According to business surveys conducted by Gaidar Institute\(^1\), domestic industry in a more definite way turns into “smooth water” of Russian economic crisis, which smooth surface was not ruffled in 2016 even by declarations about its prompt termination. Ambiguous demand dynamic together with unprecedented control over stock of finished products after all suit the majority of enterprises in the wake of the ongoing crisis. Industry keeps hope alive about a renewal of statistically distinguishable output growth but is not ready yet to terminate the investment pause even amid obvious easing of lending terms.

**Demand for industrial products**

Demand dynamic remains ambiguous. Since February 2016, balance of original responses (growth-decline) remains around zero with variation of two points in either way. Seasonally adjusted indicator demonstrates the same stability although at somewhat lower levels. Thus, the economy is still stagnating while solely retaining demand on domestic industrial products, which stays unchanged in either way.

Producers’ forecasts show that industry does not expect a prompt recovery from stagnation. Although during the first months of 2016, balance of demand forecasts showed anything but crisis upsurge of optimism, most likely due to the effect of constant declarations about a speedy termination of the crisis. In as much as these declarations were not meant to come true, industry stopped waiting for a bird in the bush and has settled for a sparrow in the hand. Furthermore, in the truest sense of the word: satisfaction with current demand volumes began to consistently exceed 50% although not by a great deal.

However, the situation differs significantly across sectors of industry. The food industry workers, chemists, and steel workers managed to achieve in 2016 a high level of demand satisfaction on their products. However, the light industry failed to obtain from the ruble’s devaluation promised advantages, and construction materials producers still suffer from the investment crisis.

Nearly two-year monitoring of 2014–2016 crisis allow us unequivocally and increasingly contemplate domestic industry as “smooth water” amid the unfolding Russian crisis.

**Stock of finished products**

Protracted character of the 2014–2016 crisis has allowed Russian industry to gain unique achievements in management of stock of finished products. During the entire period of instrumental monitoring (since March 1992) of estimates of enterprises’ stock of finished products, the IEP surveys did not

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\(^1\) Business surveys of managers of industrial enterprises have been conducted by the Gaidar Institute using a European harmonized method in monthly cycles since September 1992, covering the entire territory of the Russian Federation. The panel size is about 1,100 enterprises employing over 15% of industrial employees. The panel is shifted towards large enterprises for each of the segregated sub-industries. The ratio of returned questionnaires comes to 65–70%.
register such high share of “normal” responses. At the end of Q3 of the crisis 2016, this indicator hit all-time maximum. It should be noted that at the very beginning of the current “crisis” (in Q4 2014 and in Q1 2015), the share of such responses demonstrated the best for that moment results of “normality” and showed remarkable stability for the onset of the crisis.

The share of estimates of stock of finished products at “above normal” was irrational for the beginning of the crisis. This indicator was falling during the first quarters of the “crisis”, although according to all rules it had to upsurge due to problems, which Russian industry faced with sales. Precisely these upsurges of excessive stock of finished products we registered in the 1990s and in 2008–2009. However, entry of the Russian industry into the current crisis was anything but in a critical way, at least, according to estimates of enterprises of their stock of finished products.

**Output**

The September dynamic of industrial output can again disappoint experts following the release in October of official Rosstat data. According to businesses estimates, statistically distinguished industrial output growth halted in September and the rate of its change again returned to zero. The latter confirms instability of industrial dynamic registered in 2016, which again will intensify the fight for the “purity of ranks”: seasonal and calendar adjustment of time series. These developments became a major exercise and a matter of argument of experts following scarce data released by the official statistics. This being said, there are fewer statements made by the officials about the end of stagnation and industrial growth take-off in Russia, which calmed industry and its output plans became more moderate and stable. Since May 2016, output balances change within very narrow and moderate positive corridor. This speaks for a retention by this sector of Russia’s economy of hopes for industrial growth revival but not very “explosive” even by standards of the current protracted crisis and most like not so close.

**Producers’ prices**

Pricing policy of industrial enterprises becomes more restraint with each passing month of 2016. Following an exceptionally moderate price growth posted in January (2.5-fold less than in January 2015) industry has been consistently reducing their growth rate (balance). Even the July 2016 tariffs growth gave rise to the balance (rate) of producers price change merely from +2 to +6 points, which later again bogged down. This actual price dynamic does not strongly differ from price projections in industry. The latter in Q3 2016 demonstrate amazing stability at an exceptionally low level (+2…+3 point along balance) of inflationary expectations. Russian industry did not boast of such situation (with price projections) since 2009.

Monitoring results for 1992–2016 demonstrate that inflationary expectations do not depend on the size of a business: average annual balances of price projections of different by size enterprises differ not more than by 3 points. Although during some previous years, the difference exceeded 10 points and always the highest growth was forecast by the largest enterprises.

**Investment plans**

In September 2016, Russian industry investment plans have got a fair share of pessimism and have lost all gains made in June–August when enterprises
as never before persevered in their intentions of transition to the investment growth. However, continued ambiguity of the current economic outlook and prospects for the near future together with unclear government economic policy definitely deny Russian industry any wish to invest in production.

Directors of economic departments demonstrate the highest level of pessimism: by 2016 Q3-end, the “investment balance” of this category dropped to -21 points after hitting in Q1 2016 the proper crisis minimum of -13 points. In case of these type of managers, the ratio between investment uncertainty and investment requirement started changing in favor of the latter. Although at the above-mentioned peak of the investment pessimism, managers demonstrated (thus far) by far not the best outcome. In Q3 2016, directors and their deputies were the biggest optimists (-3 points). In case of these managers with each passing “crisis” quarter the investment requirement were more imperative and was all the more closer to the level of the investment uncertainty of the current macroeconomic outlook and economic policy. However, even they were unable to get rid drop by drop of the investment pessimism.

**Loans to industry**

In September 2016, lending to industry made further gains. According to businesses, loans accessibility returned to the pre-crisis level posted in September 2014. In that relatively comfortable to Russian industry month, 63% of businesses considered accessibility of loans as normal. The same result was obtained in September 2016. However, currently demand for loans stays at the minimum (for the monitoring period of 2011–2016) levels, and their shortage hampered the output growth in Q3 2016 barely of 5% of enterprises.

The rate offered by the banks is also recovering to the pre-crisis levels, but is a far cry from those values. In September 2016, this IEP surveys indicator fell by another 0.4 p.p. and constituted now 14.9% per annum in rubles. In September 2016, banks were ready to lend to Russian industry at the rate of 13.2% per annum. However, the 2014 crisis growth of rates was launched with 12.5%, which was registered in March 2014.