BUSINESS PERFORMANCE

THE 2003 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 economic growth accelerated in 2003.

Monthly increase in OUTPUT was observed at 45% of the surveyed enterprises on average. This is 2 percentage points more than a year ago, and is one of the highest values of this indicator in recent twelve years. Better results were recorded only in 1999 (49%) and in 2000 (47%).

ORDER-BOOKS in 2003 were replenished every month at 49% of the enterprises, which is also 2 percentage points more than the same indicator a year ago. Meanwhile, the total relative volume of order-books increased by 1 percentage point from last year to reach 80% of its normal monthly level (which was taken by the respondents as 100%).

INVENTORIES of finished goods in 2003 increased every month at 46% of the enterprises on average. This is exactly the same result as in 2002. However, the relative volume of inventories was 2 percentage points lower than last year, reaching 88% (of their normal level).

CAPACITY UTILIZATION RATE increased by 3 percentage points in a year to reach 73% in 2003. This means that within ten years, the Russian enterprises came back to the 1993 level of this indicator.

LABOR UTILIZATION RATE reached a record high level in 2003, which was 88%. This is 1 percentage point higher than the level that lasted for three preceding years (2000-2002). It is also worth mentioning that an excess over the 90%-level of labor utilization for two months (in October and November) was recorded for the first time of our observation. Although this indicator has never been measured before 1994, there is no doubt that the attained level of labor utilization is record high not only in the period of reforms, but also in the latest several decades.

As for EMPLOYMENT, the majority of industrial enterprises were reducing their personnel, as a year ago, and only 37% of them were increasing it each month. Let us remind that 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 has never exceeded 34% over the entire period of 1992-1998.

Indicators of INVESTMENT ACTIVITY have changed noticeably to the better. While in 2001-2002, 45% of enterprises on average reported monthly that they had not bought any equipment for two and more months in a row, in 2003, their share was 42%. This is the best score over the whole period of our observation (since 1993). Increased purchases of equipment were observed every month at 30% of enterprises on average, which was 3 percentage points above the level of 2002 and also a record of the past decade.

Last year, the general VOLUME OF PRODUCTIVE CAPACITIES increased at 30%, declined at 34%, and remained unchanged at 36% of industrial enterprises. This is one of the best scores of the last twelve years. The unfavorable gap between the first and the second figures still remains, but it is as small as earlier (just 4 percentage points). The smallest gap was observed in 2000 (one percentage point), but in 1999, for instance, it was 12, in 1998, 38, and in 1997, 48 percentage points.

As in the past, changes in PRICE STRUCTURE were unfavorable for most enterprises. The situation has become still a little worse than last year: the share of enterprises with improving price structure has declined from 38% to 37%. However, we have to point out that the lowest value of this indicator was registered in January-March 2003 (32-33%), and it rose a little since then.

CONDITIONS OF BANK BORROWINGS were improving at 50% of all enterprises. This was 3 percentage points more than in 2002. It is worth pointing out that unlike the majority of other REB indicators, here the best result (for the economy) corresponds not to the ends of the scale (either 0% or 100%), but rather to its middle range, which is around 50%. A too low value of this index means that the majority of enterprises are losing their external financial sources. But a too high its level may be considered a symptom (or a harbinger) of accelerated price rise.

The scale of NON-BORROWING SECTOR in the Russian industry was rapidly diminishing. In 2001, about 40% of the surveyed enterprises did not rely on borrowing from banks; in 2002, their share was 37%, and in 2003, 34%. This is almost the same result as in 1996, but much more than in 1994 when 22% of the enterprises regularly did without borrowing from banks.

As for the enterprises that continued to borrow, the volume of their DEBT TO BANKS was, on the average, 91% of the level considered normal by our respondents. This is 5 percentage points more than it was in 2002, and 13-14 points more than in 2000-2001, when the lowest record of this indicator for the whole period of observation since 1996 was achieved.

Among LIMITS TO PRODUCTION, "shortage of demand" occupied the first place, collecting 57% of total "votes" of the REB respondents. This was 1 percentage point lower than in 2002, when rigidity of demand constraints had been record high.

"Shortage of financial resources", the long-term leader of the limits, remained only in the second place, as a year ago. In 2003, it was pointed out by 49% of the respondents on average. This was a 6 percentage points decline from last year. Financial constraints softer than these were observed only in 1992 (at that time, 45% of the respondents indicated this point).

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 the rigidity of supply constraints did not change from last year, remaining at the lowest level in all 12 years of our measurement.

DE-BARTERIZATION of the Russian industry made progress. The share of bartered industrial output in total sales has declined in 2003 by another 3 percentage points to reach 9%. This indicator was lower only in 1992 when its value fluctuated in the range of 4-8%. The share of SELLING FOR CASH (ready money) in the enterprises' sales has also declined by 1 percentage point. In 2003, 23% of their production was sold in this way.

