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Russian Industry in December 2012

An in-depth analysis of the December data from the surveys of the Gaidar Institute[1] *showed that the end of 2012 was unfavorable to the industry. With continued weakening of demand in industrial products enterprises had to review evaluations of it, switch over to explicit reduction of output and prices, but keep under control the stocks of finished products. Workers keep quitting industry due to low wages and salaries, and investment plans are getting worse.*

The Industrial Optimism Index

The December value of the Industrial Optimism Index (*Fig. 1*) shows that negative trends in Russian industry still prevail.

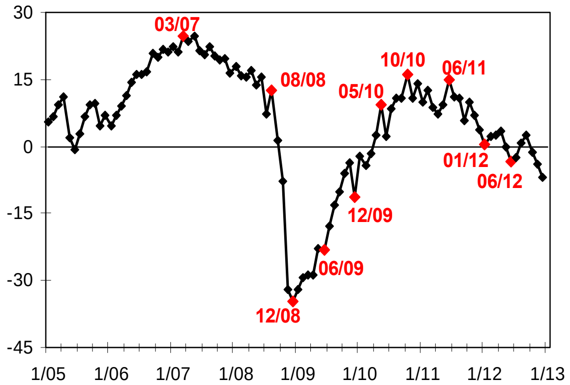


***Fig. 1*. The IEP Industrial Optimism Index, 2005-2012**

The Demand on Industrial Produce

Late in 2012, the dynamics of demand on industrial produce was still negative. The initial data showed that the December rate of a drop in sales reached the four-year maximum, that is, such a strong drop in demand was never registered by surveys from 2009. With clearing of the seasonal factor (*Fig.2*), the value of the balance amounted again (as in July 2012) to the 42-month maximum (the worst value in this particular case). According to all the data available, the situation with sales in Russian industry is getting worse.

[1] Surveys of managers of industrial enterprises are carried out by the Gaidar Institute in accordance with the European harmonized methods on a monthly basis from September 1992 and cover the entire territory of the Russian Federation. The size of the panel includes about 1,100 enterprises with workforce exceeding 15% of workers employed in industry. The panel is shifted towards large enterprises by each sub-industry. The return of queries amounts to 65–70%.

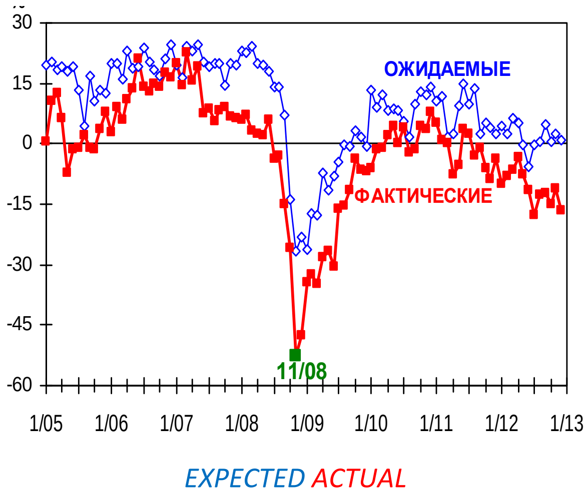


Fig. 2. **Changes in the Solvent Demand Cleared of Seasonal Factor (Balance=%Growth-%Decrease)**

Also, the above conclusion is confirmed by enterprises' evaluations of current volumes of demand. In December, the share of normal evaluations fell to 40% and amounted to the 33-month minimum. Only in November-December, loss of satisfaction with sales in Russian industry amounted to 12 p.p. In November-December, in iron-and-steel industry satisfaction with demand amounted to the mere 23%. In other industries, that index is higher and remains mainly within a range of from 40% in engineering to 52% in light industry. In power industry and fuel industry, the rates of satisfaction with demand amount to 75% and 82%, respectively.

The Output

In December, the industry reported a strong drop in rates of change in the output. The initial balance lost straight 15 points, fell to –18 points and became the month's worst value in the 2009–2012 period. Clearing of the seasonal factor showed a decrease in the balance from the symbolic -2 points to explicit -9 points (*Fig. 3*). After remaining at the level of stagnation in June-November (–2 .. +2), in December the rates of change in the output showed a tangible drop of such an intensity that was not registered by surveys in the past 3.5 years.

