

Russia: Industry holds up in April

Russian industrial output dropped by a modest 6.6% YoY in April – not as severe as feared. Meanwhile, the likely drop in external demand, the inevitable drop in local household income, and possible redistribution of state spending may weigh on industrial recovery going forward



-6.6 April industrial output, % YoY

-0.6% YoY for 4M20

Better than expected

April drop of industrial output not as deep as expected

In April, Russian industrial production dropped by 6.6% year on year, which is better than both consensus (-10.5%) and our more optimistic expectations (-8.0%). Looking at the sectoral breakdown, there are several highlights from the data:

- Export-driven sectors so far have shown resilience with oil and gas production declining

only by 1.1% YoY in April and metals extraction up 1.1% YoY. Other natural resources extraction showed sizable drops, although the share of those in overall commodity extractions are small for Russia. Manufacturing of oil products and other chemicals (admittedly, driven not only by external demand) was also up 0.7-2.4% YoY.

- Investment- and construction-driven manufacturing is holding up well, with bricks and concrete production down 3-4% YoY, agriculture machinery up 5-6% YoY, overall non-specific machinery output was down only 12% YoY.
- Several manufacturing sectors have benefited from the temporary surge in demand, with food production up 3.7% YoY (canned meat up 40% YoY), paper production up 4.2% YoY, and production of pharmaceuticals and other medical supplies up 13.5% YoY, with medical equipment output up nearly 100% YoY.
- Other consumer-driven sectors showed expectedly weak performances, with car manufacturing down almost 80% YoY, household appliances down around 75% YoY, production of clothes down 30-50% YoY, manufacturing of furniture and finishing materials down 30-60% YoY.

Recovery in 2H20 may be constrained by several risk factors

While we generally welcome the above-consensus performance of the industrial production and find it reasonable (the lockdown in place since the end of March should be hitting mostly services, rather than industries), we still see several risk factors that may constrain the eventual recovery in industrial output.

- Export-driven sectors may become challenged by Russia's OPEC+ commitments enforced starting in May, requiring a cut in oil supply to the global markets (by 23% in May-June), as well as a potential global drop in demand for key commodities. The pace of economic recovery in China and EU, Russia's main trading partners, will be the key watch factor.
- Consumer-driven sectors may face additional pressure along with exhaustion of the temporary surge in demand for some goods and the subsequent deterioration in the household income trend. The financial stress to the Russian SMEs, which employ around 25% of Russia's workforce, is likely to translate into a drop in household income (though not necessarily through much higher unemployment but rather through reduced working hours and variable portion of remuneration). The upcoming consumption and household income data for April, to be released next week, will provide the first glance at the scope of the problem.
- Investment-driven sectors, which have so far been driven by the state infrastructure spending (through the so called National Projects programme) may face uncertainty, as some portion of the public funds may eventually be redirected in favor of social spending. Even though the Russian [fiscal response is becoming more active](#), the scope for a further increase in stimulus is still limited, and social support remains a priority.

As a result, for now we continue to expect a sizeable 4.5% YoY drop in industrial production this year, with only a modest 2.0% recovery in 2021. Our GDP forecast remains above-consensus at -2.5% YoY, on expectations of additional fiscal support and substitution of foreign travel with local consumption by the top earning households, however the risks to this view are skewed to the downside at the moment, especially in case of a slower-than-expected recovery in 2H20.

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 www.ing.com.