

In case you missed it: A sense of urgency, perhaps

An impasse in Brexit talks and growing tension over Italy's budget deficit have forced the European Union to focus on containing existing problems rather than shaping the future of the bloc. Bold reforms will have to wait. But for how long and at what cost? Plus, why November is a key month to watch for the dollar and is it time to ditch the 9 to 5?

In this bundle



European reform: 'no sense of urgency... but it's urgent'

Eurozone reform is once again overshadowed by Brexit and Thursday's Euro Summit was no exception. In the last two years, new reforms have been...

By Carsten Brzeski and Bert Colijn



ECB preview: Ending QE is not the biggest threat

The Federal Reserve may be President Trump's "biggest threat" but in the eurozone, tighter ECB policy is way down the list of things to...

By Carsten Brzeski



United Kingdom

Brexit blog: What the latest impasse means for the UK economy

As Brexit negotiations stall, the ever-increasing uncertainty surrounding 'no deal' could see businesses take more concrete action and consumers...

By James Smith



FX

The dollar year-end buying effect comes earlier than you might expect

There's evidence of much more collective dollar buying in FX markets in November rather than December so don't be caught out by the...



China

Opportunities and threats for EU firms in the US-China trade war

The hot topic at Thursday's Asia Europe (ASEM) meeting will no doubt be the China-America trade conflict. There are opportunities here for European...



Indonesia | Philippines

Indonesian and Philippines central banks can afford to hit the pause button

Bank Indonesia (BI) and Bangko Sentral ng Pilipinas (BSP) can keep the powder dry as pressure on emerging markets eases in October



Russia

Russia: Weaker consumer activity - a challenge to budget conservatism?

Retail trade growth decelerated to 2.2% year-on-year in September, below expectations, despite unemployment dropping to a new low of 4.5% and real...

By Dmitry Dolgin



eZonomics

Time to ditch the 9 to 5 and embrace the 4-day week?

Smart management of flexible working may ensure productivity and performance aren't reduced if we want to cut the working week

Article | 18 October 2018

European reform: ‘no sense of urgency... but it’s urgent’

Eurozone reform is once again overshadowed by Brexit and Thursday's Euro Summit was no exception. In the last two years, new reforms have been...



Source: Shutterstock

Eurozone reform was on the agenda, but not top of mind

With Brexit and migration completely overshadowing this week's EU summit, you might not have noticed that monetary union reform was also on the agenda at the so-called Euro-summit, a lunch meeting at the end of almost two long days. As expected, no decisions were made but the plan to have further reform of the monetary union centre stage at the December summit was confirmed. In June, EU leaders decided they would revisit the reform agenda at the end of the year. Whether the December Summit will really bring a breakthrough is far from certain. Final words by European Council President Donald Tusk were not really encouraging as he stated that technical work had to be accelerated and that he hoped that today's discussion would inspire the Eurogroup to act more dynamically. European language for “a lot has still to be done”.

Any breakthrough is far from certain

Thursday's meeting focused more on containing existing problems than on shaping the future. The economic uncertainty that the Eurozone faces was not lessened by the summit. As the Brexit negotiations will go down to the wire, downside risks to the outlook remain. Concerns about the Italian budget are also there, which was discussed just briefly at the Euro Summit as that remains a matter for the Commission and not European leaders for the moment.

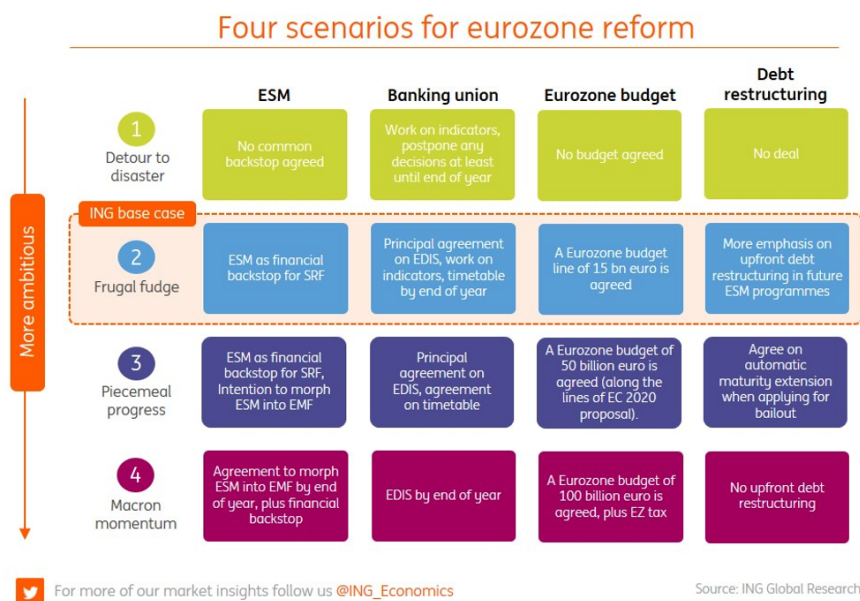
While European Commission President Juncker said at the press conference that there is “no sense of urgency, but it’s urgent” about Eurozone reform, the question remains whether meaningful strengthening of the Eurozone can be achieved. More concrete steps towards completing the banking union still need to be taken, but President Juncker says that only a handful had been agreed so “there remains ample work until December”. The danger, of course, is that the December Summit could be overshadowed again by the Brexit debate, postponing Eurozone reforms to 2019.

