

## BUSINESS PERFORMANCE

### THE 2020 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 2020, and provides forecasts for 2021. In general, for the major part of the surveyed enterprises (REB's respondents) the year 2020 turned out to be not worse than the previous year and judging by several parameters it was even better. Forecasts for 2021 became noticeably less optimistic than they were a year ago.

**Keywords:** 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 2020 in terms of many indicators as not worse or even slightly better than the preceding year.

Increase in OUTPUT was observed every month by 42% of the enterprises averagely, which is almost a reiteration of the results obtained in 2018-2019 (41%) and two points less than it was three and four years ago.

ORDER BOOKS were replenished every month at 44% of the enterprises in 2020, which is 2 percentage points (p.p.) above the results of the previous year. The relative fullness of order books at the same time increased by 2 p.p. and amounted to 83% of the normal monthly level (taken by the respondents as 100%).

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FINISHED GOODS INVENTORIES were accumulated every month, on the average, at 43% of the enterprises in 2020. This is 1 p.p. lower than in 2019, and it is one of the lowest (i.e. best) values in the last twenty years. Relative volume of inventories also remained comparatively low: 86% of their normal level, which is 1 point less since 2019. By comparison, in the previous recession of 2009 it was 94%.

CAPACITY UTILIZATION RATE remained unchanged over the year – 79%, which is only 1 p.p. below its 2007 maximum (80%). It should be noted that capacity utilization rate has been at such a high level for the fourth year in a row, which is also a kind of record.

LABOR UTILIZATION RATE practically did not change. In 2020 it amounted to 89% of the normal level (+1 point compared to 2019). 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 47% of them were increasing it every month. This is 5 p.p. higher than a year ago and one of the highest values of the indicator for the whole period under review, since 1992.

Characteristics of INVESTMENT ACTIVITY of our sample have been improving for the fourth year in a row. On the average, 28% of the enterprises reported every month that they had not bought any equipment during two or more months consecutively – a record-low for the last 25 years. Whereas a year ago the share of such enterprises was 36% of the sample, and in 2016 it reached 45%. Growth of monthly equipment purchases was observed averagely at 33% of the enterprises. This is 2 p.p. higher than in 2019, and is also a very good indicator by historical standards. The value of this indicator was even higher only in 2006-2007 (35-37%).

Last year, the total VOLUME OF PRODUCTION CAPACITIES increased at about 40%, decreased at 35% and remained unchanged at 24% of the surveyed industrial enterprises. Thus, the balance of these indicators remained positive for the second year in a row: the percent of enterprises with rising capacities surpassed the percent of those with declining capacities by 5 p.p. It should be noted that the group of enterprises with unchanged capacity is relatively small: in 2020 (as in 2018), there were only 24% of them, i.e. 10 points less than, for example, in the crisis of 2008-2009. In other words, recently the enterprises' behavior in this area has become noticeably more active.

As before, the majority of producers defined PRICE STRUCTURE changes as unfavorable for them. Compared to 2019, this tendency has intensified again. The share of enterprises that enjoyed the favorable price structure shift fell from 41 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. During this decade, there happened two record high outbursts: in 2017 with 48% and in 2019 with 47%. But in 2020, the indicator returned to its usual level for the decade – 41%.

As for the producers who continued to use bank loans, the volume of their INDEBTEDNESS TO BANKS amounted, on the average, to 85% of the level which is considered normal by the respondents. This is 4 p.p. higher than a year ago and is the highest value of the indicator in the last 9 years.

Among the factors that imposed LIMITS TO PRODUCTION OUTPUT, "lack of demand" took the first place, gaining 52% of the respondents' votes. This value is 5 p.p. below the results of 2019 and is a record low for the entire period since 2008.

As well as a year ago, "lack of financial resources" occupied the second position. In 2020, on the average, 23% of all respondents pointed at this limitation. The decrease compared to last year was 4

percentage points. Since 1992, financial constraints have never been as soft as in the last two years. The last record-high was in 2014 (30%).

