

BUSINESS PERFORMANCE

THE 2019 SURVEYS OF INDUSTRIAL ENTERPRISES: RESULTS AND FORECASTS

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Abstract. The article presents the results of economic activity of Russian industrial enterprises in 2019, and provides forecasts for 2020. In general for the major part of the surveyed enterprises (REB's respondents) 2019 turned out to be not worse than the previous year and judging by investment parameters even better. Forecasts for 2020 are 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 2019 in terms of many indicators as not worse than the preceding year.

Increase in OUTPUT was observed every month by 41% of the enterprises averagely, which is a reiteration of the results obtained in 2018 and three points less than it was two and three years ago.

ORDER BOOKS were replenished every month at 42% of the enterprises in 2019, which is 2 percentage points (p.p.) above the results of the previous year. The relative fullness of order books at the same time decreased by 1 p.p. and amounted to 81% of the normal monthly level (taken by the respondents as 100%).

FINISHED GOODS INVENTORIES were accumulated every month, on the average, at 44% of the enterprises in 2019. This is 4 p.p. higher

than in 2018, but still it is one of the lowest values in the last twenty years. Relative volume of inventories also remained comparatively low: 87% of their normal level, i.e. plus 1 p.p. since 2018. By comparison, in the previous recession of 2009 it was 94%.

CAPACITY UTILIZATION RATE remained practically unchanged over the year – 79%, which is only 1 p.p. below its 2007 maximum (80%).

LABOR UTILIZATION RATE did not change either. In 2019 it amounted to 88% of the normal level. This value is significantly higher than what we saw at the peak of the previous crisis (79% in 2009), but is almost as noticeably lower than the record of 2007, when it reached 94%.

As for EMPLOYMENT, the majority of industrial enterprises were reducing their personnel, as they had been doing a year ago, and only 42% of them were increasing it every month. This is 2 p.p. lower than a year ago.

Characteristics of INVESTMENT ACTIVITY of our sample have been improving for the third year in a row. On the average, 36% 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 38% of the sample, and in 2016 it reached 45%. Growth of monthly equipment purchases was observed averagely at 31% of the enterprises. Last year it was as high as now and in 2017 it was 3 p.p. lower. 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 39%, decreased at 31% and remained unchanged at 30% of the surveyed industrial enterprises. Thus, the balance of these indicators shifted again to a positive area: the percent of enterprises with rising capacities surpassed the percent of those with declining capacities by 8 p.p. In 2018, the balance was at the level of minus 4%.

As before, the majority of producers defined PRICE STRUCTURE changes as unfavorable for them. But compared to 2018, this tendency weakened. The share of enterprises that enjoyed the favorable price structure rose from 37 to 41%. This is almost a record high value of the indicator. For more than 30 years, respondents gave more optimistic estimates only in 2012 and 2013 – 42%.

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. But during this decade, there happened two record high outbursts: in 2017 with 48% and in 2019 with 47%.

As for the producers who continued to use bank loans, the volume of their INDEBTEDNESS TO BANKS amounted, on the average, to 81% of the level which is considered normal by the respondents. This is only 1 p.p. higher than a year ago and is one of the lowest values in the last 25 years.

Among the factors that imposed LIMITS TO PRODUCTION OUTPUT, “lack of demand” took the first place, gaining 57% of the respondents’ votes. This value is 3 p.p. below the results of 2017 and 2018, but is quite high in a long historical retrospect. Consequently, the demand constraints may be considered as fairly tight. For example, in 2006–2007 the rating of this factor dropped to 45–54%.

As well as a year ago, “lack of financial resources” occupied the second position. In 2019, on the average, 27% of all respondents pointed at this limitation. The increase compared to last year was only 1 percentage point. Since 1992, financial constraints have never been as soft as in the last two years. The previous record-low was in 2014 (30%).

The factor of “labor shortage” was mentioned by 5% of our respondents, 4 percentage points less than a year earlier.

The rating of “lack of equipment and premises” remained almost unchanged: 5% (6% in 2018).

Finally, the rating of “lack of raw & other materials and semi-finished products” – the factor which once used to be the most important one – remains very low, namely 9% (+5 points compared to 2018).

