RUSSIAN INDUSTRY IN JANUARY 2013

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According to the data of surveys of the Gaidar Institute[1], in January in industry the sharp but traditional growth in optimism of forecasts of demand, output and employment was combined with growth in excessive stocks of finished products, careful pricing policy and growing inhibitive effect of demand on the output dynamics. Enterprises' investment plans will increase slowdown of Russian industry in 2013.

The Industrial Optimism Index

The aggregate index of sentiments in Russian industry (*Fig. 1*) keeps decreasing and dipped ever deeper in the negative zone. The main driver behind a drop in that index is law demand in industrial products which is beyond the government's control.

THE IEP INDUSTRIAL OPTIMISM INDEX, 2005–2013

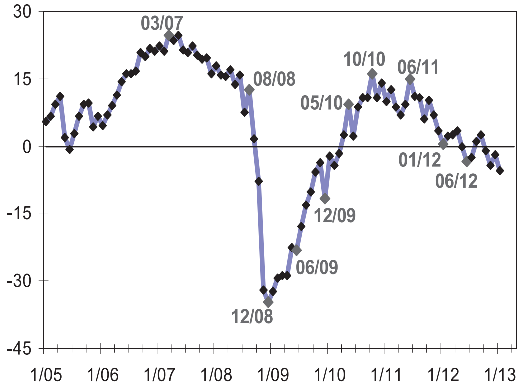

Fig. 1

Demand on Industrial Produce

In January, the actual dynamics of the demand in industrial produce experienced a traditional dramatic drop which was observed in the past few years (*Fig. 2*). The balance of answers dropped to –40 points. However, in 2012 the initial sales data showed a drop in the demand as early as from the beginning of the 3rd quarter, while in 2011 it began from the 4th quarter. As a result, the past year's time series cleared of the seasonal factor appears more pessimistic than its interval in 2011. The above pessimism contributed to a drop in satisfaction with demand in 2012: the average annual share of the "normal" answers fell to 51% after 60% in 2011. The output of the 4th quarter of 2012 was even worse: 47% after 60% in the same quarter of 2011. In January 2013, only 40% of enterprises was satisfied with the demand while a year ago it was 48% of enterprises which were satisfied with sales.

However, the demand forecasts which rose dramatically in January as they used to do in the previous years showed that in industry there were still hopes for revival of sales. Within a month, the balance of the index rose by 49 points from -19 balance points to +30 balance points and became January's best value in the 2010–2013 period. With the seasonal factor cleared, the January result became the best value in the entire post-crisis period. If enterprises manage as usual to add a bit more optimism in February, the result of 2013 may happen to be higher.

SOLVENT DEMAND CHANGES WHICH ARE NOT CLEARED OF A SEASONAL FACTOR (BALANCE=%GROWTH- %DECREASE)

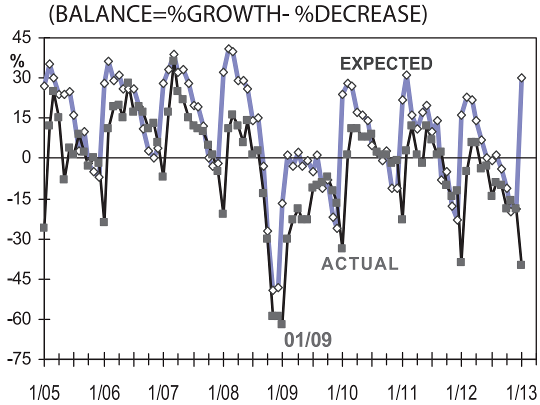

Fig. 2

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%.

The Output

In January, the output dynamics experienced a traditional drop estimated by enterprises at -39 balance points. The formal methods of clearing of the seasonal factor turned the above drop into the symbolic growth with an intensity of +3 points (*Fig. 3*). The above value does not go beyond the limits of the index for eight months running and is equal to the result of January 2012. However, the received output growth rates turned out to be better than all the values of the weak 4th quarter of 2012 and may soon infuse hope into consumers of a scarce set of the official statistics indicators.

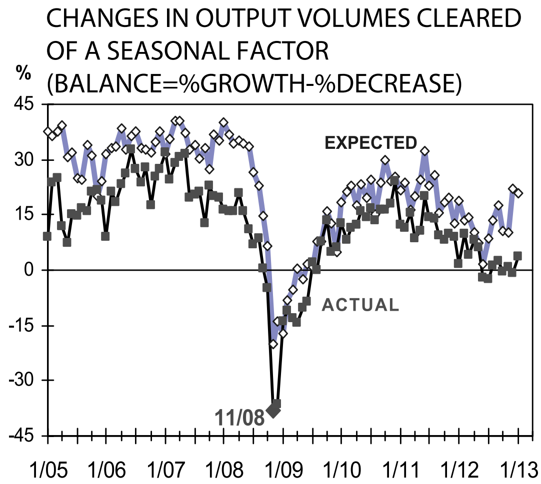

Fig. 3

The output plans which started to get better as early as December (which situation is quite an untypical one) gained another 44 points in January (that is typical) and, as a result, gained the best January value in the post-crisis period. With the seasonal factor cleared, the result of January 2013 became the best one in the past 17 months. So, in industry both forecasts of demand and output plans demonstrate high optimism of expectations whose realization seems not quite apparent to enterprises themselves.

Stocks of Finished Products

Manufacturers' doubts as regards growth in demand and output can be seen in their assessments of stocks of finished products (*Fig. 4*). In January, the balance of the index showed growth in excess of goods to the 40-month maximum. A similar result was received in May 2012 and it was followed by slowdown of output, a drop in investment plans and decrease in the IEP optimism index. At present, growth in excessive stocks takes place in a situation where their physical volumes decrease. However, even that factor does not help industry solve successfully the problem related to stocks of finished products. The above factor will definitely hinder growth in industrial production in the months to come.

