

Russian industrial output in October: better than it looks but still stalling

The 5.9% YoY drop in October industrial output is not as bad as it may seem, particularly after accounting for the adverse calendar effect and the narrow set of data used in the first estimate. Additional monetary or fiscal easing is unlikely, but the consumption trend in 4Q20 will be key.



We advise against treating the 5.9% YoY drop in industrial production reported for October as a bad sign, even though the figure is worse than consensus (but better than our 6.3% YoY [expectations](#)) and than the 5.0% YoY decline seen in 3Q20. We believe the October number has suffered from at least two statistical effects:

- First, contrary to the September figure, October industrial output has been negatively affected by the adverse calendar effect. October 2020 had one working day less than October 2019, pressuring the manufacturing sector (the most sensitive to the working day schedule). In our estimates, this effect statistically amplified the October industrial output drop by 0.9 pp.
- Second, according to the recent changes in the State Statistics Service's (Rosstat) data dissemination procedures, the first estimate is based on a narrow list of large industrials

and, based on previous revision [practice](#), is likely to underestimate the positive contribution from the smaller entities. In fact, the first estimate for September at -5.0% YoY has been upgraded to -3.6% YoY, which we find to be more in line with the overall picture of economic activity.

As a result, we do not tend to take the October data as a sign of deterioration in industrial output trends and expect the 2020 drop to be limited, within a 3.0-3.5% range. We also find it unlikely that this strengthens the case for any additional easing on the monetary or fiscal side after a 200 bp cut in the key rate YTD and a 4% of GDP fiscal package announced for this year. Nevertheless, we see several challenges and risk factors that could further hamper any industrial recovery in the medium-term:

- The reduced global demand for oil, which has led to Russia's OPEC+ commitments and is resulting in an ongoing c.10% YoY drop in oil output. Should this be extended into 2021 (a scenario ING finds [likely](#)), Russian industrial production will remain 2-3% below potential.
- The metals sector is showing uneven performance in recent months, suggesting high dependence on the volatile global mood.
- Consumer-focused sectors, which have so far posted a healthy rebound from the 2Q20 drop, are now subject to risks related to the second wave of pressure on consumer activity apparent in indirect and high-frequency indicators. The upcoming Friday data for consumer activity and for October may reinforce these concerns.
- As mentioned earlier, investment-driven sectors may remain under pressure due to restrained corporate CAPEX activity, to be confirmed by the upcoming banking sector data for October, and the likely [refocusing](#) of fiscal policy away from infrastructure investments (National Projects) towards social support.

Overall, although it appears that the industrial output drop in 2020 could be shallow, the prospects of full recovery to pre-2020 levels seem distant.

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