

Russian industry: not feeling it yet

The highly anticipated acceleration of budget spending growth in 4Q19 has so far not translated into higher industrial activity, which remained mostly driven by the oil downstream in October



- Russian industrial production decelerated from 3.0% year-on-year in September to 2.6% YoY in October, slightly exceeding our 2.4% YoY forecast and 2.5% YoY consensus.
- The October 2019 number did not benefit from 1 extra workday vs. October 2018, unlike September 2019 vs. September 2018. According to our estimates, the calendar effect explains 0.6 percentage points of the slowdown, ie, adjusted for the calendar effect, there was a 0.2 percentage point acceleration.
- While the difference in a number of workdays affects primarily the manufacturing sector (50% of the industrial production volume), the latter posted an acceleration from 3.2% YoY in September to 3.7% YoY in October, thanks to the oil downstream sector (14% of manufacturing) showing a massive 6.8% YoY growth after a 0.7% YoY drop in September. The effect of this acceleration was partially negated by a sharp deterioration in primary metals processing and some deterioration in consumer-driven sectors, including car manufacturing.
- On the positive side, despite the above-mentioned calendar effect, there was acceleration in some investment-related manufacturing sectors, such as high value-add metal products, some subsegments of machinery and equipment, however this failed to make a strong impact on the headline numbers due to the low (less than 5%) share of those sectors in the

overall industrial production.

- Commodity extraction sectors (37% of industrial production) following five quarters of 3%+ growth showed a slowdown to 0.9% YoY in October, the lowest reading since January 2018, suggesting possible exhaustion of this support factor in the near term.
- The November calendar effect is even less favourable than October's, as it has 1 workday less than November 2018.
- The coming months will be indicative of whether year-end state spending, which should accelerate from 7% YoY in 10M19 to 18% YoY in November-December (mostly on state support to the industries) is efficient and large enough to support activity in the real sector.

<https://think.ing.com/snaps/russian-governement-catches-up-on-spending/>

Commodities were the primary drivers, both negative (oil upstream) and positive (oil downstream) of industrial output dynamics in October. The year-end acceleration in budget spending growth, needed to fulfill the annual plan, remains the main hope for the non-oil investment-focused industries in the near term.

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