Demand on industrial produce

In February, the dynamics of demand failed to demonstrate recovery of sales of industrial produce after holidays in January. The initial balance of changes remained in the negative area and its value was too big for that month. In the years between the crises that index was a positive one or, at least, was equal to about zero. At present, it rose only to 14 points. After clearing of the seasonal factor, it was the absolute minimum from July 2009. The worst value was registered in July 2012 and it was 2 points below the current one.

However, such changes in sales failed so far to result in any substantial adjustment of the estimates of the current volume of demand. The share of “normal” answers still exceeds the share of “below the norm” answers, but now only by 5 points, though as early as November the excess was equal to 11 p.p. It is to be noted that in a situation of currency and credit shocks and government anti-crisis measures even smaller volumes of sales suit most (though the minimum number) enterprises of the Russian industry.

Forecasts of demand failed to gain optimism, too. After rather weak growth in February, the index improved by the mere 5 points and was still short of the normal level of 15–20 points. With the seasonal factor cleared, in February the forecasts of demand remained at the level of January. So, there was no further worsening of that index which factor can be regarded as an advantage in a situation of dynamics of both demand and output – which dynamics is far from being regarded as a crisis one – in January 2015.

Stocks of finished products

Stocks of finished products reacted adequately to the negative dynamics of demand (Fig. 1). In February, the balance of estimates of stocks of finished products (“above the norm” minus “below the norm”) got worse by another 7 points. It is to be noted that in January that index improved substantially which is quite logical in a situation of dynamics of both demand and output – which dynamics is far from being regarded as a crisis one – in January 2015.

The output

The official data on the volumes of output in February may become again a subject of debates on the quality of seasonal clearing because at present surveys did not register any crisis evidence in output changes. In February, the initial balance rose by a standard value which is typical of that month, while clearing of the seasonal factor showed modest growth which is typical of that index, too (Fig. 2). So, for two months running in the 2015 crisis year the industry retained the minimum growth in output and prevented it from falling dramatically, though by means of worsening of the estimates of stocks of finished products.

It is to be noted that in February enterprises’ output plans got worse. The initial balance of those plans remained at the level of January 2015 (a rather weak one as compared to other years), while that cleared of the seasonal factor showed a further decrease...
(because in February they usually continue to gain optimism). As a result, output plans in February fell to the two-year minimum level.

**Enterprises’ costs**

In Q1 2015, intense growth in costs continued in the industry. During three months which passed from the date of the last sample, growth rates of the cost of production increased by another 16 points (in Q4 2014 growth amounted to 22 points), having amounted to +51 points and hitting the seven-year maximum, that is, there was no such intense growth in costs from the beginning of 2008.

But in Q2 2015 the industry will try to stop the growth rates of costs. In February, forecasts of changes of costs did not grow as compared to the results of November 2014, that is, according to the opinion of enterprises growth in costs of production would prevail, but enterprises expect to retain it at the level of Q1 2015 which is the highest one in many years. The leader in that process is the light industry which expects growth in costs with the balance of +70 points, while most industries are going to stay within the range of +55..+59 points. For example, the food industry and the iron and steel industry expect growth in costs with the balance of +39 points and +20 points, respectively.

**Enterprises’ prices**

The intention to suppress growth rates of costs can be explained to a great extent by a breaking point which seemingly took place in the dynamics of enterprises’ selling prices. After hitting the four-year maximum in January, growth rates of prices (the balance of changes) fell by 5 points in February (Fig. 3). It is to be noted that in December–January they grew by 35 points after staying virtually on the same level in June–November 2014. In that period, enterprises’ selling prices used to grow at the rate of +7 p.p., while in January 2015 they amounted to +42 p.p. At present they are equal to +35 p.p. while in February 2014 they amounted to +5 p.p. Oppositely directed measures of the monetary authorities have had little effect on growth – which was caused by introduction of Russia’s counter sanctions – in the rate of inflation.

However, the industry’s pricing forecasts which soared in December–January to nearly the maximum level between the two crises started to decline – so far by only 6 points after a surge of 33 points in the previous two months – in February, too. However, both the weak recovery of demand and pessimism of forecasts will make enterprises continue to slow down growth in prices even with prevalence of intense growth in costs. The latter factor will inevitably result in a drop in profitability, further growth in pessimism over investment plans and other negative consequences.

**Enterprises’ investment plans**

Actually, enterprises’ investment plans “collapsed” by another 12 points having hit the worst level since October 2009. Generally, in September 2014 – February 2015 the balance of investment plans lost 45 points (Fig. 4). Such a dramatic drop in that index has never been registered by surveys (though the monitoring of that index began only in May 2009). Another record is spectacular, too: in February the share of reports on enterprises’ intentions to reduce investments amounted in the industry in general to 50%.

Enterprises believe that the main problem related to investments is a shortage of own funds as in the Russian industry the profit is still the main source of investments.

In 2015, a high interest rate on loans is regarded as an obstacle for investments by nearly a half of the Russian industry, while in 2014 and 2013 only 21% and 19% of enterprises, respectively, complained about that. In addition to the above, the situation is complicated by difficulties related to receiving of a bank loan
even if the interest rate offered by a bank is acceptable for the enterprise. In 2015, other barriers on the way of receiving of an investment loan have been almost doubled by banks (from 10% to 19%).

After depreciation of the national currency, Russian enterprises will have to spend twice as much rubles on the import of machines and equipment, while import substitution for many enterprises may become infeasible due to the fact that the required equipment is not manufactured in the Russian Federation. Other Russian buyers of foreign-made machines and equipment will not be able to give them up by virtue of the fact that the quality of the equipment produced in Russia differs much from the imported one (the price/quality ratio). As a result, early in 2015 42% of enterprises believed that high prices on the equipment and construction and installation jobs were a negative factor for investments (34% in 2013).