Russian industry: 2020 ended on an upbeat note

In 2020, industrial production dropped 2.9% YoY, almost entirely due to a drop in commodity extraction. Industries recovered dramatically by the year-end, helped by the consumer recovery, higher demand for electricity amid cold weather, and by a favourable calendar effect. The result is positive, but fiscal consolidation is a watch factor for 2021

According to preliminary data, Russian industrial production saw a very shallow 0.2% year-on-year drop in December 2020, which is significantly better than the -3.0% Reuters consensus and our expectations of -1.5%. As a result of this and a 1.1 percentage point upgrade of the November number to -1.5% YoY, the full-year drop in industrial production was limited to -2.9% YoY, which is better than the -3.5% we expected. We generally take the numbers positively, but note that a number of support factors might have been temporary:

- The favourable calendar factor (extra working day in December) could have added 0.5-1.0ppt to the overall number for December, mostly through manufacturing sectors. In January 2021, on the contrary, there will be 2 working days less than in January 2020.
- Temperature in December 2020 was abnormally low – 4.5 degrees Celcius lower than in December 2019 – leading to a spike in electricity generation and adding another 0.8ppt to

the overall industrial output number. This effect may as much as double in January 2021, as month-to-date, the average temperature is Russia is 8.8 degrees lower than a year ago.

Still, the improvement in the industrial number also appears to be at least partially supported by fundamentals, as the year-end improvement in the non-fuel budget revenues and the slowdown in imports drop are also pointing at a recovery in economic activity. Looking at the full-year numbers, around 85% of the annual drop in industrial output has been caused by the 7.0% YoY decline in commodity extraction, which in turn is a result of lower activity in the oil&gas sector amid lower demand and OPEC+ restrictions. The manufacturing sector managed to post 0.3% YoY growth, as the drop in oil downstream, metals processing, and car manufacturing has been offset by an increase in consumer-focused production, including food, clothes, pharmaceuticals, furniture and construction materials used in renovation.

While the visibility for the January 2021 result is clouded by the two strong counterbalancing effects of working days and cold weather, we are cautiously optimistic for the full-year given the likely relaxation of restrictions to commodity extraction. Meanwhile, industrial growth above 3.0-3.5% (i.e. beyond the base effect) in 2021 would require continued recovery in the consumer and investment trend, with fiscal policy potentially playing a cruical role. Thanks to the anti-crisis fiscal package budget spending increased 25% YoY in nominal terms last year, with two-thirds channeled into direct social and regional support as well as to healthcare. The budget draft for 2021 assumes a 6% drop in nominal terms, unless the 1% GDP spending backlog is powered through. In any case, we see scope for fiscal or monetary support to industrial output as limited.

Author

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de