

A welder wearing a red protective suit and mask is working in a desert landscape at sunset. The welder is positioned in the center-right of the frame, with their back to the camera. The background shows a vast, flat desert under a sky with a bright sun setting on the horizon, creating a warm, orange glow. The welder's suit is a vibrant red, and the overall scene is bathed in the light of the setting sun.

# Economic background for Welding Market in Russia

Brief Overview

February 2021

# 2020 at a glance

- **Strong start.** The economy grew strongly in 1Q 2020 (pre-lockdown) and government changes made clear the determination move forward more effectively (National Projects)
- **Troika of problems:**
  - Oil price collapse
  - COVID-19 pandemic
  - Fresh sanctions fears
- **Effective response.** The governments response is deemed as “adequate” and prevented bigger job losses and more serious disruption
- **No financial pressures.** Unlike previous crisis, this time government has a very good balance sheet to leverage off
- **Review of some priorities.** National projects have/are being reviewed. Other policies have also been reviewed to make them more effective in the future.
- **Ready to move forward.** 2020 still looks more like a disruption rather than a derailment.

# Current trends in the economy

- Better than expected GDP in 2020 (-3.1%)
- Industrial growth falls less in December. Overall industrial output was down 2.9% YoY in 2020.
- Car sales down. Car sales were down 2.1% YoY in December after growing 5.9% YoY in November. Overall car sales are weak, down 9.1% YoY for the full year.
- Budget deficit 3.1% in 2020.
- Wealth Fund still strong. The National Wealth Fund (NWF) grew in December by US\$6 billion to reach US\$183 billion or about 11.7% of GDP. There were no structural shifts in the fund's assets.
- Ruble volatile since the start of the year. The price of Brent continues to rally strongly and is up over 20% since the start of the year.
- Inflation is expected to peak in March. Annual inflation will reach 3.7–4.2% in 2021 and remain close to 4% in the following two years.
- Mortgage subsidies are hugely popular. That is 25% up on 2019.
- The vaccination program will be much further extended.

# Macro forecast 2021-2022 (base case)

	2020	2021F	2022F
• GDP	-3.1%	3.0%	2.5%
• Industrial production	-2.9%	4.5%	3.5%
• Inflation, year end	4.3%	3.7%	3.5%
• CBR, Key Rate	4.25%	4.5%	5.0%
• Retail Sales, % YoY	-4.0%	4.5%	3.0%
• Budget Balance, % GDP	-4.0%	-1.5%	-0.5%
• Average Oil Price, \$ p/bbl	\$44	\$58	\$65
• RUB/US\$, year end	74.0	70.0	66.0
• RUB/Euro, year end	86.0	80.0	75.0

Source: Macro Advisory, IMF, CBR

# Lot of Hope in National Projects

- The National Projects program is changing. Some projects will have funding cut and others will be delayed
- Implementation of the programs is better in 2020 vs 2019. But some sectors, such as digitalization, are still well below the spending targets

Source	Ruble Spending	US\$ Bln spending	%
<b>Human Capital</b>			
Health	1.726	23.8	6.7%
Education	785	10.82	3.1%
Demographic	3.105	42.83	12.1%
Culture	114	1.57	0.4%
<b>Quality of life</b>			
Safe and better roads	4.780	65.93	18.6%
Housing	1.066	14.71	4.1%
Ecology	4.041	55.74	15.7%
<b>Economic Growth</b>			
Science	636	8.77	2.5%
Small Business	482	6.64	1.9%
Digital Economy	1.635	22.55	6.4%
Labor Productivity	52	0.72	0.2%
Export Support	957	13.20	3.7%
Transport Infrastructure	6.348	87.56	24.7%
<b>Total</b>	<b>25.725</b>	<b>354.83</b>	<b>100%</b>

