicator following a drastic upsurge in September by 18 points (which is very unusual for this month as was observed during the previous year) has dropped in October by 5 points, but remained positive. Seasonal adjustment has indicated a fall by two points (Fig. 2), which also leaves indicator positive and keeps hope alive for a symbolic but growth of output according to Rosstat. However, limited set of indicators of the official statistics does not permit to estimate all peculiarity of the situation unfolding in the Russian economy in the course of an attempt to bottom out.

**Demand for industrial products**

Data on sales of industrial products so far does not look as rosy as the output dynamics data. In October 2015, initial balance of the indicator has shed 11 point against the humble indicators of July–September. Seasonal adjustment has immediately indicated a reduction by two points – so far not so critical against previous indicators of the current year but obviously inadequate to the recent changes in output (Fig. 2). Moreover, real estimates of micro data have shown that in September–October the output dynamics started to overtake the demand dynamics according to responses of 29–31% of enterprises. Meanwhile

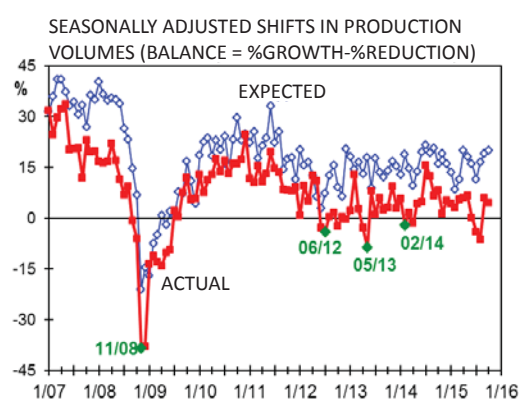


Fig. 1

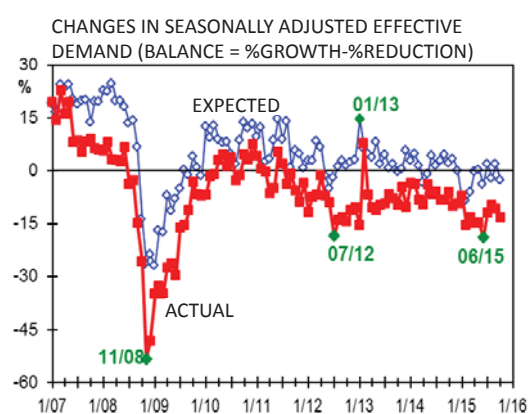


Fig. 2

<sup>1</sup> 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%.

in July–August, outrunning changes were registered just of 15–18% of enterprises.

This outlook stops suiting the Russian industry. In October 2015, enterprises' satisfaction with demand has fallen by 10 p.p. to 46%. Such low value of the indicator was not observed over a year and a half. Definitely, enterprises need higher level of demand in order to maintain output growth.

Demand forecasts, which enterprises are drawing now, do not inspire optimism either. Following a reduction of the indicator in Q1 2015 amid panic on the FX market and expectations of the 2008–2009 type crisis, following seasonal adjustment the balance of demand forecasts has moved up to zero level and remains in the range of -3...+2 over seven months in a row. In other words, enterprises have not observed any principal changes in demand expectations including in September–October.

Solely the output plans show moderate dynamics immediately after the July failure of the indicator. However, in September–October they have moved up merely to the level of Q2 2015. Thus, there are no extra hopes for the output growth in industry. Although there was no crisis failure of this indicator in 2015 either.

### Stocks of finished goods

The Russian industry is demonstrating an impressive control over the stock of finished goods. The balance of estimates (difference in responses 'above norm' and 'below norm') demonstrates small and by far non-crisis positive value since May 2015 (Fig. 3). Its 2015 maximum value (+5 p.p.) looks exceptionally low after +12 p.p. (2014 maximum), +21 p.p. (2013 maximum) and the crisis maximum (+27 p.p.). It is worth noting that this indicator has not descended in 2015 to significant negative values as it happened in 1997, 1999–2000 and 2010 when the industry did not trust in demand growth and preferred to keep insufficient stock of finished goods.

### Business pricing policy

Inflationary factor unfolding in H2 2015 is holding the price growth of goods leaving factory unchanged: in July–October, the balance of actual change of price of goods leaving factory consistently remains in the range of +9–11 points. In H1 2015, this indicator was equally constantly falling and lost since January (+42) to June (-2) the entire 44 points.

In H2 2015, the inflationary expectations of the industry were marked by lower consistency. Over July–August, their growth rate went up by 10 p.p. and reached +17 balance points remaining at this level of September. However, in October, the price plans have undergone significant revision: over the month, the balance fell to +4 points

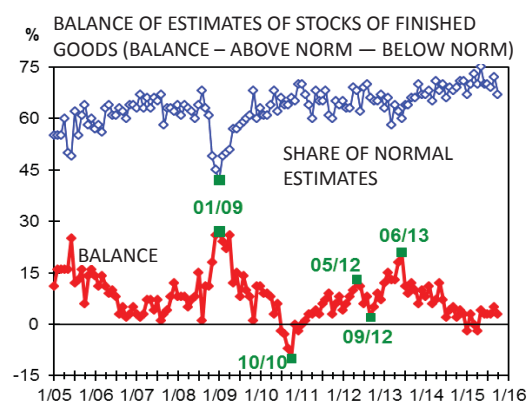


Fig. 3

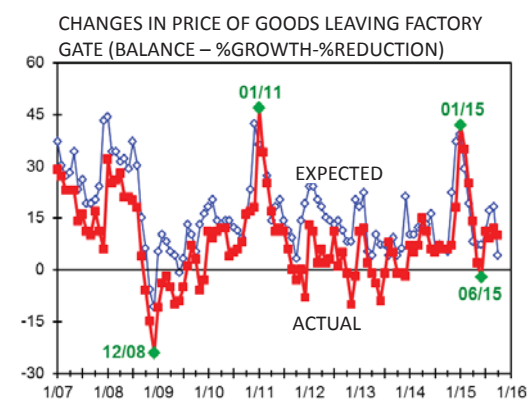


Fig. 4

(Fig. 4). This indicator is the six-year minimum and speaks most likely about attempts of enterprises to achieve demand increase for their products amid potential production growth.

#### **Loans to industry**

In October 2015, reduction of interest rates granted by bank to industry has terminated. This indicator has stabilized at 16.5% annualized in roubles. Thus, following the crisis maximum of 20.8% reached in February 2015, the interest rate was falling over six months and remained unchanged over next three months. However, in August–October, creditors and borrowers searched for a compromise regarding lending conditions under a fixed rate. This resulted in unstable estimates of loan availability, which demonstrated fluctuations in the range of 43 to 52% following rear stability registered in May–June, brief growth and prolonged reduction of indicator over the previous months. ●