The factor of "labor shortage" was mentioned by 8% of our respondents, 2 percentage points more than a year earlier. The rating of "lack of raw & other materials and semi-finished products" – the factor which once (at the start of market reforms) used to be the most important one – remains very low, namely 6% (-2 points compared to 2019). Finally, the rating of "lack of equipment and premises" declined even more: 3% (6% in 2019). The influence of this factor was so negligible only in the 90s.

The share of enterprises that assessed their FINANCIAL POSITION in 2020 as "good" or "normal" amounted to 77%. This is a fairly high level of "financial well-being" by historical standards, though it is 3 percentage points behind the record of 2018, when 80%-level was observed, but almost reiterates the previous record, achieved before the crisis of 2008-2009 (78%).

At the same time the percent of LOSS-MAKING ENTERPRISES decreased significantly – to 13%. This is 7 p.p. less than in 2019 and is the lowest value of the indicator for the last 25 years.

As for DANGER OF BANKRUPTCY in the next one or two years, it looked quite real only for 2% of the enterprises. This level is unprecedentedly low for the entire observation period (since 1993). The previous records were reached in 2007 and 2019 (4% in both cases).

Regarding the DEMAND FOR PRODUCTS ANTICIPATED IN TWELVE MONTHS, in December 2020 the following estimates were obtained (in brackets are the results for the previous year): 9% (20%) of respondents assessed the volume of their production capacity as excessive, 73% (75%) – as normal, 18% (5%) – as deficient. The figures for labor force were the following: excessive at 7% (17%), normal at 71% (73%) and deficient at 22% (10%) of the surveyed enterprises.

Thus, on the whole, the results of monthly surveys of industrial enterprises' managers conducted by the REB demonstrate that in 2020, the economic activity in the Russian industry was slightly higher than in 2019, in almost all main indicators.

### **Expectations for 2021**

As usual, at the beginning of the year the managers of enterprises participating in the REB survey sent us their forecasts for 2021.

The enterprises included in the sample expect that the average rate of increase in prices for their products will be 7% from December 2020 to December 2021. It is 3 p.p. higher than the estimate obtained from the previous year's survey and indicates the revival of inflation expectations.

Structure of price expectations has changed quite noticeably in comparison with the last year. The share of enterprises predicting an increase in prices for their products rose from 70 to 79%. The share of enterprises anticipating the fall in prices remained at the level of 3%. The remaining 18% of producers (27% last year) believed that prices for their products would stay unchanged. This structure of price expectations most closely resembles the one of early 2006, though then the expected increase in prices at the enterprises was 3 p.p. higher than at the beginning of 2021 (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 <sup>1)</sup>																						
	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20 <sup>2)</sup>	21
Decline	7	6	1	8	2	1	3	2	5	1	25	8	4	1	4	5	2	10	3	10	5	3	3
Stability	12	5	13	15	9	11	11	20	6	13	22	26	11	20	23	26	11	24	24	17	23	27	18
Increase	81	89	86	77	89	88	86	77	89	86	53	66	85	79	73	69	87	66	72	72	70	79	
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	+7

<sup>1)</sup> January of the relevant year.

<sup>2)</sup> Corrected.

According to the respondents' expectations, by December 2021 the Russian industrial production will decline by about 1% compared to December 2020. 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 building materials industry (+3%) and logging/woodworking/pulp & paper and food industries (+1%). Stagnation (0%) is expected in machine-building, whereas reduction in output is anticipated in light industry (textile/clothing/footwear) and in metallurgy (by 1 and 5% respectively).

Finally, if we move to the level of individual enterprises, we should note a considerable shift in the structure of responses towards a decrease in optimism. The share of those who are predicting drop in output at their enterprises increased to 24% (3 p.p. more than a year ago), while the share of those predicting growth in output at their

enterprises declined to 45% (17 p.p. less). In general, the structure of responses in 2021 looks quite standard for recent years. It was about the same in 2010, 2013 and 2018.

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

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Thus, we can state that 2020 in general was not worse than the previous year, and in many respects – even slightly better. Expectations for 2021 became noticeably less optimistic than the forecasts for 2020 made in 2019.