Source: Government of Russia

# Global Welding Market Trends

- The global welding market is c. \$20 bln. in 2019 and is projected to reach \$27bln by 2027
- Rising investment in infrastructure development, especially in emerging economies such as China and India, is fueling demand for advanced technology, which in turn is driving market growth.
- As for the global trend, the main sectors of consumption of welding equipment will be the construction of buildings and construction, as well as transport and shipbuilding.
- Heavy engineering sub-segment is expected to be the leading application segment in welding market in next decade
- Robotisation and digitalization of welding processes
- Demand for multifunctional welding equipment across various applications are major factors driving the market growth
- Arc welding is expected to drive the market in terms of process type (c.70% of market share)
- Evolution of various welding technologies is the current market trend
- Quality control and sustainability

# Industries driving the welding market in Russia

## Current state

Building and Construction	Car manufacturing	Oil and Gas	Shipbuilding
-1.8% 2020 vs 2019	-9.1% 2020 vs 2019	-8.6% 2020 vs 2019 (oil) -6.2% 2020 vs 2019 (gas)	+67% 2020 vs 2019
+5% expected in 2021	+2.1% expected in 2021	+12-15% forecasted for 2021	+20% - expected growth in 2019
80m. SQM in 2020 (Housing)	1.6m cars sold in 2020	512m. Tonn (oil) 692bln m3	Around 90 ships manufactured in 2020
Number of new projects increased by 39% in 2H 2020. Government support + mortgage subsidies. Large investments in transport infrastructure.	Dependence on government support and consumers purchasing power	New projects in North Siberia and Arctic Zone	Russia reached 2 <sup>nd</sup> place among countries in terms of shipbuilding volumes.

*Source: CBR RF, Ministry of Economic Development, RosStat, MoF*

# Russia market growth 2017-2020f

Machines and apparatus for welding

**High level market evaluation, USD mln. (in producers' prices)**

	2017	2018	2019	2020F	CAGR
Local production	60	64	103	98	17%
Import	280	430	360	405	13%
Export	17	15	26	24	12%
<b>Market size (consumption)</b>	<b>323</b>	<b>480</b>	<b>440</b>	<b>480</b>	<b>14%</b>

Share of imported goods is c.85%

Source: Federal Customs Service, RosStat, Hyve calculations



# Selected imports 2019

Automatic or semi-automatic machines and apparatus for arc (including plasma-arc) welding of metals (HS851531)

Machines and apparatus for manual welding with covered electrodes, complete with accessories for welding (HS851539)

Other machines and apparatus for metal processing (HS851580)

Welding equipment (HS8515)

Top 10 exporters	Sum of Trade Value (US\$)
World	79,510,724
China	29,564,755
Italy	13,670,308
Germany	7,926,877
Austria	5,627,059
Finland	4,619,289
France	4,416,653
Hungary	1,714,441
Japan	1,673,859
Sweden	1,602,487
Czechia	1,462,781

Top 10 exporters	Sum of Trade Value (US\$)
World	77,090,474
China	58,944,029
Japan	6,310,925
Finland	3,640,526
France	1,765,338
Poland	1,630,112
Italy	1,512,566
Czechia	805,364
Austria	640,038
USA	609,746
Belarus	396,919

Top 10 exporters	Sum of Trade Value (US\$)
World	83,106,831
China	27,093,196
Germany	15,585,826
Japan	7,990,440
USA	6,380,664
Italy	5,609,063
Switzerland	4,983,689
Rep. of Korea	4,191,230
Turkey	2,419,160
Poland	1,339,928
France	1,303,144

Top 10 exporters	Sum of Trade Value (US\$)
World	359,415,850
China	136,134,501
Germany	54,052,777
Italy	35,134,286
Rep. of Korea	21,357,611
Japan	20,654,040
Austria	13,825,268
France	13,222,020
USA	9,804,763
Finland	8,656,417
Czechia	6,982,784

TOP exporting countries: China, Germany, Japan, Italy, RoK

2020 Import increased by 12% to 405m. USD

Source: UN Comtrade database, Federal Customs Service