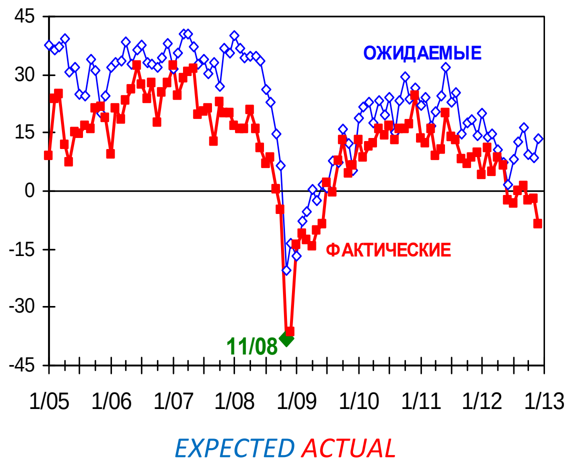


Fig. 3. Changes in Output Volumes Cleared of Seasonal Factor (Balance=%Growth-%Decrease)

Such negative dynamics of output can be explained by enterprises' willingness to bring changes in production in line with those in demand. In December, that relationship amounted to 70% though in October-November it was in the range of 60% to 61%, which situation was the result of industry's effort to keep the output from explicit reduction. In the beginning of the 3rd quarter, the share of industry where the output outran the sales rose to 29%–30%, though earlier that index was at the level of 20%–21%. In December, it returned to the normal 20%. However, the industry had to pay for such a return by considerably slowing down production.

However, in December initial output plans did not undergo negative changes (which are typical of that month) as compared to November. Probably, all such negative changes were "absorbed" by industry's November plans and the actual dynamics in December. At present, the industry is looking to revival of production.

Stocks of Finished Products

Slowdown of the output dynamics permitted the industry to keep under control the stocks of finished products (*Fig. 4*) and improve by 4 points the balance of evaluations of them thanks to a decrease in the share of the *above the norm* answers. In the second-half year of 2012, the main portion of enterprises (65%–70%) regarded their stocks as normal. Such evaluations in non-ferrous industry and chemical industry amounted to 93% and 81%, respectively. In iron-and-steel industry and food industry, they amounted to 75% each. In the second half-year, the share of normal evaluations increased along with growth in the size of enterprises. At small and mid-sized enterprises it amounted to 54%, while at large enterprise and very big plants, to 60% and 70%, respectively.

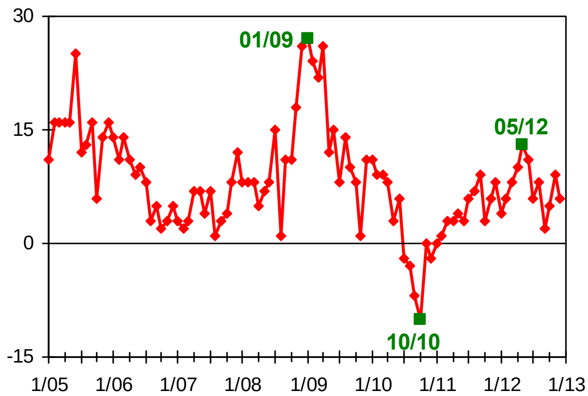
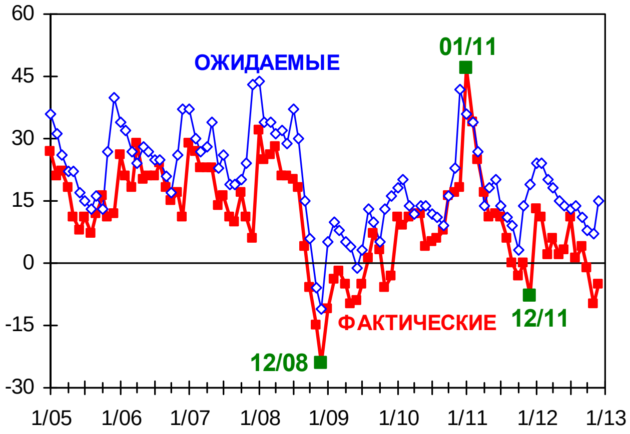


***Fig. 4.* Balance of Evaluations of Stocks of Finished Products (Balance=%Above the Norm-%Below the Norm)**

Prices of Enterprises

In a situation of weak demand, industry has both to slow down the output and switch over to a reduction of prices (*Fig. 5*). For two months running, the strongest price reduction at the year-end in the 2009–2012 period was registered by surveys. It is to be noted that in October 2012 there was no growth in prices, while in August-September it was the minimum one.



EXPECTED ACTUAL

***Fig. 5.* Changes in Selling Prices (Balance-%Growth-%Reduction)**

In November-December, a price reduction in absolute terms was demonstrated by all the sectors of industry, except for fuel industry (balance +14 points), food industry (+10 points) and wood industry (+2). The strongest drop in prices took place in iron-and-steel industry (balance (–34) points), building industry (–7) and chemical industry (–6).

In December, enterprises' pricing plans rose straight by 8 points for the first time in 2012. In previous months of 2012, plans used to decrease, but at a very slow rate and, as a result, they lost only 17 points by November.

