

INDEX OF ADAPTABILITY IN Q3 2016<sup>1</sup>

S.Tsukhlo

*Final estimate given by the Index of Adaptability<sup>2</sup> for Q3 2016 has confirmed the increased level of Russian industry adaptability to the crisis of 2014–2016. The indicator has conclusively registered its all-time maximum at 74% for the entire period of monitoring 1994–2016 (Fig. 1). Review by enterprises of their industrial capacities estimates was the main factor of growth of the Index of Adaptability.*

In Q3 2016, industry sharply raised the share of capacity responses as “sufficient” at the expense of reduction of responses “more than sufficient”. Thus, significant part of surplus expectations regarding changes in capacity demand was shifted by businesses to “sufficient” category. As a result, the share of normal (sufficient) sufficiency of industrial capacities has moved up to 76%, which is nearly an all-time high of the indicator. Superior value (all-time high) was registered in Q2 2012 and constituted 78%. Excessive capacity overhang has fallen to nearly local minimum (2009–2016). Currently 16% of enterprises report excessive capacity. In 2011, this indicator was at the level of 14–15%.

At the same time, capacity difficulties in Russian industry was constantly registered by merely 5–9% of enterprises. It should be noted that their responses regarding capacity, businesses link to their changes in demand, in other words to their projections of demand. Projection accuracy is rather high and mistakes in vast majority of cases fall into one side – upward bias of future sales volumes.

Thus, in 2016, industry boasts of all-sufficient production capacity capable to satisfy the most optimistic projections of demand on domestic products<sup>3</sup>.

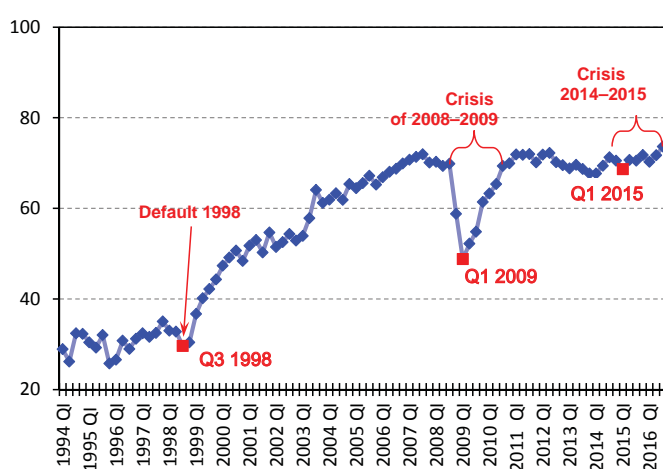


Fig. 1. Index of Adaptability (normality) of industry, 1994–2016, % (share of enterprises estimating their indicators as “normal”)

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.17(35).

2 The Index is computed as arithmetical average of a share of normal estimates of six indicators: demand, stocks of finished products, stocks of raw materials, available production capacities, current employment, financial and economic state of enterprises. Gaidar Institute for Economic Policy has been analyzing a set of these estimates since 1994. The Index is computed on a monthly basis. The Index of Adaptability (normality) shows the level of adaptation of the Russian industry to current economic conditions. Or: to what extent normal are current conditions for Russian industry performance.

3 However, one should bear in mind that estimates of available capacity and laborers in Q3 have been obtained according to the schedule of business surveys conducted in July 2016

Demand estimates have also contributed to the dynamics of the Index of Adaptability. Satisfaction with sales has made a full recovery following the frustration of Q1 2016 when the share of normal responses of demand decreased to the crisis minimum (45%). Moreover, in Q3 2016, it reached maximum (during the crisis period) of 56%. At the beginning of the current crisis (Q1 and Q2 2015) satisfaction with demand constituted 51%. It should be noted that at the beginning of the previous crisis (2008–2009), this indicator crashed from 60% to 23% and stayed at the minimum during two quarters during that crisis following which over a year and a half it has mounted a comeback to the same levels.

Estimates of the stock of finished products maintained growth of the composite Index and estimates of stock of industrial inputs in Q3 kept the same nearly maximum values.

And solely estimates of headcount sufficiency (this refers exclusively about skilled laborers) prevented higher growth the Index of Adaptability (normality) in the last quarter. In Q3 2016, normal sufficiency of laborers decreased by 5 p.p. to 75% following the all-time high registered in Q2. The share of businesses with excessive employment has dropped to 9% and the scale of shortage of laborers has correspondingly grown to 16% and still exceeds the scale of shortage of production capacity.