Major steps still have to be taken

The recent reshuffling of France's government didn't change the direction for Emmanuel Macron, whose intentions remain unchanged since the September 2017 Sorbonne declaration. During the Meseberg Summit in June, France and Germany agreed on the creation of a Eurozone budget for 2021 and on deciding the rest in December. This includes further steps in the banking union. However, only the initial exploration phase of a European Deposit Insurance Scheme has been announced so far and the Franco-German proposals received lots of criticism from other Eurozone countries, particularly the Nordic countries plus the Netherlands.

Recent political developments in Germany have also done little to become overly optimistic about bold reforms in December. Firstly, the interpretation of what a Eurozone budget could mean still differs across countries. The latest news on German Finance Minister Scholz's non-paper on a European Unemployment Stabilisation Fund and the immediate criticism from coalition partners suggest that little is left from the title of the official coalition agreement “A new dawn for Europe”. There is currently even some speculation in Berlin that the German government is actually looking at the Spring Summit 2019 and not the December Summit this year to agree on Eurozone reforms. But then really...

4 scenarios for the Eurozone future



Source: ING

No reforms without a new existential crisis first?

All of this means that the so-called window of opportunity to agree on bold Eurozone reforms, which opened up after the French presidential election and before the German elections last year, is almost closed again. It is not completely locked, though. Except for making the ESM the backstop for the Single Resolution Fund, some additional upgrading of the ESM and lip service to finalise banking union, very little progress should be expected at the December summit. It increasingly looks as if the Eurozone will first need a new existential crisis before agreeing on bold reforms.

Authors

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Bert Colijn

Chief Economist, Netherlands
bert.colijn@ing.com

Article | 18 October 2018

ECB preview: Ending QE is not the biggest threat

The Federal Reserve may be President Trump's "biggest threat" but in the eurozone, tighter ECB policy is way down the list of things to...



Source: Shutterstock

What a difference six weeks can make

What a difference six weeks can make. If anything, the downside risks to the eurozone's growth outlook have increased. Stock market turmoil, mixed hard data for the month of August and further tensions in emerging markets have added to what the ECB often calls global risks. At the same time, the never-ending Brexit saga, higher oil prices as well as the swelling conflict on the Italian budget all have the potential to weigh on what has been the eurozone's biggest trump card so far: solid domestic demand.

Let's be clear: up to now, the latest developments do not amount to additional risks, nothing has materialised yet and there is no guarantee it ever will. The eurozone recovery is still characterised by solid to strong domestic demand due to higher employment, falling unemployment and low interest rates. Meanwhile, exports have not been affected by trade tensions but rather have benefited from a weak euro and some moderate, though positive, fiscal stimulus.

Still, downside risks to the economic outlook have increased and the inflation outlook remains mixed. Headline inflation has been hovering around 2% in recent months, mainly due to higher energy prices. At the same time, core inflation is still not doing what the ECB expects it to do,

namely, pick up. From the minutes of the September meeting, it is clear that the ECB still believes that supply-side constraints should translate into higher core inflation. However, evidence of this actually materialising remains very scarce. In this context, ECB President Mario Draghi will probably have to spend some time during the press conference explaining what he meant by a “relatively vigorous” pick-up in underlying inflation when he spoke at the European Parliament. We don’t expect him to repeat these words.

All too little too early to stop ECB from ending QE

Even though recent developments have been anything but encouraging, the downside risks are simply too minor and too premature for the ECB to alter its chosen path. In our view, it would definitely need a severe growth accident, an escalation of the Italian crisis or trade tensions with tangible consequences on financial markets before the ECB would change its course. The ECB seems willing to look through some market volatility and is determined to end QE by the end of the year (i.e. bring the net asset purchases to zero at the December meeting). Looking beyond the end of QE, the ECB could show more flexibility and willingness to react to slowing growth or the absence of an acceleration in core inflation either by postponing the first rate hike far beyond the summer of 2019 and/or by using the reinvestment period to strengthen forward-guidance.

