

RUSSIAN INDUSTRY IN DECEMBER 2015

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By the end of 2015, according to business surveys conducted by the Gaidar Institute¹, the Russian industry still will be unable to post statistically indisputable output growth. Weak demand, which can not be revived neither by the producers' price reduction nor by ruble devaluation and import substitution so far leads to worse estimates of stocks of finished products and negative adjustment of the output plans.

Demand for industrial products

December data on sales of industrial products failed to add anything new in the dynamic of the current crisis (Fig. 1). According to estimates of enterprises, the indicator remained unchanged against the previous months of Q4 and, most likely, will not let the industry to demonstrate so desired by the authorities rebound. This will disappoint (following the publication of Rosstat official data in January 2016) the officials yet again. Moreover, it has already disappointed the enterprises. In December, dissatisfaction with demand up 8 points to 53%, which was the three-year maximum and solely concedes 2 points to the inter-crisis maximum (registered in non-crisis 2013). The industry has failed to find demand in order to develop positive output dynamic.

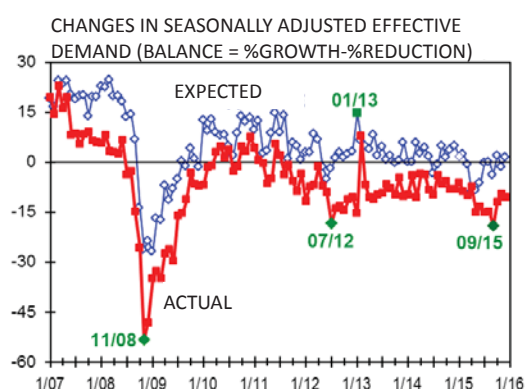


Fig. 1

Output

According to enterprises' estimates, in December nothing new has happened with the output dynamic. Seasonally adjusted output balance showed a small improvement against November, however still an inexpressive one. (Fig. 2). The forthcoming release of the Rosstat data on industrial output will prolong the traditional competition on adjustment of this time series from seasonal and calendar factors. The previous stage of "adjustment" we observed in mid-December when Rosstat estimated the November decline at 0.6% by October, Center for macroeconomic analysis and short-term forecasting (CMASHF) – 0.4%, and the head of the Ministry of economic development said the following: "...we have a small negative result... on industrial output..." (citation from *RIA Novosti*). The data for November turned out to be so bad that none of the stakeholders of this competition failed to obtain a positive result and the differences came to the assessment of the extent of

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%.

the November decline. The December outcome of the Russian industry performance will be yet again uninteresting: the industry is still unable to support the economic authorities by posting a statistically unquestionable output growth. In this context, the data on the output dynamic become less fruitful because they show the lack of industrial growth and say nothing about the problems and sentiments (plans and forecasts) of enterprises.

Moreover, demand projections, which are developed at the industrial enterprises, confirm remaining uncertainty of the industry at the start of exit from the slow-rolling crisis. The balance of these expectations during H2 remains around zero, which proves better than Q2 forecasts, but worse than Q1 2015 forecasts (to remind, the most emotionally complicated for the authorities). Industrial production plans, which were getting momentum in August–November and reached non-crisis four-year maximum, in December fell by 4 point and, possibly, paved way for the new and “bad” trend in the indicator’s dynamic.

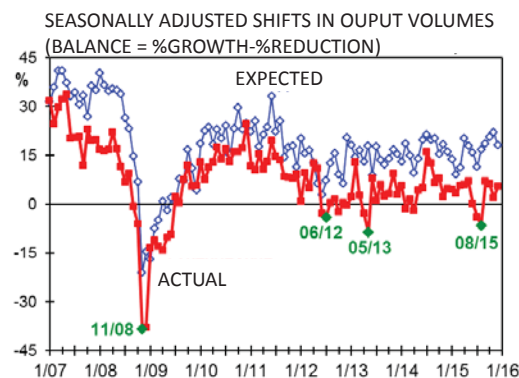


Fig. 1

Stocks of finished goods

Estimates of current volumes of finished goods also fail to add optimism to the analysis of the December Russian industry outlook. The balance of indicator (‘above norm’ minus ‘below norm’) went up (deteriorated) in December 2015 to +8 points following the level +5 in September–November, and +3 points in June–August. The latest changes in the estimates of stocks of finished goods are more than moderate against dynamic of this indicator registered during the full-scale crisis of 2008–2009 or in the 90s. However, they are more of a signal of problems in the Russian industry than a signal of new positive trends.

Business pricing policy

The lack of a positive or even presence of negative trends by the end of 2015, forces the industry to rely on their own resources in an attempt to promote demand and output in the wake of low efficient economic policy. Enterprises continue to reduce their prices in the hope of increase sales, which do not react to ruble devaluation nor import substitution policy. Moreover, all this is taking place in the context of rigorous inflation and cost development. Business surveys show the reduction of prices by producers for the second month in a row. It should be noted that in January 2015 the balance of price change hiked to +42 points (however, failed to beat the record of January 2011 triggered then by the growth of insurance contributions rate).

Labor problems of the Russian industry

The Russian industry has “overcome” the crisis 2015 nearly without a deficit of qualified personnel. This conclusion is rather strange regarding the economy undergoing a crisis. However, multi-year monitoring of this indicator and analysis of other indicators forces us to make such an unusual conclusion in case of unusual crisis of 2015.

Average annual balance of estimates ‘more than sufficient’ – ‘less than sufficient’ has improved in comparison with 2014 by 2 points and came to -2 points. This being said, balances of estimates of industrial personnel sufficiency during the previous inter-crisis years were in the range of -7 to -1 points. Thus, nothing extreme was registered regarding industrial personnel sufficiency during the crisis 2015. Moreover, 2015 estimates are in the range of the previous non-crisis years.

The same non-crisis situation is developing in industry regarding wage sizes. According to the business surveys, by the end of 2015, 70% of directors of enterprises ensured their workers and specialists “normal” wages (Fig. 3). The share of enterprises with low labor remuneration (‘below norm’) moved down in 2015 to its all-time low (nine-year – monitoring of this indicator commenced in 2007) 25%. In 2008–2009, the situation was nearly opposite: at the peak of that crisis, “normal” wages were ensured by merely 37% of enterprises. Its low level was acknowledged by 59% of enterprises. ●

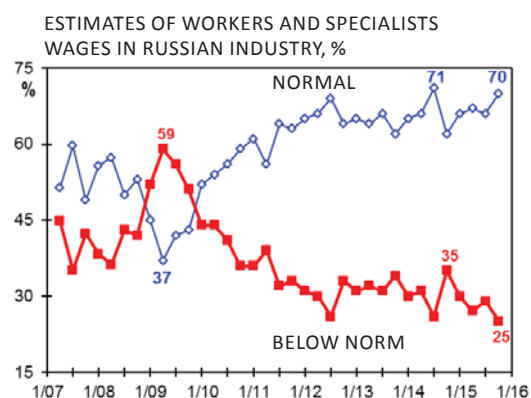


Fig. 1