

BUSINESS PERFORMANCE

THE 2018 SURVEYS OF INDUSTRIAL ENTERPRISES: RESULTS AND FORECASTS

S. Aukutsionek, O. Zhukov

DOI: 10.20542/0202-179X-2019-2-3-8

Abstract. The article presents the results of economic activity of Russian industrial enterprises in 2018, and provides forecasts for 2019. In general, for the major part of the surveyed enterprises (REB's respondents) the year 2018 turned out to be less successful in many respects compared to the previous year. Forecasts for 2019 are also not as optimistic as they were a year ago.

Keywords: Russia; industry; output; order-book level; stocks of finished products; capacity utilization rate; employment; investment activity; factors restricting output; forecast.

Results of monthly REB ("The Russian Economic Barometer" bulletin) surveys of industrial managers' opinions show that the majority of enterprises assessed the year 2018 in terms of many indicators as less successful than the preceding year.

Increase in OUTPUT was observed every month by 41% of the enterprises averagely, i.e. three points less than a year ago. This is almost a roll-back to the level recorded in 2015 and only slightly better than the 39% level of 2009.

ORDER BOOKS were replenished every month at 40% of the enterprises in 2018, which is 3 percentage points (p.p.) below the results of the previous year. The relative fullness of order books also decreased by 3 p.p. and amounted to 82% of the normal monthly level (taken by the respondents as 100%).

FINISHED GOODS INVENTORIES were accumulated every month, on the average, at 40% of the enterprises in 2018. This indicator is noticeably better than the 2017 result (48%) and is the lowest one over

the past twenty years. Relative volume of inventories also remained comparatively low: 86% of their normal level. We should also note the stability of the latter indicator: over the past three years, the amplitude of its changes kept within one percentage point (85–86%). This is the lowest mark since 2001. By comparison, in the previous recession of 2009 it was 94%.

CAPACITY UTILIZATION RATE remained practically unchanged over the year – 78%, which is only 2 p.p. below its 2007 maximum (80%).

LABOR UTILIZATION RATE behaved otherwise. It decreased by 3 points in 2018 and amounted to 88% of the normal level, remaining nevertheless significantly higher than its values at the peak of the previous crisis (79% in 2009).

As for EMPLOYMENT, the majority of industrial enterprises were reducing their personnel, as they had been doing a year ago, and only 44% of them were increasing it every month. The percent of such enterprises has remained nearly the same over the past four years.

Characteristics of INVESTMENT ACTIVITY of our sample improved slightly. On the average, 38% of the enterprises reported every month that they had not bought any equipment during two or more months consecutively. Whereas a year ago the share of such enterprises was 40% of the sample, and 2 years ago it was 45%. Growth of monthly equipment purchases was observed averagely at 31% of the enterprises, i.e. 3 p.p. more than in 2017. It should be mentioned that at the best of times (2006–2007) the values of this indicator reached 35–37%.

Last year, the total VOLUME OF PRODUCTION CAPACITIES increased at about 36%, decreased at 40% and remained unchanged at 24% of the surveyed industrial enterprises. Thus, the balance of these indicators shifted again to a negative area: the percent of enterprises with declining capacities surpassed the percent of those with rising capacities by 4 p.p.

As before, the majority of producers defined PRICE STRUCTURE changes as unfavorable for them. Compared to 2017, this tendency intensified. The share of enterprises that enjoyed the favorable price structure fell from 40% to 37%.

The scale of NON-BORROWING SECTOR in the Russian industry remained approximately the same for almost the entire period of the 2010s, when 40–45% of enterprises did not use bank loans. The 48% level of 2017 was a record high outburst. However, already in 2018 the percent of non-borrowers fell again to its usual level of 40%.

As for the producers who continued to use bank loans, the volume of their INDEBTEDNESS TO BANKS amounted, on the average, to 80% of the level which is considered normal by the respondents. This is 4 p.p. lower than a year ago and equals the marks recorded in 2014 and 2015.

Among the factors that imposed LIMITS TO PRODUCTION OUTPUT, “lack of demand” took the first place, gaining 60% of the respondents’ votes. This value repeats the level of 2017 and may seem quite high in a long historical retrospect. Consequently, the demand constraints may be considered as fairly tight. But if we examine the period after the 2008–2009 crisis, it is quite another matter: the data received for 2018 indicate that demand constraints are rather soft. For example, in 2014–2015 the rating of this factor was 6–8 p.p. higher.

As well as a year ago, “lack of financial resources” occupied the second position. In 2018, on the average, 26% of all respondents pointed at this limitation. The fall compared to last year was 5 percentage points. Since 1992, financial constraints have never been so soft. The previous record was in 2014 (30%).

The factor of “labor shortage” was mentioned by 9% of our respondents, 4 percentage points more than a year earlier. The rating of “lack of equipment and premises” amounted to 6%, i.e. decreased markedly (it was 14% in 2017). Finally, the 5% rating of the factor “lack of raw & other materials and semi-finished products” turned out to be

record-low for the entire observation period, although once it used to be the most important one.