The share of enterprises that assessed their FINANCIAL POSITION in 2019 as “good” or “normal” amounted to 75%. This is a fairly high level of “financial well-being” by historical standards, though it is 5 percentage points behind the record of 2018, when 80%-level was observed. The previous record, reached before the crisis of 2008–2009, was 78%.

At the same time the percent of LOSS-MAKING ENTERPRISES increased slightly – to 20%. This is 1 p.p. more than in 2018.

As for DANGER OF BANKRUPTCY in the next one or two years, it looked quite real only for 4% of the enterprises. This level is very low by historical standards, repeating the record of 2007. Moreover, almost the same low level of the indicator (5–6%) has been observed for the past 4 years already.

Regarding the DEMAND FOR PRODUCTS ANTICIPATED IN TWELVE MONTHS, in December 2019 the following estimates were obtained (in brackets are the results for the previous year): 20% (22%) of respondents assessed the volume of their production capacity as excessive, 75% (75%) – as normal, 5% (3%) – as deficient. The figures for labor force were the following: excessive at 17% (13%), normal at 73% (81%) and deficient at 10% (6%) of the surveyed enterprises.

Thus, on the whole, the results of monthly surveys of industrial enterprises’ managers conducted by the REB demonstrate that in 2019 the situation in Russian industry was approximately the same as in 2018. Small positive shifts were observed in the sphere of capital investment.

Expectations for 2020

As usual, at the beginning of the year the managers of enterprises participating in the REB survey sent us their forecasts for 2020.

The enterprises included in the sample expect that the average rate of increase in prices for their products will be 4% from December 2019 to December 2020. It is 1 p.p. less 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 significantly in comparison with the last year. The share of enterprises predicting an increase in prices for their products rose dramatically to 94%, which exceeds the estimates of the last three years by 22 p.p. The share of enterprises anticipating the fall in prices decreased from 5 to 0%. The remaining 6% of producers believed that prices for their products would stay unchanged. This structure of price expectations most closely resembles the one of early 2003. Although then the expected increase in prices at the enterprises was three times higher than at the beginning of 2020. If this aspect is also taken into account, then 2005 seems to be a closer analog (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	18	19	20
Decline	7	6	1	8	2	1	3	2	5	1	25	8	4	1	4	5	2	10	3	10	5	0
Stability	12	5	13	15	9	11	11	20	6	13	22	26	11	20	23	26	11	24	24	17	23	6
Increase	81	89	86	77	89	88	86	77	89	86	53	66	85	79	73	69	87	66	72	72	72	94
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	+4	+5	+4

¹⁾ January of the relevant year.

According to the respondents' expectations, by December 2020 the Russian industrial production will decline by about 1% compared to December 2019. Meanwhile, estimates of output growth by industrial branches were not much more optimistic. The best forecasts for their

industries were given by the representatives of metallurgy (+6%) and chemical industry (+3%). Stagnation (from 0 to +1%) is expected in machine-building and food industries, whereas reduction in output in the range from –5% to –10% is anticipated in light industry (textile, clothing and footwear), in building materials and in logging, woodworking, pulp and paper industry.

Finally, if we move to the level of individual enterprises, we should note a considerable shift in the structure of responses towards optimism. Although the share of those who are predicting drop in output at their enterprises remained almost the same (21%), the 62% share of those predicting growth in output at their enterprises appeared to be almost twice as large as in the previous year's survey. Thus the response structure in 2020 is amazingly similar to that in 2014. Even the balance indicators in both cases are very close: +41 and +38, respectively.

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	20
Dedine	29	27	16	16	15	21	12	18	8	17	11	46	25	6	14	25	22	21	26	23	24	22	21
Stability	30	25	16	20	19	20	26	26	22	13	23	23	28	33	25	30	17	33	33	29	28	43	17
Increase	41	48	68	64	66	59	62	56	70	70	66	31	47	61	61	45	60	46	40	48	48	35	62
BALANCE	+12	+21	+52	+48	+51	+38	+50	+38	+62	+53	+55	-15	+22	+55	+47	+20	+38	+25	+14	+25	+24	+13	+41

In general, we can state that 2019 was no worse than the previous year, and even slightly better in terms of investments. Expectations for 2020 look slightly less optimistic than the forecasts of the previous year. However, there is a wide variation in the estimates by industries and by enterprises.