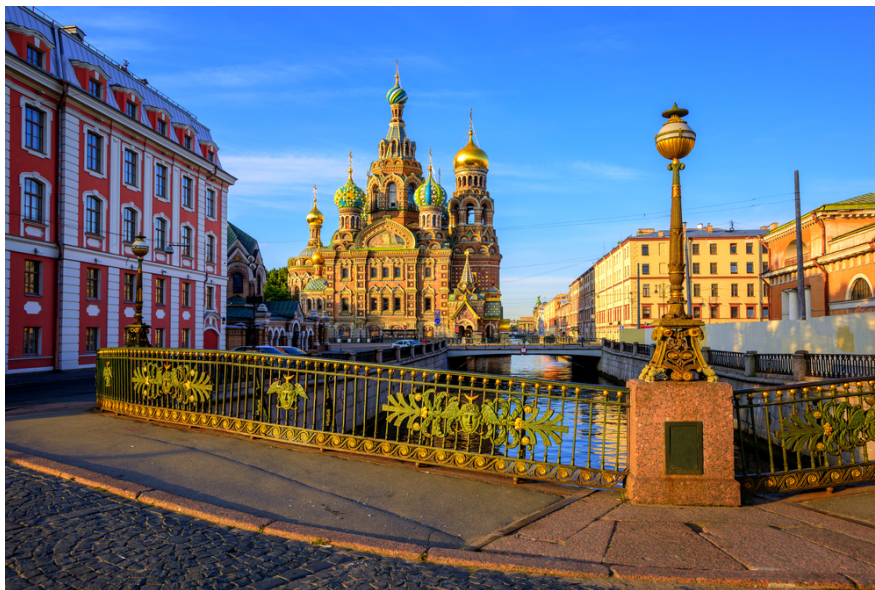


Russia: February industrial output: positive surprise

The spike of industrial output growth in February trumped the consensus range and suggests an acceleration of GDP growth from 0.7% year on year (YoY) in January to 1.0-1.5% YoY in February, depending on households. The key reason other than calendar factor seems to be a spike in the production of passenger railway cars, which could be one-off



Source: Shutterstock

+4.1% YoY

Better than expected

February industrial output growth

+2.6% YoY in 2M19

Acceleration of industrial output from 1.1% YoY in January to 4.1% YoY in February came as a very

positive surprise, given that the Bloomberg consensus forecast range was 0.8-2.3%. We cautiously expected acceleration to 1.6% YoY assuming the positive statistical effect of an extra workday in February 2019 vs February 2018 at around +1.0 percentage point masking some deterioration of the underlying industrial activity. Given that the industrial output accounts for around 25% of Russian GDP, the actual industrial result implies an acceleration in the GDP growth from 0.7% YoY in January to 1.0-1.5% YoY in February, depending on the household activity indicators to be released later this week.

We note, however, that the strong spike in industrial output does not seem to be reflected in the budget or banking sector trends released so far. According to the Bank of Russia, corporate loan growth showed an only moderate acceleration from 9.5% YoY in January to 10.4% YoY in February, which net of FX revaluation effect translates into 5.1% and 6.1% YoY, respectively. The federal budget spending, according to the Finance Ministry, did accelerate from 1% YoY in January to 10% YoY in February (preliminary data, likely to be downgraded later), however, that spike was driven primarily by higher state spending on healthcare, pensions and other social benefits. The unclear sources of financing cast doubt on the broad-based nature of the industrial pick-up and suggest that the structure of growth requires a closer look.

On the top-down level, the key driver of February's acceleration was the manufacturing sector (accounts for 50% of the overall industrial output), which showed 4.6% YoY growth in February vs. 1.0% drop in January. The remaining sectors showed either a very moderate acceleration or a small slowdown. Having looked deeper into the manufacturing sector performance one can see that most of the items show very moderate acceleration, which can be attributed to the above-mentioned calendar factor. The only sector that stands out is the production of railway transport (accounts for around 3% of the overall industrial output), where the production of passenger railway cars posted a 35% YoY boost in February after a 20% YoY drop in January. Therefore, this volatile item might have contributed to up to 1.5 percentage point of the industrial output acceleration in February vs. January.

<https://think.ing.com/articles/key-events-in-emea-and-latam-next-week-140319/> Key events in EMEA and Latam next week

While we take the spike in industrial output positively, we note that out of 3.0 percentage point acceleration in the growth rate in February vs. January, 1.0 percentage point was brought by the calendar factor, and up to another 1.5 percentage point was thanks to the spike in railway car production. With a lack of acceleration in corporate lending or industry-focused budget spending, the acceleration in the industrial output so far does not appear to be broad-based. We continue to expect a deceleration of industrial production in 2019 vs. 2.9% seen in 2018.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.