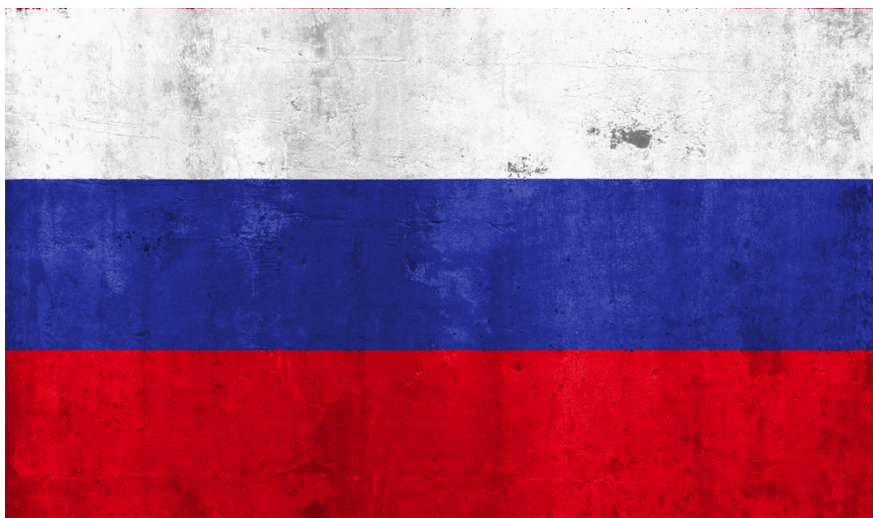


Russia: June activity not too bad

Retail growth stabilised at 1.4% YoY in June, which is a small positive surprise, adding to the strong 3.3% YoY increase in industrial production. Both seem to be related to the budget policy and may see some further support in 2H19. It's not a game-changer for rate cuts, as the reasons for slowing inflation have little to do with demand



Source: Shutterstock

1.4% YoY

Russian June retail trade

+1.7% YoY for 1H19

Better than expected

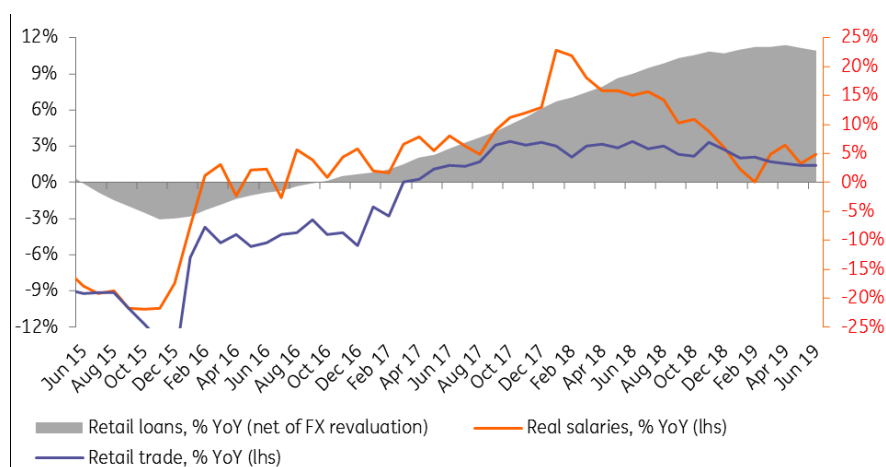
Better-than-expected household consumption despite slowdown in retail lending growth

In June, Russian retail sales remained stable at a low level of 1.4% year on year seen in May. This is still better than the 1.0% we and the market were expecting. This is the second time in a row consumption growth exceeds expectations, contradicting our initial view, that the positive results in May positive result were a one-off event. There are several observations here:

- Initially, we believed the May increase in the real salaries (recently revised to 1.6% YoY) as concentrated around financial and commodity extraction sectors, the recent update suggests that a number of state-driven sectors, including healthcare, also posted acceleration in the salary growth, and this may have also contributed to the acceleration in the June real salary growth of 2.3% YoY, which is slightly below our 2.6% YoY expectations but still a positive result;
- Unemployment declined to an all-time low of 4.4% in June, which is also better than expectations;
- Importantly, retail trade growth stabilised and outperformed expectations despite the deceleration in retail lending growth to 22.8% in June from 23.3% in May and 23.8% in April. Meanwhile, retail deposit growth (net of FX revaluation effect) accelerated to 7.3% YoY in June, an 11-month high, mainly due to FX deposits, possibly reflecting some improvement in the financial standing of the middle and higher-income households.

