

Russian industry back to pre-Covid levels

Russian industrial output was up 7.2% year-on-year in April, thanks mostly to the low base effect and upward revision of March numbers. But the good news is that the industrial recovery is becoming more broad-based and is now accompanied by increased demand for corporate loans, in addition to continued budget support



A factory in Moscow, Russia

We are cautiously optimistic on the released data. The 7.2% YoY growth reported for April beats our 5.2% expectations and 6.5% Refinitiv consensus. Based on the seasonally adjusted monthly data, the Russian industrial production volume is now 0.6% higher than in February 2020, the last pre-Covid month for the country.

On the cautious side, most of the April improvement compared to 1Q21's -0.9% YoY comes from the low base effect of April-May 2020, when the country was on strict lockdown. Also, most of the outperformance vs. consensus comes from the retroactive upgrade of the March numbers, while on seasonally adjusted monthly terms, April output was flat.

On the optimistic side, however, we see a number of non-technical positive developments:

- The upgrade of the previous month's numbers, which has become routine, may indicate an improvement in the mood of SMEs (the data on the latter is incorporated two months after the reporting period).

- Commodity extraction sector, despite having no meaningful low base effect, showed improvement from -6.9% YoY in 1Q21 to -1.8% YoY in April thanks to increased oil production and extraction of other commodities.
- Manufacturing sector posted a robust recovery, most noticeably in consumer-focused sectors, including car manufacturing, furniture, and clothes. While the consumption recovery so far is still shaky, the extension of travel bans to popular tourist destinations, such as Turkey (till end of June) and Egypt (reopening was supposed to take place in mid-May, but so far has been delayed), renewed pick-up in retail lending growth to 20% YoY in April, and positive dynamics of budget spending has somewhat reinforced producer confidence in the near-term consumer trend.
- Looking at the recently released banking sector data, corporate lending growth totaled 11% YoY (net of FX revaluation effect), showing a fourth consecutive month of double-digit growth (vs. average monthly growth of 3.5% YoY in 2020), also suggesting improvement in the producer confidence.

The April industrial output data creates more positive expectations on the remaining set of economic activity data for April, the release of which has recently been postponed till the next week. On the positive side, higher local activity could create an upside to our still cautious annual GDP forecast of 2.5%. At the same time, it may also reinforce Bank of Russia's hawkish stance on inflation and key rate at the upcoming meetings.

For the next month, we remain constructive on industrial production. On the one hand, extra holidays announced by the president for May (reducing the number of working days from 19 to 15, or by 21%) and the return to pre-Covid levels of industrial output could slow down the pace of industrial recovery. On the other hand, those extra days off were de facto not obligatory for many businesses and they also did not affect commodity extraction sectors, which should continue their recovery. Even with an expected negative effect of extra holidays, which we see at around 2-3 percentage points of YoY growth, we believe industrial output will be able to post double-digit growth for May, given the support from the consumer recovery, corporate lending, and the budget spending.

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