

BUSINESS PERFORMANCE

THE 2004 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 for many enterprises, 2004 was generally not worse than the previous year in terms of many indicators.

Monthly increase in OUTPUT was observed at 43% of the surveyed enterprises on the average. This is 2 percentage point lower than a year ago, and a recurrence of the 2002 score. Let us remind that this indicator was at its top levels in 1999 (49%) and in 2000 (47%).

ORDER-BOOKS in 2004 were replenished every month at 48% of the enterprises, which is also 1 percentage point short of the same indicator a year ago. Meanwhile, total relative volume of order-books went 2 percentage points up and got 82% of its normal monthly level (which is taken by the respondents as 100%). This is the "thickest" size of order-books in the whole period of its observation, which was started in 1993.

ACCUMULATION OF INVENTORIES of finished goods in 2004 went on every month at 47% of the enterprises on the average. This is only 1 percentage point higher than in 2002-2003. The relative volume of inventories has also increased 1 percentage point on the year to reach 89% (of their normal level).

CAPACITY UTILIZATION RATE increased by 1 percentage point on the year to reach 74%. By standards of normal market-oriented economy, this rate of capacity utilization is rather typical of a recession. However, in our case it is record high in the last eleven years.

LABOR UTILIZATION RATE - 88% - was also record high in 2004. This is a recurrence of the 2003 score. Moreover, in some months the

labor utilization rate was 90% and higher, as it had also happened a year earlier.

As for EMPLOYMENT, the majority of industrial enterprises were reducing their personnel, as they had been doing in 2003, and only 43% of them were increasing it each month. However, this share was much higher than it had been in 2002-2003 - 37% each year, and is nearly a recurrence of the high record of 1999-2000 - 44%.

Indicators of INVESTMENT ACTIVITY got a little better. While in 2001-2002, 45% of enterprises on the average reported monthly that they had not bought any equipment for two and more months in a row, in 2003, their share was 42%, and in 2004, 41%. This was the best score over the entire period of our measurement of this indicator (since 1993). Increased purchase of equipment was observed monthly at 30% of the enterprises on the average, which is the same share as in 2003 and is also the record high level in the last eleven years.

In 2004, the general VOLUME OF PRODUCTIVE CAPACITIES has increased at 36%, declined at 28%, and remained unchanged at 36% of industrial enterprises. This is the best score in the last twelve years. What is more, for the first time of our observations, the share of the enterprises with increasing capacities was higher than that of the enterprises with declining capacities. It has got 8 percentage points higher at once! This can be a sign that the volume of fixed capital stock has apparently started growing for the first time since the start of market-oriented reforms.

As in the past, changes in PRICE STRUCTURE were unfavorable for most producers. Moreover, the situation has become a little worse than in 2003: the share of enterprises with improving price structure has declined from 37% to 35%. However, we have to point out that this indicator has hit its bottom in January-March of 2004 (32-34%), and then went a little upwards.

CONDITIONS OF BANK BORROWINGS have improved at 50% of the enterprises. This is a recurrence of the level that was recorded in 2003. Let us remind, that contrary to most other REB indicators, in this

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case the most favorable (for the economy) result will correspond rather to the middle of the scale (exactly to 50%) than to its ends (either 0% or 100%). If this index goes too low, this means that the majority of enterprises are losing external financing. If it goes too high, this can be considered a symptom (or a forerunner) of accelerated price inflation.

Fast reduction in the scale of NON-BORROWING SECTOR in the Russian industry has continued. In 2001, about 40% of the surveyed enterprises did not use bank credits; in 2002, their share was 37%; in 2003, 34%, and in 2004, 32%. The latter is exactly the same score as it was in 1996, although much inferior to 1994 when only 22% of all enterprises regularly went on with no borrowings.

As for the producers that continued to borrow, the volume of their debt to banks was, on the average, 86% of the level considered normal by our respondents. This is 5 percentage points lower than in 2003, and is the same as in 2002. In general, stabilization of the relative volume of liabilities to banks at about 80-90% of its normal level is being observed during the last 8-9 years (the earlier data are non-existent).

Among LIMITS TO PRODUCTION, "shortage of demand" took the first place, gaining 60% of the voices of our respondents. This is 3 percentage points higher than in 2003, and represents a new record level of toughness of demand constraints (the previous was registered in 2002 at 58%).

As a year ago, "shortage of financial resources" remained in the second place. In 2004, 47% of all respondents on the average pointed at this limitation. This was a 3 percentage points decline from the level of the previous year. The softer financial constraints were observed only in 1992 (when 45% of all respondents referred to this point of the questionnaire).

The third place, as before, belonged to "shortage of raw materials and semi-finished products", which was reported by 19% of the REB respondents. This means that against the previous year, the rigidity of supply constraints has increased by three points.

DE-BARTERIZATION of the Russian industry went on. The share of bartered industrial output in total sales has declined from 2003 by 3 percentage points to reach 6%. This indicator is now practically the same as it was in 1992, when its value stayed in the range of 4-8%. The share of SELLING FOR CASH (ready money) in the enterprises' sales stayed unchanged. In 2004, 23% of their production was sold in this way.