Still, we acknowledge household activity data for June is not yet a strong reason for optimism on consumption going forward, especially given the likely further slowdown in the retail lending growth. However, the scheduled increase in state-sector salaries in 2H19 and the recent strength in the ruble still provide hope that the consumer sentiment will at least stabilize, the growth in consumption (albeit slow) will continue. It also suggests that the 'weak consumer demand' argument in explaining the below-expected CPI growth (4.7% YoY as of June, could slow further to 4.6% YoY in July and 4.0% YoY by the year-end) is not as strong as it is believed by the market.

Key indicators of the Russian consumer trend



Source: State Statistics Service, Bank of Russia, ING

Construction still in stasis but may pick up in 2H19

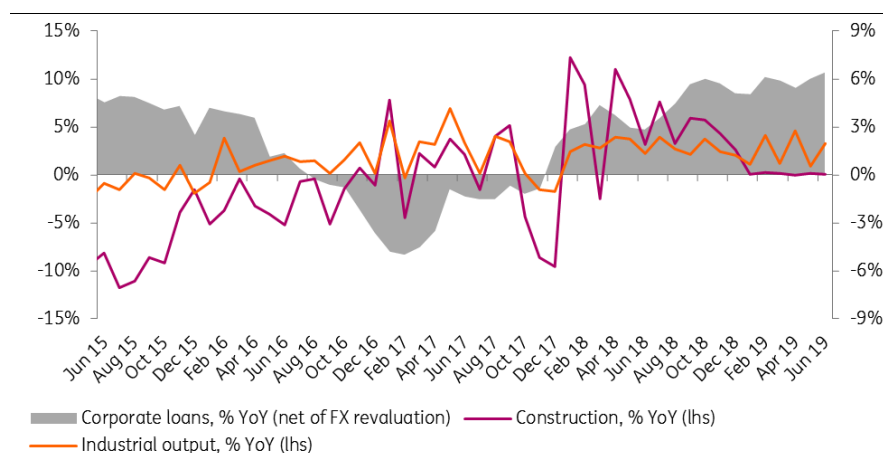
The producer activity indicators are posting a mixed picture in June. The key concern is the continued stagnation in the construction sector (+0.1% YoY in June and for the entire 1H19) after a 5.3% YoY increase in 2018. At the same time, we see signs that some recovery may follow as the large infrastructure spending within the state 'National Projects' gain traction. To remind, the industrial output already picked up strongly in June to 3.3% YoY amid an acceleration in the state spending on support to the industries from -4% YoY in 5M19 to +18% YoY in June. With full-year spending growth plan on this item set at around 30% in 2019, the infrastructure-driven sectors should see some support in 2H19.

Also, in the banking statistics, we see a small uptick in corporate lending growth (net of FX revaluation effect) to 6.4% YoY in June, which is far from impressive, but still is more than a 4-year high. It remains to be seen, however, whether this reflects financing of organic growth or some M&A activity as has been recently pointed out by Central Bank of Russia (CBR) Governor Nabiullina.

Overall, we reiterate our take that the 2H19 activity may see more support coming from the budget policy, however, it does not cancel out concerns related to sectors not driven by the large infrastructural projects. Our expectations for 2019 GDP growth remain at a modest 1.0% YoY, which suggest only minor acceleration from the 0.7% YoY seen in 5M19.

[Russian state support is kicking in](#)

Key indicators of the Russian producer trend



Source: State Statistics Service, Bank of Russia, ING

Green light for further key rate cuts for the CBR

The overall June and 1H19 activity indicators do not affect our expectations for the CBR key rate, which we see cut by 50-75 basis points from the current 7.50% level in the next 6-12 months, including a 25 basis point cut next week, on 26 July. To remind, this view is based on the improved near-term CPI forecast thanks to favourable conditions on the global agricultural market and stronger than expected ruble (rather than assumptions on the demand side). The upcoming key rate cuts, unlike the expected pick-up in the budget spending, should be irrelevant for the near-term GDP growth rate.

[Russian CPI may underperform CBR forecast in 2019](#)

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