Actual Dynamics and Lay-Off Plans

In industry, reduction of employment has steadily continued since July 2012 (*Fig. 6*). Throughout the entire second half-year, the balance of change in the number of workers (rates of change) was in the range of from –13 points to –8 points. In the 4th quarter, the strongest reduction of workforce took place in wood industry (balance (–17) points), iron-and-steel industry (–15), light industry (–13) and engineering (–11). Hiring of workers was registered only in power industry.

Forecasts of changes in the number of the employed remain highly pessimistic for the second month running. Hiring of workers is likely only in non-ferrous industry. In other sectors, expectations of lay-offs prevail, particularly, in wood industry (–25 points), iron-and-steel industry (–24 points) and engineering (–21points).

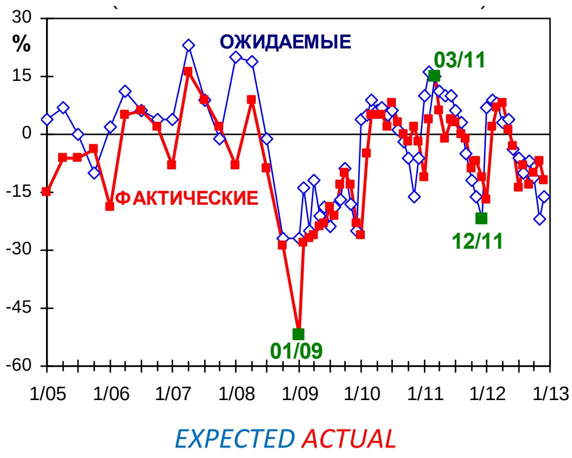


***Fig. 6.* Changes in Employment (Balance-%Growth-%Decrease)**

Enterprises' Investment Plans

In December 2012, the balance of investment plans dropped straight by 10 points to the 3-year minimum (*Fig. 7*). A similar December drop in investment plans was registered late in 2011, but recovery took place already in January 2012. However, in May they fell to +5 points and remained that weak for four months running. After that, they kept gradually declining and in December they dropped to –15 points. Recovery from the last December drop is unlikely to be that quick as a year ago.

At the end of the year, positive investment plans prevailed only in wood industry (+7 points) and building industry (+3 points). In other sectors, they point to enterprises' intensions to reduce investment activities: in food industry to –48 points, light industry (–37 points) and iron-and-steel industry (–12 points).

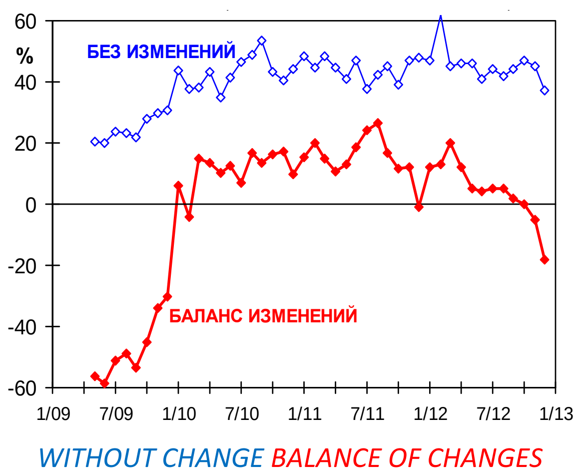
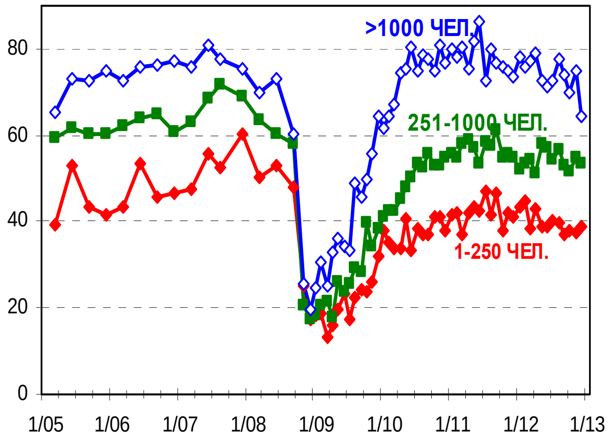


***Fig. 7.* Expected Changes in Investments in Capital Funds on the Previous Year (Balance-%Growth-%Decrease)**

Lending to Industry

In December, the aggregate ("above the norm" + "norm") availability of loans in Russian industry decreased from 69% to 62%. The latter value became the 32-month minimum. Such a drop took place due to tightening of access of large enterprises (with over 1,000 workers) to loans. In other groups, lending conditions did not change (*Fig. 8*).



1000 persons 251-1000 persons 1-250 persons

Fig. 8. **Normal availability of loans by the size of enterprises, %**