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RUSSIAN INDUSTRY IN AUGUST 2012

According to the surveys of the Gaidar Institute¹, in August the situation in Russian industry sooner improved than got worse. Slowdown of a drop in the demand permitted enterprises to avoid cuts in output, introduce positive adjustments in production plans and reduce the rate at which workers were laid off with complete control over finished goods stocks exercised. However, uncertainty about the future makes the industry minimize its investment plans and go ahead with lay-offs of workers.

Industrial Optimism Index

The latest calculation of the industrial optimism index showed that the situation in Russian industry improved and, notably, by means of all the components of that composite index.



Fig. 1

К рис выше

IEP INDUSTRIAL OPTIMISM INDEX, 2005-2012

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%.

Enterprises' aggregate plans and forecasts got better as well, however, by virtue of output plans.



Fig. 2

К рис выше

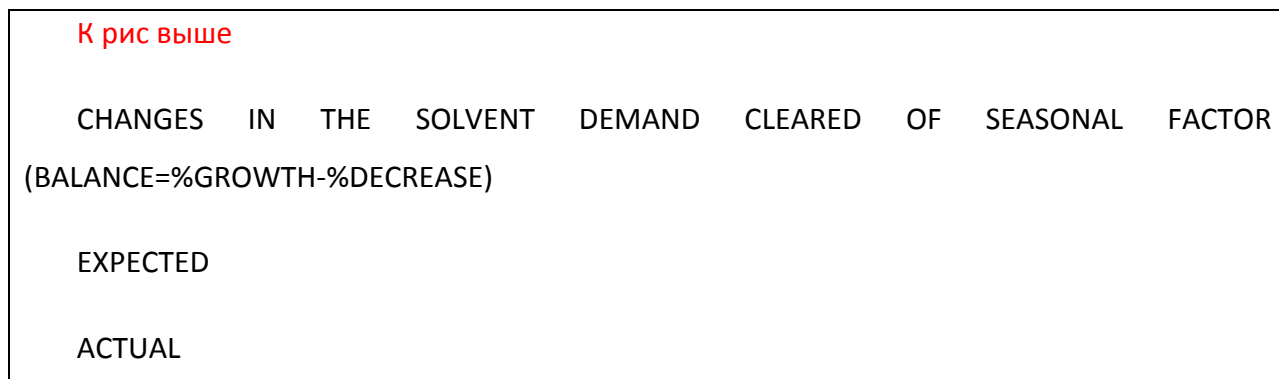
INDUSTRY FORECASTS INDEX, 2005-2012

Demand on industrial products

In August, dynamics of the demand in industrial products underwent positive changes. Both the initial data and that cleared of the seasonal factor showed growth of six points, though it still remained in the negative zone; the above factor is evidence of the fact that a drop in sales slowed down (*Fig. 3*). Though a drop in the demand continued in August, it was not that intense as in July. As a result, July 2012 turned out to be the worst month as regards dynamics of the demand from July 2009.



Fig. 3



The above situation permitted industry to “take breath” and improved satisfaction with sales volumes. Within a month, the difference in evaluations of the demand increased by eight points and, thus, all the losses of June and July were recovered. At present, only 42% of enterprises are not satisfied with sales of their products (*Fig. 4*). That is the minimum (best) value in the past nine months. However long (protracted?) expectation of the second wave of the crisis which analysts spoke much about made enterprises reduce their requirements to normal volumes of the demand. If late in 2010 and early in 2011 the demand was considered normal with a capacity utilization at the level of 76%–77%, at present Russian industry is satisfied with that of 72%–73%.

In the 3rd quarter, forecasts of the demand still preserve a zero balance: expectations of growth are balanced completely by those of a decrease in sales. On one hand, such an uncertainty in forecasts looks better than growth in pessimism of forecasts in the 2nd quarter of 2012 when within three months the balance of expectations lost 13 points and hit the three-year lowest level. On the other hand, the industry cannot determine the behavior of the demand in the near future.