For next week’s meeting, expect a slightly more dovish ECB president, though one still highly determined to bring QE to an end in December. This is clearly not the biggest threat to the eurozone economy.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Brexit blog: What the latest impasse means for the UK economy

As Brexit negotiations stall, the ever-increasing uncertainty surrounding 'no deal' could see businesses take more concrete action and consumers...



Source: Shutterstock

As another crunch EU Council meeting comes and goes without agreement, the critical issue of the Irish backstop - the insurance policy that would kick in in the event of the UK leaving the single market and customs union - remains unresolved.

[Two weeks ago](#), we discussed how a possible compromise appeared to be in the offing, which would see the UK government accept the EU's backstop proposal, if Brussels kept the door open to Britain remaining in a customs union as a whole. In other words, this plan, which has been rather clunkily labelled the "backstop to the backstop", would eliminate customs checks between Northern Ireland and the rest of Britain in the event the backstop kicked in, but would require goods to be checked against EU rules.

Over the past few days, there have also been indications from both sides that the door could be left open to extending the transition period beyond December 2020. In theory, this would allow more time to find a more workable solution to the Irish border challenge - and in any case, the length of the transition period as it stands is unlikely to be long enough to agree upon the overall future trading relationship.

As ever, the challenge has been to [conjure up a 'wording'](#) that will convince enough UK lawmakers

to approve this fudge - and recent reports suggest that even the most creative choice of policy wording may not be enough to reassure MPs from the Democratic Unionist Party or Conservative Brexiteers. The DUP has long been concerned about the spectre of regulatory checks between Northern Ireland and the rest of the UK, while Brexiteers within the Conservative Party worry the mooted customs compromise could effectively see Britain tied to the EU for long after the transition period ends.

We are unlikely to know for sure whether 'no deal' has been averted until much closer to the UK's scheduled exit date

Nobody really knows exactly how many of these MPs could ultimately reject the deal when it comes to Parliament. But with no obvious way of squaring the circle, it looks increasingly likely that the UK government is going to play for time. The later the Prime Minister can leave agreeing a deal with Brussels, the later the Parliamentary vote will be held. This would mean the choice MPs face would become a much more binary decision between PM May's agreement, and an economically-risky 'no deal' scenario.

If this is indeed the tactic, it looks increasingly likely that a deal won't be settled until the December EU Council meeting. Given that this summit comes just days before MPs leave for the Christmas recess, it seems likely that the 'meaningful vote' would then follow in mid-to-late January. The government is obliged to give lawmakers a say by 21 January.

In short, we are unlikely to know for sure whether 'no deal' has been averted until much closer to the UK's scheduled exit date in March.

For the economy, this could see growth momentum slow again over the winter as uncertainty rises - **and there are two key factors in particular that we think will be worth keeping an eye on:**

1 Spending could come under pressure again if job uncertainty builds

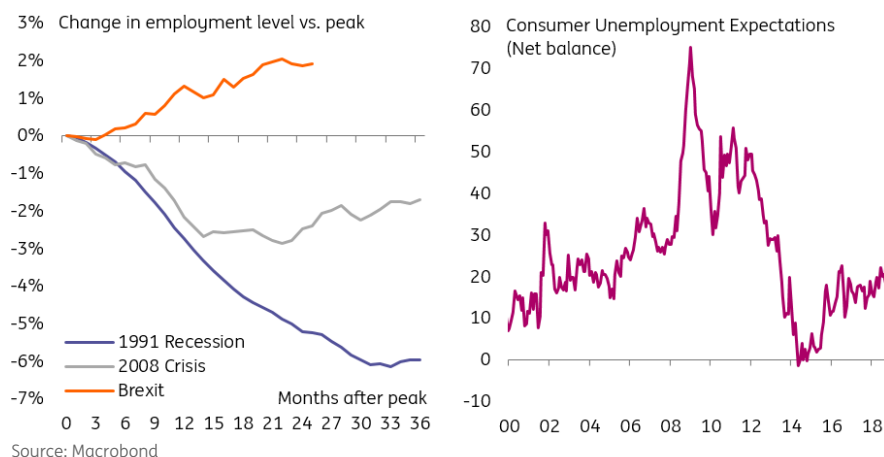
With the sun shining, there's little doubt the UK economy had a brighter summer, with consumers bucking the trend of the previous twelve months and spending more. The question now is whether this is the start of a more permanent growth recovery.