Sector indices of adaptability by the end of Q3 2016 demonstrated sharp growth of “normality” responses in many sectors of Russian industry (*Fig. 2*).

The most significant increase of the indicator was registered in chemical industry, which according to normal responses (89%) has become the leader. Increase of sector Index has ensured the review by enterprises of sufficiency of available capacity in sectors: the share of their responses as “normal” has gone up during quarter by 37 p.p. and hit 97%. Meanwhile, surplus sector capacity have gone and in the foreseeable future can create problems with products supply. However, now chemical industry reaps the benefit of correct investment strategy implemented prior to crisis and of the ruble’s devaluation, which secured high demand for quality and cheap (in hard currency) Russian products. As a result, nearly all enterprises of the sector (96%) estimate their financial situation as good or satisfactory. Solely estimates of current demand lag behind high estimates of other indices registered by chemi-

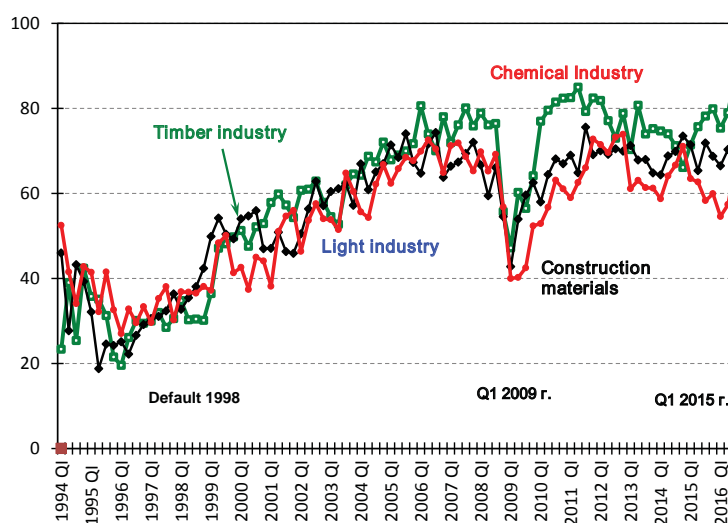


Fig. 2. Sectoral Index of Adaptability (normality), 1994–2016, % (share of enterprises estimating their indicators as “normal”)

when industry was strongly affected by the first marks of recovery from the current crisis and due to this reason boasted of excessive expectations regarding the rate of positive changes. Estimates of production capacity and laborers in the coming quarters most likely will be revised towards more precise understanding of the rate of recovery from the current crisis taking into consideration actual changes taking place over recent months.

cal enterprises: satisfaction with the current demand in Q3 2016 constitutes on average across the sector barely 75%.

However, even the “worst” result posted by the chemical industry regarding this indicator was extremely high on the background of current demand estimates registered by other sectors of Russian industry. In Q3 2016, the food industry managed to register close to chemical enterprises levels of satisfaction with current sales. 63% of food industry enterprises estimated demand for its products as normal amid significant reduction of real income of the population and decrease of spending on food. The lowest level of satisfaction with demand (30–31%) was registered in the light industry and construction materials industry. This fact has a logical explanation: investment activity of enterprises is easing and the population refuses to renew wardrobe.

However, manufacturers of construction materials and cloths, it seems, hope to rebuild investment and consumer demand. This is due to a wide scale review by enterprises of these sectors of their estimates of surplus capacity in favor of sufficient owing to projections of demand shifts. However, the scale of shortage of capacity remained the same extremely negligible level. Precisely shifts in the estimates of capacity ensured growth of the Index of Adaptability in Q3 2016 to the highest levels posted during the current crisis (*Fig. 2*).

It must be said that other components of sector Indices of adaptability have demonstrated positive growth. In the light industry normal responses of stock of finished products (69%) and stock of raw materials (81%) have hit crisis maximum. Positive dynamics of estimates of stock is registered in the construction industry.

All indicators except estimates of stock of industrial inputs ensured growth of the Index of adaptability in timber industry to pre-crisis maximum. They declined during the quarter by merely 4 points to 79%. On the whole, by the end of the first three quarters of 2016, nearly all sectors of industry demonstrate high sufficiency with industrial inputs. ●