

RUSSIAN INDUSTRY: OPTIMISTIC TRAGEDY

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Amid slack demand, Russian industrial production growth keeps on low. So far, enterprises remain optimistic regarding output plans. They do not revise stock of finished goods projections. Despite increase of costs, enterprises start slash prices on their products¹.

Industrial products demand

In November, the initial data on industrial products sales has not changed much compared to October and remained in the red. When seasonally adjusted, it has demonstrated a slight improvement but missed transition from 'minus' side to 'plus' side. Thus, demand continues moving down, however, not so fast as over the recent months. Nevertheless, improvement of the seasonally adjusted balance of sales movement constitutes just 2 p.p., which is obviously insufficient for sustainable trends in the output dynamic to take shape.

In October, satisfaction of enterprises with sales volume fell by 8 p.p. and went up 2 p.p. in November. As before, industry remains discontent with the low volumes of demand. However, the level of frustration with slack demand is far from the classical crisis one (2008–2009 template) when the share of 'below norm' responses hit 80%. At present, this indicator comes to modest 48%. To note, in 2011, it's values fell to 36–40%.

Demand forecasts do not express optimism. Over entire H2, they have remained (seasonally adjusted) around 'zero', in other words, sales growth projections are offset by expectations of their reduction, which sums up economic outlook quite properly.

Industrial output

Flat demand forced industry to revise output volumes. According to enterprises' assessments, seasonally adjusted November industrial growth rate is significantly below the September–October values. However, according to official statistics, one should not expect essentially negative values of the indicator. Industrial production growth rate will remain zero, provoke next cycle of contest for improvement of indicators by way of time series adjustment from seasonal, and calendar factors. Nevertheless, any result will not tell on the substantive assessments of the situation: industry is undecided about its output growth in statistically indisputable (or distinct) volumes.

Users of less informative set of indicators released by official statistics are forced to analyse sectoral and subsectoral data on output in the hope of revealing "crisis bottom" even at the sectoral level likewise it was fashionable to search for "point of growth" or "points of crisis". However, detection of the sectoral 'bottom' with the help of statistical microscope will not add to understanding of Russian industry's state specifics for 2015. An extended set

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of indicators is required for a balanced understanding of the current situation. These include enterprises' plans and forecasts.

In spite of slack demand and zero forecast balance for its reverse, industrial production plans following July slump are getting momentum. Principal surge of the indicator was in August (5 p.p.). Then, its values were growing by 1–2 point per month and by November reached +22 balance points, which is a four-year high. Thus, industry retains its wish to leave behind the present crisis.

Stock of finished goods

Industry is not only ready to leave behind slow-rolling crisis but believes in the feasibility of this way out. Estimates of stock of finished goods represent an example. Since May 2015, responses "above norm" retain moderate (and by far from crisis!) predominance over "below norm" responses. In 1999–2000, the situation was developing far otherwise. Thereafter, industry amid an obvious growth of effective (not barter) demand continued keeping stock of finished products primarily at "below norm" level purposefully. Then, the share of such responses hit 40% and retained pre-eminence over other estimates of stocks from October 1998 to December 1999. Industry started to sustain reasonable excess (positive balance "above norm" – "below norm") just in early 2001, in other words, two years after the post-default demand growth.

Business pricing policy

Enterprises not only retain faith in the feasibility of leaving 2015 crisis behind but also take practical steps in that direction. For example, by introducing substantial changes in their pricing policy. For instance, according to November survey, industry started slashing prices on its products following four months of their rather intensive and stable growth. Subsequently, indicator's balance (growth rate) has moved down during the month from +8 to – 3 points.

Herewith, costs of enterprises in Q4 continued growing at a greater pace than in Q3 2015. Indicator's balance up from +30 to +39 points. In Q2 (May) enterprises estimated growth rate of their costs with balance of +13 points. Forecasts of changes in production costs show that Russian industry relies on just retaining the current growth rate, but in no way on slowing down and all the more on their absolute reduction.

Consequently, financial indicators can deteriorate. And sure enough, the latest (October) balance of expected changes of financial and economic situation in industry moved to 'minus' side, although in July (true, prior to the second devaluation) stayed in 'plus'.

Assessment of industrial capacities

In 2015, data on capacity utilization has not undergone any fundamental changes compared to 2014. The latest indicator metering (October) demonstrated that industry uses available capacities up to 667% of maximum potential.

Therewith, Russian enterprises consider 81–82% as a normal maximum potential of capacity utilization. The latter indicator envisages observance of the following terms (restrictions): a) all operating procedures regarding equipment maintenance are observed; b) competitive goods are produced (currently in demand on the market); c) no fixed investment is required.

Thus, enterprises have in store industrial capacities, which can be used in case of demand growth and in import substitution. To note, that “import substitution scenario” of capacities utilization relates solely to those production operations, which already exist in the country and are unable to resolve main, according to enterprises, issue of import substitution: “common lack of domestic analogues of any quality”. The majority of enterprises point to this issue – 62% in January and in August 2015. Capital investments in new facilities are required in order to overcome this shortage.

Personnel problems of industry

Employment in industry continues falling. Over two months of Q4 2015, the pace of this process increased by 6 points and reversed positive trend, which started to take shape in August-September when the pace of dismissals shrank by 10 points. From the point of view of employment, the only positive months of ‘crisis’ 2015 were March and April when the scale of dismissals in industry gave in to recruitment scale. This situation emerged for the first time since May 2012. In the wake of the crisis and dismissals, Russian industry managed to resolve partially its personnel problems, which relate mainly to qualified workers and bring normal provision of personnel to 78%.

Results of the annual (2012–2015) monitoring of reasons for workers’ dismissal represent improved positions of industrial enterprises on the labour market. Two recent probes of these reasons were taken in July 2014 and October 2015.

As a consequence of apparent positive (for the industry) trend on the labour market, the share of enterprises reporting no dismissals has hit its four-year high of 27%. At the same time, in 2014, there were just 15% of such enterprises. The main reason for resignation was the pension age and it fell to its minimum of 40% in industry. The latter is explained not only by economic reasons (unwillingness to be a pensioner in the wake of the crisis sweeping the Russian pension system), but by natural causes (reduction of the number of working pensioners).

The share of those who quit jobs due to low pay speaks about the attractiveness of remuneration in industry. In 2015, this factor of resignations has hit its low for 4 years of monitoring and the share of those who estimated their pay size as “normal” has risen to its historic high of 70% in October 2015. During 2008–2009 crisis, it had been as low as 37%. However, monitoring of these estimates commences just from April 2007. Nevertheless, eight years period is an ample period for revealing regularities and specifics of formation of such type of estimates in Russian industry.

Workers became less choosy with regard to their work conditions in Russian industry. In 2015, dissatisfaction with these conditions are cited by merely 9% of enterprises. Although in 2012–2013, 16% of respondents indicated this reason.

Data on administrative dismissals of violators of labour (shop floor) discipline speaks about growing attractiveness of employment in Russian industry in the wake of the crisis. In 2015, this cause for dismissal is cited by merely 17% of enterprises (26% in 2013). Thus, workers give fewer causes for an administrative dismissal. ●