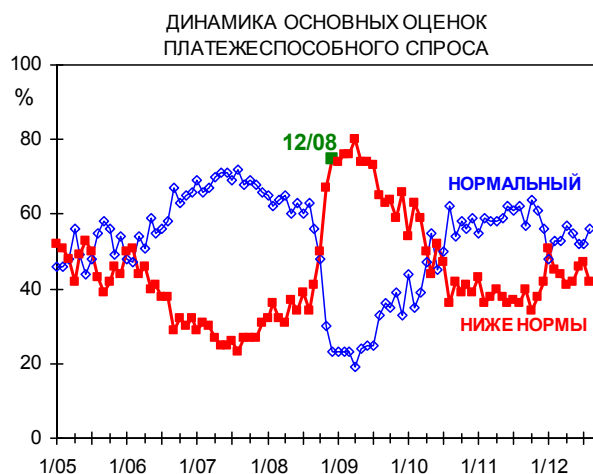


Fig. 4

К рис выше

DYNAMICS OF MAIN EVALUATIONS OF THE SOLVENT DEMAND

NORMAL

BELOW THE NORM

Stocks of Finished Products

In a situation of continued decrease in the demand and uncertainty about the prospect of changes in it, the industry starts minimizing risks related to accumulation and maintenance of a reasonable surplus of stocks of finished products. During the summer, the balance of evaluations lost 8 points after it hit the 33-month maximum in May (*Fig. 5*). In August the share of answers “normal” reached the historic maximum (of all the 243 surveys!): as never before industry was careful about its policy of stock management. The latter leaves no hope either to the government which already tried to declare the need to replenish stocks as a driver of industrial growth, nor new buyers who will have to wait for new products to be made, rather than receive finished products from manufacturers’ warehouses right away.



Fig. 5

К рис. выше

BALANCE OF EVALUATIONS OF STOCKS OF FINISHED PRODUCTS

(BALANCE=%ABOVE THE NORM-%BELOW THE NORM)

THE SHARE OF NORMAL EVALUATIONS

BALANCE

Output

In August, the dynamics of the output underwent positive changes. The initial growth rate increased by 11 points after a drop of 26 points in the 2nd quarter and stabilization at a zero level in June and July. Clearing of the seasonal factor smoothed the August spike to four points. As a result, according to surveys growth in industrial output stopped in summer (the growth rates were within the range of -2 to $+2$ points, that is, zero ones). The fact that the expected recessionary drop (or the one close to it) did not materialize adds optimism to the above results. However, the pessimism of the June-August data cleared of the seasonal factor consisted in absence of signs of growth (*Fig. 6*). Those signs could only be seen in enterprises' plans. In the 3rd quarter, the optimism increased by 11 points after a drop to the three-year

minimum in June. Absence of a recessionary drop in the output gave enterprises a hope that production may revive.



Fig. 6

К рис выше

CHANGES IN OUTPUT VOLUMES CLEARED OF SEASONAL FACTOR

(BALANCE=%GROWTH-%DECREASE)

EXPECTED

ACTUAL

Prices of enterprises

In August, pricing policy of industrial enterprises underwent changes again. If in July the first half of the annual growth in tariffs had to be regained, at present enterprises returned to modesty in that area. The balance (rate of intensity) of actual growth in prices lost 11 points within a month and became a zero one; growth in selling prices in industry in general stopped again (Fig. 7). It is to be noted that 81% (almost the post-default maximum value) of enterprises reported directly that they did not change their prices, while in the remaining 19% of enterprises 9% and 10% of them reported about price rises and price cuts, respectively. As a result, the most moderate growth in selling prices in 2012 was registered.

Pricing plans of enterprises do not promise a change in the trend in that area. In August the balance of forecasts grew by symbolic two points after five months of an uninterrupted decline. It is to be noted that in May-June industry did not plan a price review in July and intended to stick to the former pricing policy which consisted in a slow reduction of prices' growth rates. It is another story that in March-June enterprises actually had to reduce growth in prices to the minimum.

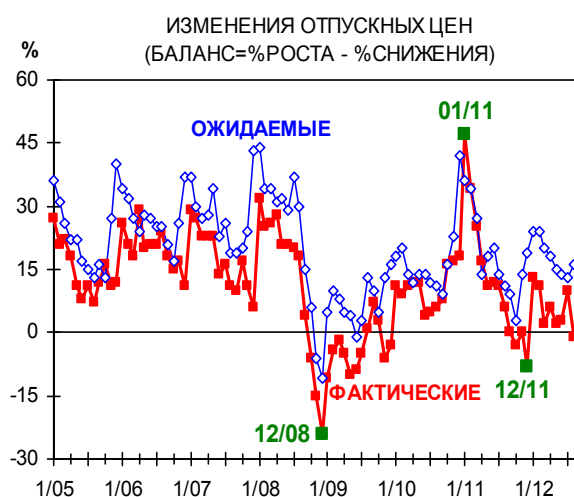


Fig. 7

К РИС ВЫШЕ

CHANGES IN SELLING PRICES

(BALANCE-%GROWTH-%REDUCTION)

EXPECTED

ACTUAL

Actual dynamics and lay-off plans

In August, industry kept laying off workers, however, at a lower rate of intensity than in July when the balance (rate) of a change in the number of the employed dropped to -14 points according to the initial data and, to -17 points, according to the data cleared of the seasonal factor (*Fig. 8*). At present, it amounts to -9 points and -10 points, respectively.

Enterprises' plans do not promise changes in the HR policy in industry. In August, the initial balance of forecasts decreased by another six points, while that cleared of a seasonal factor, by

another four points. A reduction of the number of workers in industry continues and, most probably, at a higher rate of intensity.



Fig. 8

К рис выше

CHANGES IN EMPLOYMENT

(BALANCE=%GROWTH-%DECREASE)

EXPECTED

ACTUAL