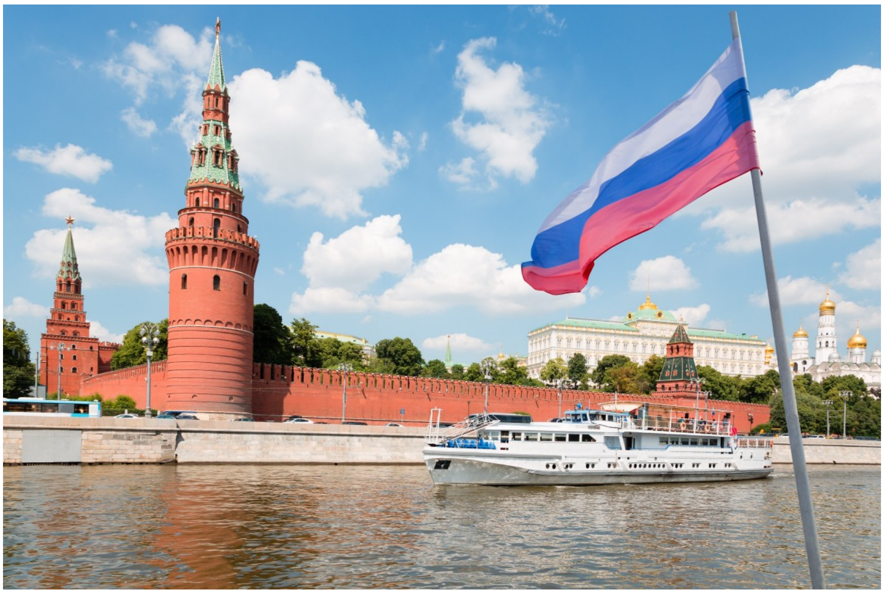
# Russian industry: statistical volatility

The 2.5% YoY drop in industrial output in January after a revised 2.1% YoY increase in the preceding month looks to be more about statistics than reality. Looking through the statistical noise, easing in the OPEC+ restrictions should support industry in 2021, though optimism regarding the consumption recovery still needs confirmation.



## First estimate of industrial output does not really matter anymore

The offical first estimate of January industrial output in Russia indicates a 2.5% YoY drop, which may seem like a huge disappointment relative to the Reuters consensus of -0.1% and our +0.3% YoY forecast. However, we doubt this number is indicative of actual trends in industrial output.

- Firstly, as we have warned, the January data is heavily affected by an adverse calendar effect of around 1 pps on the one hand, and by moderate positive effect of around 0.5 pps thanks to cold weather (through higher output of electricity and heat).
- Secondly, the first estimate of industrial output has low reliability, as it does not incorporate data from small & medium enterprises and is subject to material revision afterwards. For example, the December 2020 number of -0.2% YoY was revised to +2.1% YoY (seasonally adjusted MoM growth was increased from 1.5% to 4.0%), creating an even higher base for

January.
- Moreover, the second estimate (out of a total of five) is also far from perfect. Taking the current 2020 estimates at face value, we have to believe that the seasonally adjusted monthly volume of industrial production reached pre-Covid levels by December - this appears to be extremely optimistic given the persistent OPEC+ restrictions and generally sour mood in the heavy industries.

As a result of the calendar effect and rolling revisions, data from the manufacturing sector, accounting for 54% of industrial output, has become volatile, with 7.9% YoY growth in December 2020 followed by a 1.0% YoY drop in Janaury 2021. Meanwhile, commodity extraction, accounting for 34% of industrial production and less dependend on the number of working days and activity of SMEs, is showing a more stable trend of -7.5% YoY to -7.1% YoY, respectively.

## Cautiously constructive on industrial production in 2021

Looking through the statistical noise which materially lowers the accuracy of near-term data predictions, we remain cautiously positive on the industrial trend this year, supported by the easing in OPEC+ restrictions and generally positive performance in consumer-focused manufacturing so far. The near-term indicators supporting this outlook include above-50 pps PMI and a slight pick up in corporate lending to 7.0-7.5% YoY (net of FX revaluation effect) by the year-end 2020 from 3-6% YoY seen throughout the year.

Meanwhile, following a shallow 2.6% drop in industrial production in 2020, a recovery in 2021 beyond base effect will be a challenge. The key source of uncertainty is the consumption trend, which has been showing signs of moderation in recovery amid weakness of income in the private sector. Even though the government is showing signs of likely increase in social spending this year, we doubt that the budget policy could be of huge help in 2021. First, it can only directly affect around 35% of the household income through public sector salaries, pensions and other social benefits, while improvement in the private sector requires institutional measures. Second, the overall need to ensure buget consolidation in 2021-23 suggests declining support for industries directly dependent on non-social state spending.

The full set of activity data for January, to be released on 18 February, should shed more light on the intensity of the underlying consumer trend.

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