

ADAPTABILITY INDEX OF RUSSIAN INDUSTRY: STILL AT MAXIMUM<sup>1</sup>

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*Generalized assessment of businesses of their state in Q2 2016 demonstrated continuation of high adaptability level of Russian industry to 2014–2016 crisis. This index retained its value at the all-time high (for the period 1994–2016). During the current crisis, this indicator showed the lowest value in Q1 2015.*

Relatively protracted character of the current crisis has allowed Russian industry to succeed in managing its stocks of finished products. The share of responses “normal” in Q2 2016 hit the all-time high of this indicator for the entire period of monitoring since March 1992 (Fig. 1). Currently, 73% of Russian industrial enterprises consider their stocks as normal. During the current crisis the share of normal estimates of stocks of finished products demonstrate high resilience staying in the range of 70–73%. During 2008–2009 crisis, this indicator fell from 65 to 47%.

However, sectors have demonstrated different management results for their stocks of finished products. Where metallurgists, chemists and food industry workers on average increased for H1 2016 the share of their normal responses regarding stocks above 80%, the light industry – barely to 58%. Although the latest result can be considered a success of the sector following 46% obtained in 2014. However, the food industry has achieved the most impressive gains in stock management in the course of the unfolding crisis. Over the period 2014–2016 the sector has increased the share of normal responses of their volume by 24 p.p. – from 60% to 84%. The latest value was the all-time maximum.

Thus, in each sector the vast majority of businesses consider their stocks as normal. The rest give responses “above normal” or “below normal”. The positive balance (difference) of these responses indicate the excess of stocks of finished products, negative – the shortage. On the whole, Russian industry in the course of this crisis has avoided a hike (excess growth) or a pessimistic fall (when enterprises do not believe in the consistency of current demand dynamic). In 2014–2016, the balance of indicator remain in the posi-

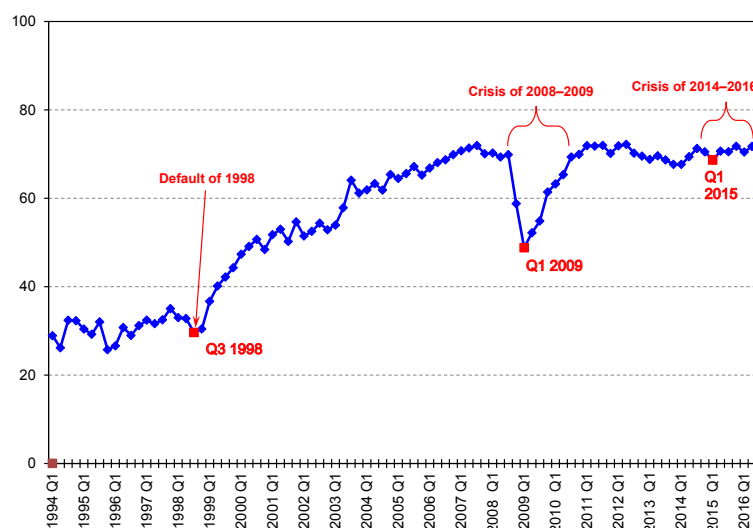


Fig. 1. Adaptability Index (normal) of industry, 1994–2016, % (share of enterprises estimating their indicators as “normal”)

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tive around zero, which is another proof of the consistent control exercised by enterprises over their stock of finished products.

### Industrial capacities: shortage or surplus?

Russian industry boasts of significant inoperative reserves of industrial capacities. Surveys' indicators speak in favor of this assessment by directly assessing the situation in this sphere.

First, real capacity utilization in 2014–2016 comes to 66% on industry as a whole. Thus, 6 p.p. remain in order to achieve a historic peak of 72%, 2007. The volumes of industrial production are capable to grow immediately by 9% ( $72/66 \times 100 - 100 = 9$ ) against the current output level. This is a large sum even against the backdrop of optimistic projections, which we have at the moment. Because “bottom out” (i.e. a sharp positive change in the output dynamic) poorly describes possible positive scenario in Russian industry, 9% will be sufficient for unfolding an investment activity and build up industrial capacities.