The share of enterprises, which assessed their FINANCIAL CONDITION as "good" or "normal", has increased by 5 percentage points. In 2004, it was 63%. This is the absolute record for the entire period since 1992. As for forecasts of financial condition, in 2004 its improvement was anticipated every month by 56% of the respondents on the average - as many as in 2003. This is the top level of "financial optimism" in all years of our measurement since 1993.

In 2004, the SHARE OF LOSS-MAKING ENTERPRISES has declined from 30% to 27%. And on the contrary, there was a rise in the share of enterprises whose top managers believed they were really facing BANKRUPTCY in the next one or two years. Indeed, the rate of this rise was only one point - up to 15%. Let us remember that this is one of the lowest values of this indicator since 1992.

As for DEMAND FOR PRODUCTS ANTICIPATED WITHIN TWELVE MONTHS, in December 2004 we have got the following assessments (estimates made in the previous year are given in brackets). Production capacities were considered redundant by 39% (35%) of the respondents; normal by 50% (53%); and deficient by 11% (12%). Similar assessments of labor force were the following: it was considered redundant at 19% (10%) of the enterprises, normal at 62% (64%), and insufficient at 19% (26%).

Generally speaking, the results of monthly surveys of managers of industrial enterprises conducted by the REB demonstrate that economic growth continues, and the majority of positive trends in the economic development, which emerged soon after the sovereign default, are going on.

*Business Performance***EXPECTATIONS FOR 2005**

As usual, in the beginning of the year, managers of the enterprises responding to the REB survey gave their forecasts for 2005.

In their opinion, the average rate of increase in prices for production of the sampled enterprises since December 2004 till December 2005 will be 7%. This is 3 percentage points lower than the estimate that was obtained in the survey of the previous year.

The structure of price expectations has also become slightly better than it was a year ago. Although as before, vast majority of the enterprises (86%) predict that prices for their products will go up, their share, however, has become 2 percentage points lower than it was in the previous year survey. And on the contrary, the share of those that expect that prices for their products will fall, has become 2 points higher.

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						
	January 1999	January 2000	January 2001	January 2002	January 2003	January 2004	January 2005
Decline	7	6	1	8	2	1	3
Stability	12	5	13	15	9	11	11
Increase	81	89	86	77	89	88	86
Average expected rate of annual price increase	+31	+24	+21	+10	+13	+10	+7

As expected by the respondents, by December 2005 general volume of industrial production in Russia will increase by about 3% from the level of 2004. This is an exact reproduction of the forecast made by our respondents a year ago.

The highest increases are expected in metals (+13%); in chemicals (+6%), and in building materials (+6%). Declines in production are expected in logging, woodworking, pulp and paper (-1%), in food (-2%) and in light industry (-5%).

Table 2
Changes in Output within Twelve Months as Expected by Manage
of Industrial Enterprises in the REB Sample

	Survey time								Differen (9)=(8)- (9)
	Januar y 2000	Januar y 2001	Januar y 2002	Januar y 2003	Januar y 2004	Januar y 2005	Januar y 2006	Januar y 2007	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Industry, total	94	91	108	105	105	102	103	103	0
1. Metals	99	103	111	107	104	103	100	113	+13
2-3. Building materials	87	94	100	103	109	105	103	106	+3
2-3. Chemicals	96	113	100	101	109	111	105	106	+1
4-5. Machinery	96	88	115	110	111	103	108	104	-4
4-5. Other industries ¹⁾	87	95	114	102	—	96	95	104	+9
6. Logging, woodworking, pulp and paper	100	92	109	101	100	96	107	99	-8
7. Food	114	90	104	94	99	97	93	98	+5
8. Light industry	86	99	112	115	117	98	96	95	-1

¹⁾ Excluding fuel and electric power.

In general, in 2005 the degree of optimism demonstrated in these expectations is almost the same as a year ago. Once again, as in the previous survey, decline in output is expected in three industries, are increase, in five. However, the spread of expectations has become somewhat wider: 18 percentage points against 15 points last year. Meanwhile, there has appeared an obvious leader in terms of anticipated growth rate - the metals. Its lead over the industries that take the second place is 7 percentage points. This lead was larger only in 1998-1999 (see Table 2).

Finally, turning to the level of individual enterprises, we can point at significant decline in the share of producers that are expecting the output to increase: now it is 56%. This is 6 points lower than in the survey of the previous year. At the same time, the number of enterprises

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that are expecting their output to decline has increased by the same 6 points (see Table 3).

Table 3
Distribution of Enterprises by Direction of Expected Changes in
Output after Twelve Months (%)

	Januar y 2006	Januar y 2007	Januar y 2008	Januar y 2009	Januar y 2000	Januar y 2004	Januar y 2000	Januar y 2002	Januar y 2004	Januar y 2005
Decline	42	40	29	27	16	16	15	21	12	18
Stability	26	31	30	25	16	20	19	20	26	26
Increase	32	29	41	48	68	64	66	59	62	56
Balance	-10	-11	+12	+21	+52	+48	+51	+38	+50	+38

Interestingly, the structure of responses in the latest survey resembles very much (up to exactly the same balance figure) the one that was obtained in the early 2003, when a slowdown in economic growth was expected by many experts.

In general, we can establish that 2004 was no worse than the previous year, and even better by many parameters. At the same time, **a number of signs are present which, if desired, can be understood as forerunners of a certain slowdown that can be expected in 2005.**