

BUSINESS PERFORMANCE

THE 2002 SURVEYS OF INDUSTRIAL ENTERPRISES: RESULTS AND FORECASTS

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Results of monthly surveys of managers of industrial enterprises conducted by The Russian Economic Barometer* (REB) show that in 2002, economic growth continued, while some indicators slightly deteriorated.

Monthly increase in OUTPUT was observed at 43% of enterprises on average. This is 1 percentage point lower than a year ago, though still much better than what we saw in the 1994-1998 period.

ORDER-BOOKS in 2002 were replenished every month at 47% of the enterprises, which is also 1 percentage point short of the same indicator a year ago. Meanwhile, total relative volume of order-books did not change from the last year and was 79% of its normal level.

INTENSITY OF ACCUMULATION OF INVENTORIES of finished goods has slightly lowered, though it stays rather high. While in 1999, inventories were increasing every month at 37% of the enterprises; in 2000, they were increasing at 42%, in 2001, at 48%, and in 2002, at 46% of the enterprises. This is still higher than in 1997-1998, but lower than in the first five years of economic reforms.

Total volume of inventories has notably increased from 85% of the normal monthly mark in the preceding year to 90% in 2002.

CAPACITY UTILIZATION RATE increased by 1 percentage points in a year to reach 70% in 2002. This is a record high indicator in the last nine years.

LABOR UTILIZATION RATE stayed at the 87%-mark in 2002, which is the same as the two previous years figure and a record level of the last nine years.

Decline in EMPLOYMENT considerably accelerated. As a year ago, the majority of the surveyed enterprises were reducing their personnel, and only 37% of them were increasing it each month. In 2001, the share of such enterprises was 4 percentage points higher. Nevertheless, the last year result still looks not so bad, considering that annual value of this indicator never exceeded 34% over the entire period of 1992-1998.

Indicators of INVESTMENT ACTIVITY have changed little. While in 2001, 45% of the enterprises on average reported monthly that they had not bought any equipment for two and more months in a row, in 2002, their share was the same. Let us remind that this is the best score over the whole period of our observation (since 1993). Increased purchase of equipment was observed at 27% of the enterprises, which is 2 percentage points below the record high level of 2001.

Last year, the general VOLUME OF PRODUCTIVE CAPACITIES has increased at 28%, declined at 33%, and remained unchanged at 39% of the surveyed enterprises. This is one of the best scores of the last eleven years. The unfavorable gap between the first and the second figures has got slightly higher than a year ago (5 against 4 percentage points), but it is still small. For reference: in 1999, 27% of the enterprises increased their capacities, while 39% cut them down; in 1998, 16% and 54%; and in 1997, 12% and 60%, respectively.

As in the past, changes in PRICE STRUCTURE were unfavorable for most enterprises. The situation has become a little worse than a year ago: the share of enterprises with improving price structure has declined from 39% to 38%. However, we have to point out that in this case, average annual level does not reflect the tendency. The tendency is such that this indicator was steadily going down all over 2002.

Since August 1998, CONDITIONS OF BANK BORROWINGS have deteriorated dramatically. In 1998, the share of enterprises regularly reporting that their borrowing conditions had been improving was only 28%. However, as soon as in 1999, the equilibrium on the credit market was generally restored, and this indicator reached 44%. In 2000-2001 it was 49-52%, and in 2002, stabilized at the 48%-mark.

Improvement in borrowing conditions (which earlier were always unfavorable to most enterprises) contributed to further reduction of the NON-BORROWING SECTOR in the Russian industry. In 2002, about 37% of the surveyed enterprises did not use bank credits, which was 3 percentage point less than a year ago and about the same as in 1997.

As for the enterprises that continued to borrow, the volume of their DEBT TO BANKS in 2002 was, on average, 86% of the level considered normal by our respondents. This is 8-9 percentage points above than in 2000-2001, when the lowest record of this indicator for the whole period of our observation since 1996 was achieved.

Among LIMITS TO PRODUCTION, the longstanding leader, «shortage of financial resources» for the first time shifted from the first to the second place. In 2002, on average, it was pointed out by 55% of our respondents. The decline since the previous year was 1 percentage point. Financial constraints softer than these were observed only in 1992 (at that time, 45% of the respondents indicated this point).