Second, Russian industry is capable to bring now capacity utilization up to 82% without the investment by using equipment in normal operating condition. This value proceeded from the IEP business surveys and brings current capacity reserve to 16 p.p.

Third, in 2016, the shortage of industrial capacities due to expected demand changes constitute in industry as a whole 6.4% (the share of enterprises in Russian industry assessing their capacities as insufficient owing to the projected demand changes). This indicator value is close to minimum, which was obtained in 2009 and came to 5.5%. However, mentioned above shortage is overlapped by the surplus (share of enterprises with excess capacities). In 2016, 27% of enterprises boast of excess capacities, which is the peak of the indicator for 2010–2016.

Not more than 8% of enterprises report the shortage of capacities, which is overlapped by the surplus. Solely the timber industry reports negative balance of capacities in 2016, i.e. enterprises with a shortage of capacities dominate over enterprises with excess capacities.

### Sectoral indicators of adaptability

By end-Q2 2016, the levels of adaptability of Russian industry to the current economic situation have not suffered any significant changes (Fig 2).

The highest level of adaptability remains in the food industry, which retained its sector index at all-time (over 1994–2016) high. Five out of six base indicators (stock of finished products, inputs, capacities, number of employees, and financial state) got normal responses from 83% of enterprises.

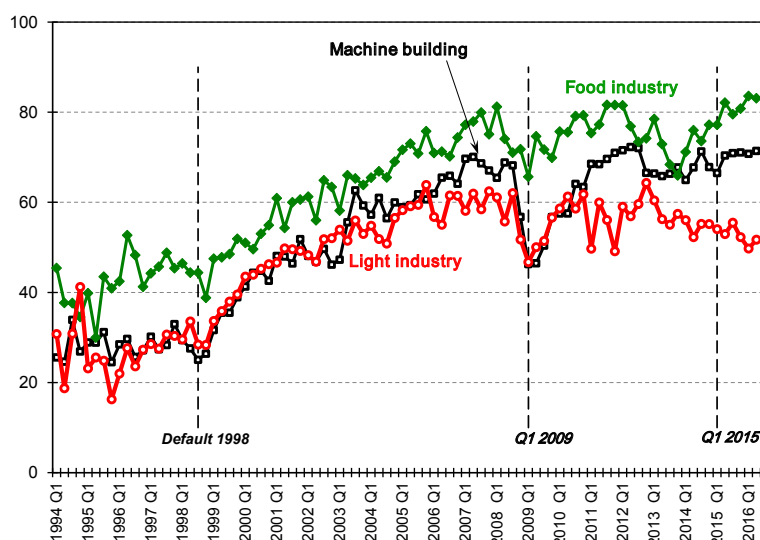


Fig. 2. Sectoral adaptability Index (normal) of industry, 1994–2016, % (share of enterprises estimating their indicators as “normal”)

Moreover, solely demand was estimated as normal by 64% of enterprises in Q2 2016. Besides, growth of this indicator against Q1 2016 came to 11 p.p.

The light industry has been demonstrating the worst adaptability. Although in Q2 2016 its sector index went up by 2 p.p., its last place remained unchanged. Estimates of current demand volumes are weighting down: merely one third of enterprises of the sector consider them normal. In Q1 2016, the result was significantly inferior -14%. The sector gives low estimates to its capacities – barely 38% of enterprises estimates their volumes as normal and 56% as excessive. The situations look similar with employment but with an upward bias: normal headcount is given by 48% of enterprises and insufficient – 37%.

Machine building sector retains the adaptability index for the fifth month in a row at the level of 70–71% and takes an in between place along this indicator between the leader (food industry) and the outsider (light industry). ●