In February, according to the data obtained by business surveys conducted by the Gaidar Institute, Russian industry demonstrated lack of positive changes in demand and output, deterioration of assessments of existing volumes of demand and stocks amid growing pessimism regarding plans and projections. Devaluation of the ruble strengthened positions of domestic producers on the markets but created problems on the markets of equipment and raw materials.

Demand for industrial products

February data showed deterioration in the dynamics of demand on industrial products following a rather good result posted in January, when seasonally adjusted sale growth rate turned out to be better indicators registered in preceding months (Fig. 1). The latter, by the way, was perceived with surprise by the industry and assessed as a deviation from norm: the share of assessments of demand as “above normal” has grown unexpectedly to 5% although after the crisis of 2008–2009 such responses amounted to barely 2%. The January ‘surprise’ had no impact on enterprises forecasts: they did not change in January. In February 2016, they suffered the highest since February 2015 reduction: the balance of the indicator fell at once by 6 points and as in early 2015 went into ‘minus’ after seasonal adjustment.

The February sales volumes do not satisfy 55% of businesses, which is the worst result of the last three years. Although in August 2015, unsatisfactory assessments of demand constituted solely 39% and in August 2014 – 38%. Attempts of Russian industry to increase output volumes taken in late 2015-early 2016 and “to bottom out” are still not ensured by sufficient demand.

Stocks of finished products

Somewhat deterioration of assessments of stocks of finished products confirms the previous conclusion. In February 2016, balance of these assessments hit maximum since May 2014, i.e. during 20 preceding months (those months are far from being simple) Russian industry

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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 is 65–70%.
strongly controlled balance between demand and supply keeping surplus stocks over most months at the minimum level, which fact previously was registered in 2006–2007. During these recent 20 months, the share of assessments of stocks as ‘normal’ hit the all-time high of 75%. Now (in January–February 2016) normal stocks of finished products account for 70% of businesses. Moreover, this situation cardinaly differs from what was going on during past crisis: at the peak of crisis years of 2008–2009, the indicator immediately fell to 42%, in default year of 1998 – to 30%, and in 1994 – to 22%.

**Industrial output**

The February data on the dynamics of industrial output can again disappoint observers who traditionally asses the state of affairs in Russian industry by using this indicator. First enterprises’ assessments related to changes in the output after seasonal adjustment demonstrated deterioration of the indicator compared to January (Fig. 2). Russian industry as before is not committed to take risks in complicated economic and geopolitical conditions and so far prefers to maintain existing output volumes.

However, this situation can last only awhile. Firstly, output plans of Russian industry during three recent months have shed 14 points and have dropped to 44-months minimum level. Secondly, in 2016, Russian industry commitment to sacrifice output volumes in case of crisis has grown more than 1.5-times against 2015. Meanwhile, the possibility for the most widespread anti-crisis measures of 2015 either remained the same or fell (detailed analysis of the evolution of anti-crisis measures in Russian industry taken in 2012–2016 will be provided in the next issue of the journal).

Third reason for the Russian industry to remain in a state of uncertain balancing for a short while was increased at the beginning of 2016 by “uncertainty of the current economic situation and its prospects.” Responses with this factor went up in January 2016 by 8 p.p. compared to October 2015 and hit 48%. Meanwhile, traditional (and accepted by all) restriction of the industrial growth, low domestic demand, went up during the same period by only 1 (one) p.p. and now hampers to increase output for 53% of Russian industrial enterprises.

An unlucky train of factors explains sharp growth of the misunderstanding of the current situation and even of its sort-term prospects. Firstly, the slow rolling type of the crisis has deprived the economy of chances for fast entry into the crisis and fast recovery. Secondly, protracted character of the crisis allowed getting to know a very wide and constantly reviewed specter of assessments of the current crisis and forecasts of its development. This most likely misled enterprises then contributed to a better understanding of current situation and its prospects. Thirdly, geopolitical component of the crisis definitely reduced predictability of the economic development.
**Business pricing policy**

In February, business pricing policy demonstrated both expected phenomena and unexpected ones. Expected was further slowdown of actual growth of price of goods leaving factory gate. In February, balance of this indicator fell by 5 points after a relatively small January growth (Fig 3). As a result, now the price growth rate went back to the levels of Q3 2015. Unexpected became planned further acceleration of price growth: balance of price projections went up in February by 7 points and event surpassed values of December balance (2015). In other words, in February, industry planned more accelerated price growth than in December, when we observed another devaluation hike and expected traditional tariff growth. It is feasible that enterprises have exhausted both possibilities to cut their prices and implement moderate price policy amid lack of its impact on sales volumes.

**Investment plans**

Investment plans of Russian industry in February 2016 improved by 4 points, but still went negative (in other words, there were more investment reduction plans than investment growth ones) and do not leave the corridor where they have been staying since May 2015. Investment growth posted in H1 2016 should not be expected in all likelihood. However, a reduction of the investment program in 2016 as the anti-crisis measure lowered its popularity among industrial enterprises in comparison with 2015 by 9 points (it was the most significant reduction) and now practiced by solely 31% of enterprises. Shortage of investment hampers output growth in Q1 2016 of 22% of enterprises (Q1 2015 – 12%). Industry, thus, starts to feel the deficit of investment, but still is not ready to invest in production.