

## 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.

## Author

### Dmitry Dolgin

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto: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>.