In 2003, more than a half of all enterprises (58%) assessed their FINANCIAL CONDITION as "good" or "normal". This result is 9 percentage points higher than in 2002 and 4 percentage points above the record high figure of 2000-2001. As for forecasts of financial condition, in 2003 its improvement was anticipated every month by 56% of the respondents on average, which was 1 percentage point more than in 2001-2002. This was the top level of "financial optimism" in all years of our measurement since 1993.

In 2003, the SHARE OF LOSS-MAKING ENTERPRISES remained unchanged from 2002 and was 30%. However, the share of enterprises whose top managers believed they were really facing BANKRUPTCY in the next one or two years declined from 17% last year to 14%. This indicator has hit the lowest level since 1992.

As for DEMAND FOR PRODUCTS ANTICIPATED WITHIN TWELVE MONTHS, in December 2003 it was assessed in the following figures (estimates made in the previous year are given in brackets). Production capacities were considered redundant by 35% (42%) of the respondents; normal by 53% (51%); and deficient by 12% (7%). Similar assessments of labor force were the following: it was considered redundant at 10% (17%), normal at 64% (66%), and insufficient at 26% (18%) of the enterprises.

Generally speaking, the results of monthly surveys of managers of industrial enterprises conducted by the REB demonstrate that economic growth is continuing and that all positive trends that appeared since 1998 are in force.

EXPECTATIONS FOR 2004

As usual, in the beginning of the year, managers of the enterprises responding to the REB survey gave their forecasts for 2004.

By December 2004, they believe, prices of products of the sampled enterprises will increase by 10% on average from the level of December 2003. This is 3 percentage points lower than estimated rates of inflation in a similar survey a year ago, and it even fits the rate of inflation forecasted by the Government.

Nevertheless, the structure of price expectations remains practically unchanged from last year. As earlier, the majority of enterprises (88%) predict that prices of their products will rise (see Table 1).

Table 1
Distribution of Enterprises by Expected Direction of 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	January 2004
Decline	7	6	1	8	2	1
Stability	12	5	13	15	9	11
Increase	81	89	86	77	89	88
Average expected rate of annual price	+31	+24	+21	+10	+13	+10

By December 2004, as our respondents believe, general volume of industrial production in Russia will increase by about 3% from the level of December 2003. This is 1 percentage point better than they predicted a year ago. However, the present 3 percent look rather moderate in comparison with the forecasts for 2000-2002.

The largest increases are expected in machinery(+8%), in logging, woodworking, pulp and paper (+7%), and in chemicals (+5%). The respondents expect that output will decline in light industry (-4%) and in food (-7%).

Table 2
Expected Changes in Output in the Next Twelve Months

	Survey time							
	January 1998	January 1999	January 2000	January 2001	January 2002	January 2003	January 2004	Difference (8)=(7)-(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Industry, total[1)]	**94**	**91**	**108**	**105**	**105**	**102**	**103**	**+1**
1. Machinery	96	88	115	110	111	103	108	+5
2. Logging, woodworking, pulp and paper	100	92	109	101	100	96	107	+11
3. Chemicals	96	113	100	101	109	111	105	-6
4. Building materials	87	94	100	103	109	105	103	-2
5. Metals	99	103	111	107	104	103	100	-3
6. Light industry	86	99	112	115	117	98	96	-2
7. Other[1)]	87	95	114	102	-	96	95	-1
8. Food	114	90	104	94	99	97	93	-4

[1)] Excluding fuel and electric power.

In general, the forecasts look a little more optimistic than a year earlier: growth is predicted in four industries, and decline, in three. However, the assessments are lower almost in every industry in comparison with the previous year (see Table 2).

And finally, looking at individual enterprises we can point at a substantial decline in the share of enterprises, which anticipate a decrease in their output. In the latest survey, their remaining share was only 12%. This is 9 points less than in the survey conducted a year ago. It is also less than the earlier record low level of 2002 when the share of enterprises with declining output was 15% of the REB sample (see Table 3).

Table 3

Distribution of Enterprises by Direction of Expected Changes in Output after 12 Months (%)

	Survey time								
	January 1996	January 1997	January 1998	January 1999	January 2000	January 2001	January 2002	January 2003	January 2004
Decline	42	40	29	27	16	16	15	21	12
Stability	26	31	30	25	16	20	19	20	26
Increase	32	29	41	48	68	64	66	59	62

Interestingly, the enterprises that "left" the first group have "entered" mostly the middle group, which expects that their output will be stable. The share of this middle group has risen by 6% at once. As for the enterprises that foresee growing output, their share has increased only by 3 points - from 59% to 62%. In terms of this indicator, the highest record of 2000 (when 68% of all producers were sharing expectations for growth) is not yet surpassed.

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Generally speaking, we can state that 2003 was probably better than the previous year in almost all parameters, including the expectations for the next 12 months. There are all grounds to suggest that ***economic growth will continue in 2004, and at a high rate.***