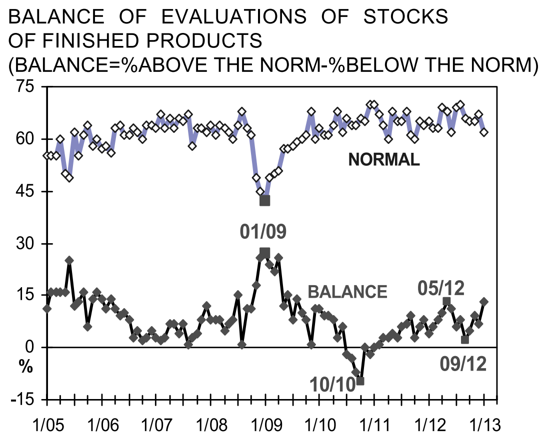

Fig. 4

Prices of Enterprises

Enterprises' pricing policy demonstrates the industry's uncertainty about potential growth in demand and output (*Fig. 5*). In January 2013, the most moderate jump in producers' prices in that month took place since 1999 (except for, certainly, January 2009), while two months earlier the most intense drop in prices since May 2009 was registered by the surveys. In November 2012, industry had to resort to a large-scale price reduction in an effort to revive the demand and save the output at the end of the year. At that time, it partially succeeded.

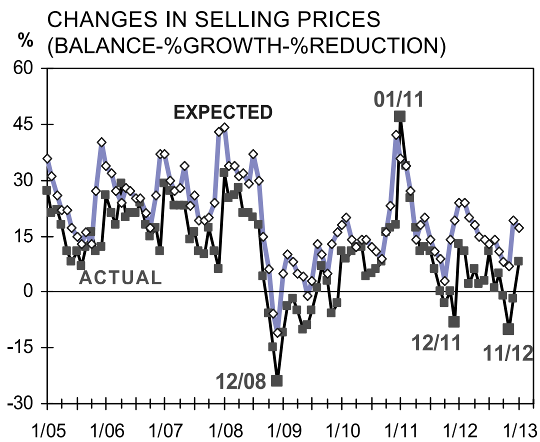

Fig. 5

The plans of change in selling prices point to the cautiousness of enterprises. In 2012, those plans kept decreasing till November, included, while in previous years the drop used to come to a halt earlier, while subsequent growth lasted for three months. At present, growth in pricing plans was registered only in December, while in January 2013 enterprises gave up the idea of further speed-up of growth in their prices.

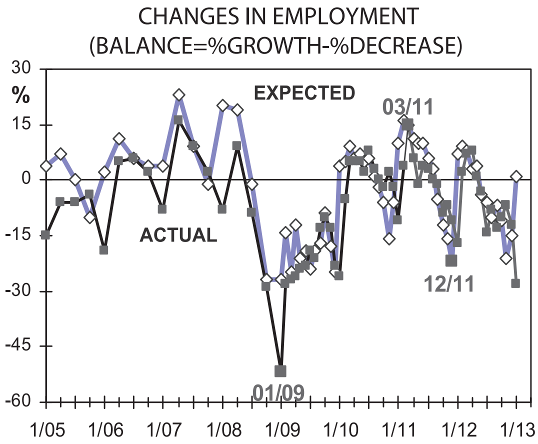

Fig. 6

Actual Dynamics and Lay-Off Plans

In January, Russian industry kept losing workers with intensity which was the record-high in the past four years (*Fig. 6*). Last time, a larger reduction in personnel in industry was registered by surveys in the crisis January 2009 when initiators of lay-offs were sooner enterprises, rather than workers. At present, the situation is quite the opposite.

Enterprises' Investment Plans

Investment plans of enterprises do not promise revival of output in the months to come, either. They failed to recover in January after normal (seasonal) decrease in December. The balance of those plans was negative as early as November, consolidated its position in the negative zone in December and remained in the zone of explicit reduction of investments early in 2013. Growth in investments is expected only in building materials industry. The most dramatic drop in investments is expected in food industry (-45 balance points), light industry (-36 balance points) and iron and steel industry (-26 balance points). It seems that no revival of investments should be expected in 2013.

Lending to Industry

In January, the total availability of loans ("above the norm" + "norm") rose by symbolic 4 points and amounts currently to 71% (*Fig. 7*). The above value does not go beyond the limits of the band (66–72%) in which the index has remained in the past year and a half. However, the average minimum rate offered by banks rose to 12.9% after 12.7% in December. Growth in the interest rate took place with all the size groups of enterprises. However, according to enterprises' evaluations such a level of interest rates and even their growth have the minimum negative effect on the dynamics of output in Russian industry. For eight (!) quarters running, only 2% to 4% of enterprises believes that a lack of loans is a barrier to output growth. As a result, in the rating of disadvantages the above factor is regarded by industry as the least important one.

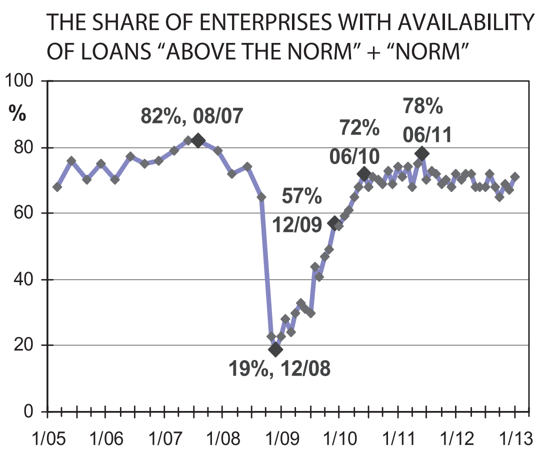

Fig. 7