Russia: Industry makes a leap in February

Industrial output spiked 3.3% year on year in February, reflecting the leap year effect. While the external environment is not favourable at the moment, our concerns regarding industrial output are limited to several globally-driven subsectors for now

3.3% YoY

February industrial production

2.2% YoY for 2M20

Better than expected

Russian industrial output accelerated from 1.1% YoY in January to 3.3% YoY in February, well above the 0.7-2.1% analyst forecast range. We advise to take the numbers cautiously for two reasons:

- 2020 is a leap year, meaning February 2020 industry data has a statistical boost from industries operating 24/7, such as commodity extraction (accelerated from -0.4% YoY in January to 2.3% YoY in February), as well as some manufacturing industries (overall manufacturing growth accelerated from 3.9% YoY to 5.0% YoY). Based on historical

experience, the positive statistical effect on the leap February data can be as high as 3-4 percentage points. This suggests that March industrial output growth may drop to around zero.
- The sharp slowdown in economic activity in China and recession fears in Europe are typically a bad sign for demand in some industries, including export-oriented metals.

At the same time, we see several support factors, which should partially offset the negative effect of the global downturn, at least in the near term:

- The local budget policy is supportive, as budget spending is up 25% YoY in 2M20, reflecting increase in state expenditure scheduled before the global downturn. Moreover, the recent cabinet and Central Bank of Russia response to the negative external events suggests targeted tax breaks in the industries most heavily exposed to the recent global travel restrictions, as well as a pledge of additional spending of around RUB300bn (c.0.3% of GDP). It cannot be ruled out that the list and volume of support measures will be widened in the future, depending on the actual activity trends.
- In the near-term the consumer-focused industries may benefit from a temporary increase in demand for food, pharmaceuticals, and personal hygiene products amid the coronavirus and quarantine scare, as well as for consumer electronics amid RUB depreciation. Moreover, the price competition on the oil market suggests potential for recovery in physical volumes of oil production and exports.

The longer-term expectations, however, for the industrial trend in Russia will largely depend on the the shape of the global growth trend, which so far appears highly uncertain, as well as on the mood in the locally-focused sectors not directly dependent on the state. While previously we were looking to upgrade our 2.7% YoY industrial output growth forecast for 2020, now the balance of risks to those forecasts are tilted more to the downside.

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