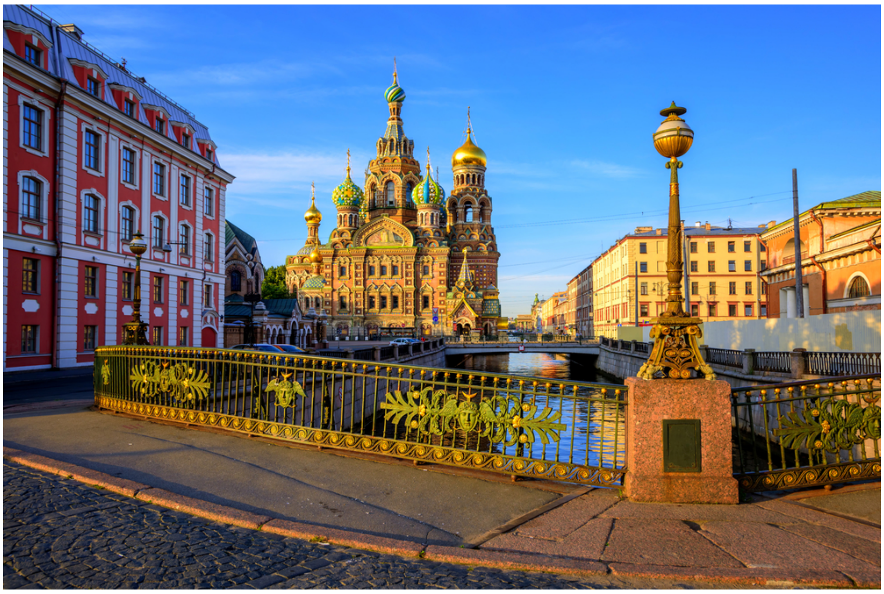
Russia: February industrial output: positive surprise

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

February industrial output growth

+2.6% YoY in 2M19

Better than expected

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.

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