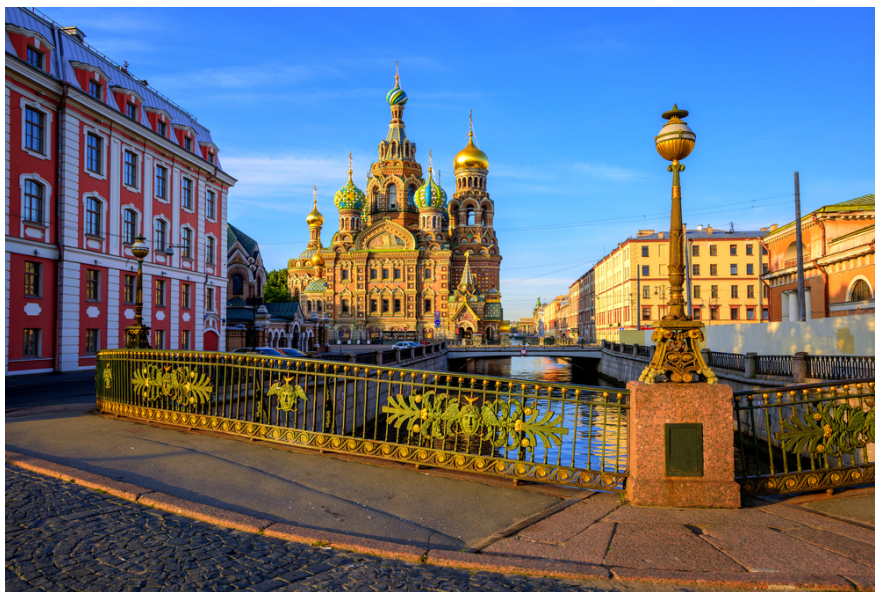


## Russia: Industry ended 2017 on a weak footing

The 2017 result was disappointing but growth will likely return shortly as domestic demand improves and as some negative factors fade



Source: Shutterstock

# -1.5%

## Industrial production growth

Consensus 0%, ING call -2.2%

Worse than expected

### Still weak industry performance in late 2017...

Russian industrial production (IP) fell 1.5% in December, worse than the consensus estimate of 0% but better than ING's forecast of -2.2%. Annual IP growth in 2017 was only 1%, marking a marginal deceleration from the 1.3% rate recorded in 2016. Calendar effects (there were 21 working days in Dec-17 vs 22 in Dec-16) played a negative role, so on a monthly and seasonally-adjusted basis, output rose by 0.4%, signalling some improvement in the annual rate from -3.3% YoY SA to -0.7%.

The effect of the OPEC+ deal also took a toll, with the mining sector posting negative growth of 1% due to a 2.2% drop in oil production. Meanwhile, warm weather cut natural gas production (-4.6%) and explains the 4.2-5.7% contraction in output from the utility sector.

Manufacturing production kept falling by 2% vs 4.7% in the previous month. The breakdown suggests that the negative performance was mostly driven by knitwear (-23%), hardboard (-11%), furnace oil (-14%) and buses (-7.8%). On the positive side, we note steady growth in food items, clothing, rubber and chemicals, some construction, electronics, machinery and transportation items.

## **...but it is not all bad for the outlook in 2018**

The IP weakness in 2017 is clearly disappointing, though the picture qualitatively is slightly less dramatic considering the effects of the OPEC+ deal and weather-related weakness in the utility sectors. The manufacturing sector added 0.2% in 2017 vs 0.5% in 2016 suggesting there are some structural hurdles, though there are huge differences in the performance of various sectors. The positive MoM SA growth in Dec-17 serves as a bit of a positive in the report.

With our expectations of continuing growth in domestic demand in 2018, the normalisation of weather conditions and gradually evaporating base effects related to the OPEC+ deal, we think that IP growth will gradually turn positive over the coming months. However, the recent weakness might be a reason for the Central Bank of Russia to consider a 25bp rate cut at the February meeting. That said, we don't think the bank will read too much into one report and will prefer to look at the 1Q18 performance overall along with other indicators.