

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 strenghtens 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.

Author

Dmitry Dolgin

Chief Economist, CIS

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>.