The share of enterprises that assessed their FINANCIAL POSITION in 2018 as “good” or “normal” amounted to 80%. This is a very high level of “financial well-being” by historical standards. Never before the respondents felt themselves so confident. The previous record reached before the crisis of 2008–2009 amounted to 78%.

At the same time the percent of LOSS-MAKING ENTERPRISES decreased to 19%. This is 2 p.p. less than in 2017, but it does not reach the record low levels of this indicator (15–17%) observed in 2012–2013.

As for DANGER OF BANKRUPTCY in the next one or two years, it looked quite real only for 5% of the enterprises. This level is very low by historical standards, close to the minimum 4% of 2007. Moreover, it has been maintained for the past 3 years already.

With respect to DEMAND FOR PRODUCTS ANTICIPATED IN TWELVE MONTHS, in December 2018 the following estimates were obtained (in brackets are the results for the previous year). 22% (25%) of respondents assessed the volume of their production capacity as excessive, 75% (67%) – as normal, 3% (8%) – as deficient. The figures for labor force were the following: excessive at 13% (5%), normal at 81% (82%) and deficient at 6% (13%) of the surveyed enterprises.

Thus, on the whole, the results of monthly surveys of industrial enterprises’ managers conducted by the REB demonstrate that in 2018 the situation in Russian industry was slightly worse than in 2017, although not in every indicator.

EXPECTATIONS FOR 2019

As usual, at the beginning of the year the managers of enterprises participating in the REB survey sent us their forecasts for 2019.

The enterprises included in the sample expect that the average rate of increase in prices for their products will be 5% from December 2018 to December 2019. It is only 1 p.p. more than the estimate obtained from

the previous year's survey and indicates the stabilization of inflation expectations at a fairly moderate (for our conditions) level.

Structure of price expectations has changed slightly in comparison with the last year. The share of enterprises predicting an increase in prices for their products remained the same as a year and two years ago and amounted to 72%. But the share of enterprises anticipating the fall in prices decreased to 5%. This is 5 p.p. lower than in the last year's survey. The remaining 23% of producers believed that prices for their products would stay unchanged. In general, the structure of price expectations almost repeats the ones obtained in 2017 and in 2013 (see Table 1).

Table 1
Distribution of Enterprises by Expected Direction of Price Changes in the Next Twelve Months and Average Rate of Price Increase in the Sample (%)

	Survey time ¹⁾																		
	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17
Decline	7	6	1	8	2	1	3	2	5	1	25	8	4	1	4	5	2	10	3
Stability	12	5	13	15	9	11	11	20	6	13	22	26	11	20	23	26	11	24	24
Increase	81	89	86	77	89	88	86	77	89	86	53	66	85	79	73	69	87	66	72
Average expected rate of annual price increase	+31	+24	+21	+10	+13	+10	+7	+10	+8	+12	0	+5	+9	+7	+6	+4	+15	+7	+6

¹⁾ January of the relevant year.

According to the respondents' expectations, by December 2019 the Russian industrial production will grow by about 4% in relation to December 2018. Meanwhile, estimates of output growth by industrial branches were much more moderate. The best forecasts for their industries were given by the representatives of food industry (+5%) and machine-building industry (+2%). Stagnation or a very weak growth (from 0 to +1%) is expected in metallurgy, building materials and light

industry (textile, clothing and footwear). Reduction in output (–8%) is anticipated in logging, woodworking, pulp and paper industry.

Finally, if we move to the level of individual enterprises, we should note a slight deterioration in the structure of the answers. Though it's true that the share of those predicting drop in output at their enterprises became 2 percentage points less than a year ago, the share of those predicting growth in output at their enterprises also decreased – but more significantly – by 13 p.p. The percent of enterprises expecting the former level of output reached 43% which is record high for the past 20 years. In general, as it can be seen from Table 2, the structure of responses has no obvious and close analogues during the period under examination.

Table 2
Distribution of Enterprises by Direction of Expected Changes in Output in the Next Twelve Months (%)

	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
Decline	29	27	16	16	15	21	12	18	8	17	11	46	25	6	14	25	22	21	26	23	24	22
Stability	30	25	16	20	19	20	26	26	22	13	23	23	28	33	25	30	17	33	33	29	28	43
Increase	41	48	68	64	66	59	62	56	70	70	66	31	47	61	61	45	60	46	40	48	48	35
BALANCE	+12	+21	+52	+48	+51	+38	+50	+38	+62	+53	+55	–15	+22	+55	+47	+20	+38	+25	+14	+25	+24	+13

In general, we can conclude that 2018 turned out to be somewhat worse than 2017 in many respects. As for the estimates for 2019, they also look slightly less optimistic than the estimates for 2018 in the 2017 survey.