

## Russia: Industry back to growth in January

We did expect a recovery, but didn't expect this to happen so quickly. "Growing" levels of soft indicators suggest the positive momentum is here to stay



# 2.9%

Industrial production growth

vs consensus -0.5%

### A big positive surprise from industrial production

It's growing again! Industrial production (IP) growth soared in January, standing at 2.9%, thus beating consensus (-0.5%) and our more conservative forecast (-1%). We did expect some improvement in the overall pace vs -1.5% in Dec-17, but not to this extent, fearing that a high base effect of Jan-17 and some restrictions from the initial OPEC+ deal in late 2016 would keep the headline print negative. The monthly- and seasonally-adjusted growth rates of 2.4% - the highest since Feb-16 - prove the strength of the rebound, even though the monthly figures for 2017 were revised.

Manufacturing growth of 4.7% helped along with a 1.1% expansion in the mining sector. Utilities sector growth was still negative at -2.2-4.6% partly due to warm weather conditions in the first half of January. The acceleration of manufacturing production looks rather broad-based with food, light industry and clothing, oil refinery, chemicals, metallurgy and pipes, car and vehicles, some machinery goods as well as consumer durables all driving the rebound. In the mining sector, lower oil production (-1%) was offset by higher output of coal and other non-energy commodities.

## The IP recovery proves our optimism on 2018

This is indeed a big positive surprise after a disappointing 4Q17, which bodes well for our view that the IP weakness was temporary and we should see a rebound going forward. But we didn't expect this to happen so quickly in Jan-18, even though this is a specific month due to the long New Years' holiday and we need to see how it will perform in the coming months. Overall, growing industrial output proves the moderate optimism coming from major soft indicators (PMIs, Rosstat confidence) and should somehow alleviate existing worries about the growth outlook for 1Q18 and 2018 as a whole.

The data is not likely to change the central bank course of faster policy normalisation flagged for 2018 as it won't likely read too much into one data point. However, if the economic growth proves more stable in coming months/quarters, it may affect the CBR preferences over the distribution of cuts over the year. We still expect the current 7.5% key rate to settle down at 6.5% in 2018 and 5.75% in 2019 given the supportive inflation backdrop, with the headline CPI hovering below 3.5% after the expected rebound in 2H18.