

Russian households not ready to spend yet

Russian retail trade continued to decelerate in August, underperforming expectations amid the managed slowdown of retail lending. Meanwhile, income and bank deposit data suggest that the slowdown might reflect a higher preference for savings. This highlights some room for recovery in consumption, once the fiscal stimulus passes through corporates



Crowds at the Moremoll shopping centre in Sochi, Russia

0.8% YoY

August retail trade

+1.5% YoY for 8M19

Worse than expected

August slowdown in consumption reflects higher savings

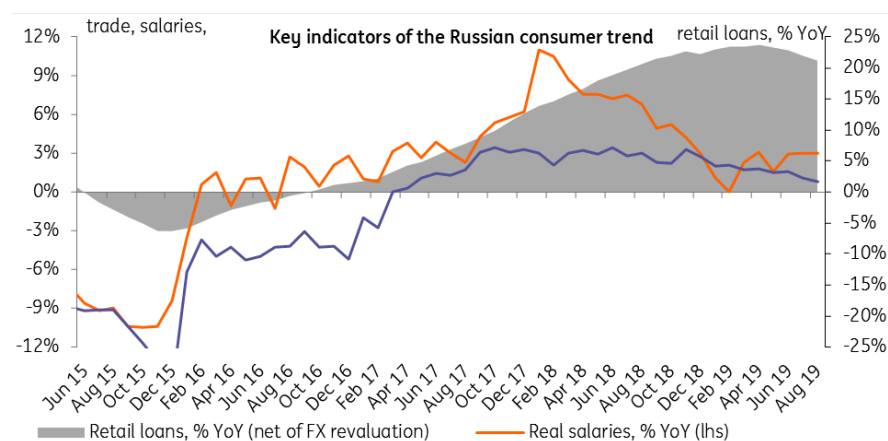
While the slowdown in the Russian retail trade from 1.1% year-on-year (upgraded from the earlier

estimate of 1.0% YoY) in July to 0.8% YoY was slightly below our and the market expectations, we do not tend to over-dramatize it as it seems to reflect a higher preference for savings.

- The slowdown in retail trade growth, observed mainly in the food segment, took place amid declining support from retail lending, which continued to show gradual deceleration from the 23% YoY peak in April to 21% YoY in August;
- Income trend showed no noticeable deterioration, with real salary growth staying at 3.0% YoY, in line with expectations;
- Retail deposit growth slightly accelerated to 7.6% YoY in August in nominal terms, but cleaned from the FX revaluation effect this growth is 8.2% YoY, which is a 16-month high;
- The monthly polls measuring household sentiment indicate that in August households showed a higher preference for sizable services spending (home renovations, summer vacation) and making savings.

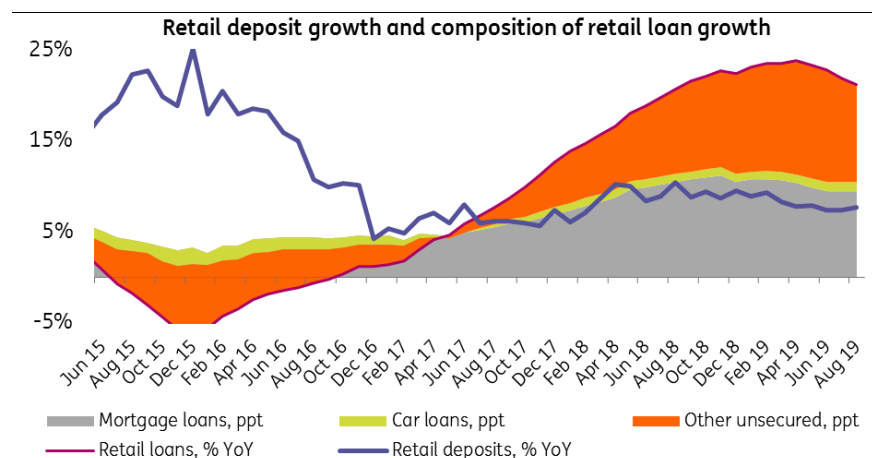
Overall, the household sector data points at a slightly higher quality of consumption amid the managed deceleration of consumer lending. The accumulation of savings, if continued, would set the stage for a recovery in consumption closer to this year-end and next year as soon as the much-expected activation of the budget spending translates in higher confidence in the corporate sector and consequently among consumers.