However, the first place in our list was occupied by «shortage of demand», which collected 58% of total «votes» of the REB respondents. This is 10 percentage points higher than in 2001 and the same result as in 1996, which was a record year in terms of rigidity of demand constraints.

The third place, as before, belonged to «shortage of raw materials and semi-finished products», which was reported by 16% of the REB respondents. This means that against the previous year, the rigidity of supply constraints has declined by 8 percentage points to become the lowest in all 11 years of our measurement. Therefore, we can state that the tendency towards aggravation of physical shortages, which was observed during the whole period of 1995-1999 is practically overcome. Nevertheless, this shortage is still a little too high by standards of a normal market economy.

DE-BARTERIZATION of the Russian industry made progress. The share of bartered industrial output in total sales has declined from 2001

EXPECTATIONS FOR 2003

As usual, in the beginning of the year, managers of the enterprises responding to the REB survey gave their forecasts till December 2003.

By December 2003, they believe that prices of products of the sampled enterprises will increase by 13% on average from the level of December 2002. This is 3 percentage points higher than estimated rates of inflation in the similar survey a year ago, although still much lower than the rates of price inflation that were predicted in the period of 1999-2001.

Distribution of individual estimates by enterprise also shows that price expectations have turned to the worse.

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

	Survey time				
	January 1999	January 2000	January 2001	January 2002	January 2003
Decline	7	6	1	8	2
Stability	12	5	13	15	9
Increase	81	89	86	77	89
Expected average rate of annual price increase	+31	+24	+21	+10	+13

As seen from Table 1, the share of enterprises expecting that prices of their products will grow has soared to 89%. This is 12 percentage points higher than the same indicator a year ago. Last time as many anticipants of price increase were in 2000.

By December 2003, as our respondents believe, general volume of industrial production in Russia will increase by about 2% from the level of December 2002. This is 3 percentage points worse than the forecast made a year earlier.

The largest increase is expected in chemicals (+11%). Then follow: building materials (+5%), machinery (+3%) and metals (+3%). In other industries production decline in a range of 2-4% is projected.

Table 2**Expected Changes in Output in the Next Twelve Months**

	Dec. 2003 (Dec. 2002 = 100	Dec. 2002 (Dec. 2001 = 100)	Dec. 2001 (Dec. 2000 = 100)	Dec. 2000 (Dec. 1999 = 100)	Dec. 1999 (Dec. 1998 = 100)	Dec. 1998 (Dec. 1997 = 100)	Difference (7)= (1)-(2)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Industry, total	102	105	105	108	91	94	-3
1. Chemicals	111	109	101	100	113	96	+2
2. Building materials	105	109	103	100	94	87	-4
3-4. Machinery	103	111	110	115	88	96	-8
3-4 Metals	103	104	107	111	103	99	-1
5. Light industry	98	117	115	112	99	86	-19
6 Food	97	99	94	104	90	114	-2
7-8. Logging, wood-working, pulp and paper	96	100	101	109	92	100	-4
7-8. Other ¹⁾	96	-	102	114	95	87	-

¹⁾ Excluding fuel and electric power.

In general, the forecasts are less optimistic than a year or two earlier. Representatives of a half of all industries have predicted decline in output. Only in chemicals the assessments were better than a year ago. In all other industries, they were worse.

Distribution of estimated growth rates by individual enterprises gives basically the same picture. The degree of optimism has diminished since the last year, although it is still rather high in absolute terms.

Table 3
Distribution of Enterprises by Direction of Expected Changes In
Output after 12 Months (%)

	January 1996	January 1997	January 1998	January 1999	January 2000	January 2001	January 2002	January 2003
Decline	42	40	29	27	16	16	15	21
Stability	26	31	30	25	16	20	19	20
Increase	32	29	41	48	68	64	66	59

As seen from Table 3, the structure of answers was almost the same for three years (since 2000 till 2002): two thirds of the respondents predicted that output at their enterprises would grow, and the rest were divided more or less equally into groups with stable and declining output. In the 2003 survey the picture was clearly worse. The share of enterprises with growing output went down to 59% (a year ago it had been 66%), and with declining output, rose to 21% (15%). Nevertheless, there are still much more positive than negative assessments in a quantitative sense. And this gives grounds for optimism.

Generally speaking, we can state that In 2003 there will be probably no qualitative changes to the worse In the Russia Industry. Many signs point that the coming year will be at least no worse than the last year (all other factors being equal).