Consumption growth decelerates amid declining support from retail loans and stable income growth



Source: State Statistics Service, Bank of Russia, ING

Retail deposit growth picked up in August, consumer lending slowed



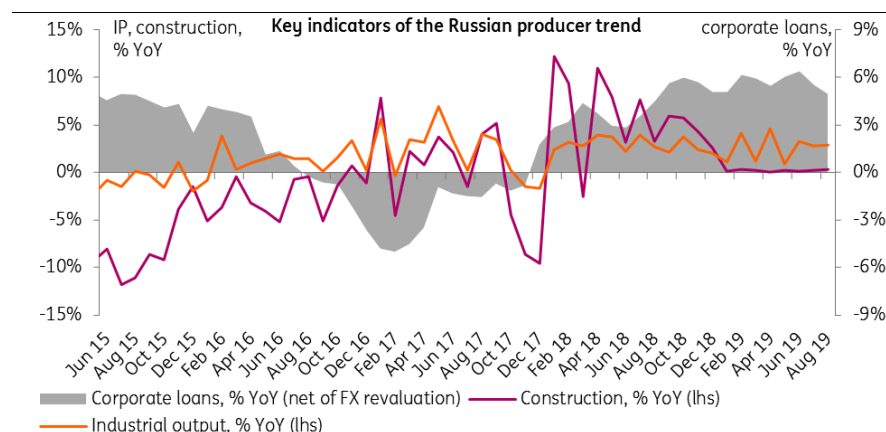
Corporate activity has yet to benefit from year-end budget spending splurge

The corporate activity indicators for August suggest that the acceleration in the budget spending growth from 3% YoY in 7M19 to 19% YoY in August (which we already mentioned earlier) has so far supported only industrial production growth, but didn't translate into higher construction volumes, which so far remain close to zero (0.3% YoY in August). Given the expected further acceleration of the budget spending (mainly related to the infrastructure-focused National Projects) until the year-end, we remain optimistic about the corporate activity going forward. At the same time, we see two key risks:

- In order to fulfill the budget spending plan, the Finance Ministry has to accelerate spending to around 30% YoY in September-December, which appears ambitious, and it remains unclear whether the real sector will find it possible to absorb in time. Some of the actual spending might be delayed till 2020;
- The activity outside the infrastructure- and budget-driven sectors remains unclear, as the banking sector data suggest deceleration in the corporate lending growth to a 20-month low of 4.3% YoY in August (or to a 12-month low of 4.9% YoY adjusted for the FX revaluation effect). We take this slow lending growth as a sign of so far weak investment demand in the private sector.

<https://think.ing.com/snaps/russian-industry-august-improvement-masked-by-calendar-effect/>

Faster budget spending growth has yet to translate into higher construction volumes



Source: State Statistics Service, Bank of Russia, ING

Implications for GDP growth and key rate expectations - neutral

The upcoming months will be the first litmus test of the efficiency of the state-sponsored infrastructure spending package. Our base-case scenario assumes modest acceleration of GDP growth from 0.7% YoY in 1H19 to 1.0-1.5% YoY in 2H19 on higher corporate activity and to some extent higher consumer confidence. Any outperformance would require some pass-through into the private corporate sector.

In the meantime, we doubt that the GDP growth rate, which remains below the trajectory desired by the government, will be a strong argument in favour of a more dovish stance by the Central Bank of Russia. Recent statements by the CBR governor on the record-high accumulation of corporate profits (RUB16 trillion, or 16% of GDP, for the 12 months ending in mid-2018) suggest that monetary authorities do not see a reduction in the cost of money as an efficient tool to support growth. We reiterate our take that the room for further reduction of the key rate, currently at 7.0%, is now limited at 50 basis points, with the terminal rate to be reached in 1H20.

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