For now, we suspect it isn't. There is some limited evidence in the Bank of England's latest credit survey that demand for credit card borrowing surged in the third quarter, suggesting this summer spending can't be sustained indefinitely. And despite some decidedly better news on wage growth over recent months, the near-10% rise in petrol prices since March means incomes are still being squeezed to some degree.

This means retailers will face another testing Christmas trading period, but the real wildcard for the high street stems from how consumers might react to the 'no deal' threat. With businesses becoming more vocal about the impact 'no deal' would have on operations, households may begin to take a more cautious stance if they gradually become more wary about their job security. There is already some evidence - albeit fairly tentative at this stage - in the latest set of jobs numbers

that firms are [beginning to hold back on hiring decisions](#).

Consumers currently relaxed about job security - but that could begin to change



2 Will inventories come to the rescue? We aren't fully convinced

[As we discussed back in August](#), the potential for disruption and delays at UK ports in the event of a 'no deal' would have big implications for supply chains. With time running out, firms may look to insulate themselves where possible by stockpiling items in advance of March to keep their operations moving. [The Guardian recently reported](#) that some food-suppliers would look to order extra goods if there is no deal agreed by Christmas.

But while 'no deal' would spell bad news for growth beyond March 2019, any stockpiling efforts could actually theoretically increase GDP before then. This is because it would increase inventories, a notoriously volatile part of the national accounting that frequently triggers large swings in the quarterly growth numbers. However, we think there are a couple of reasons why this may not be the case this time.

Firstly by definition, any pre-Brexit stockpiling would simply result in a corresponding increase in imports, so the impact on domestic demand should largely net out.

Secondly, and more importantly, it's not obvious where firms would store these extra supplies. According to property firm [Savills](#), the US has five times more warehousing capacity per capita than the UK. And most of what Britain does have has been utilised following the rapid rise of internet shopping over recent years. Their data shows that the vacancy rate for warehouses in London sits at just 3%, indicating that there is very limited scope for firms to store large volumes of goods. This is probably even more true of specialist or perishable goods, where the availability of storage that meets their additional requirements is in shorter supply.

Bank of England's November meeting comes at an awkward time

All of this makes for a challenging period for the Bank of England.

In any other situation, we suspect policymakers would like to up the pace of rate hikes given the increasingly good news on wage growth. However, with uncertainty rising, we think a rate hike is unlikely before the UK leaves Europe in March. If a deal can be agreed and passed by Parliament by the end of January, then we think the Bank will look to increase interest rates in May 2019.

However, if the Brexit timetable slips, or the loss of momentum over the winter is more severe than expected, that date could easily be pushed back.

Author

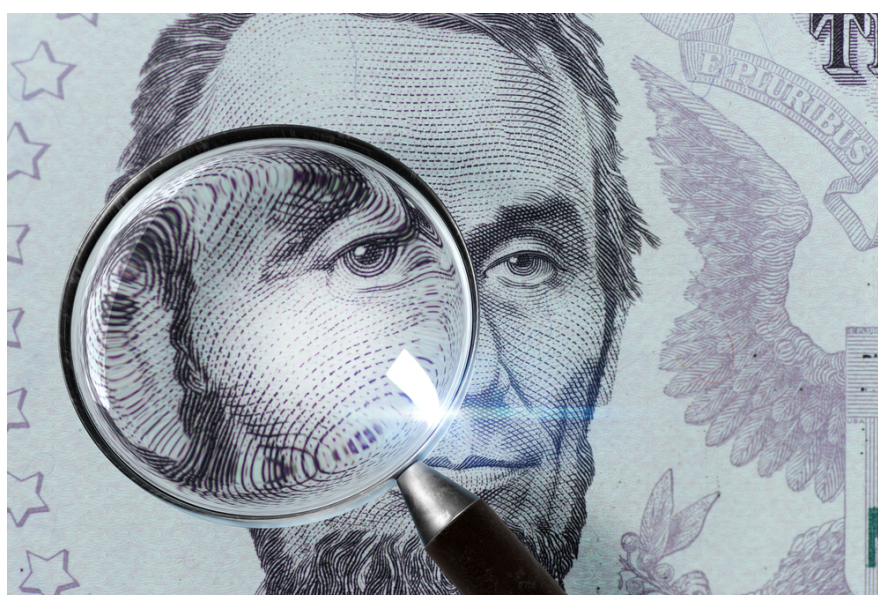
James Smith

Developed Markets Economist, UK

james.smith@ing.com

The dollar year-end buying effect comes earlier than you might expect

There's evidence of much more collective dollar buying in FX markets in November rather than December so don't be caught out by the...



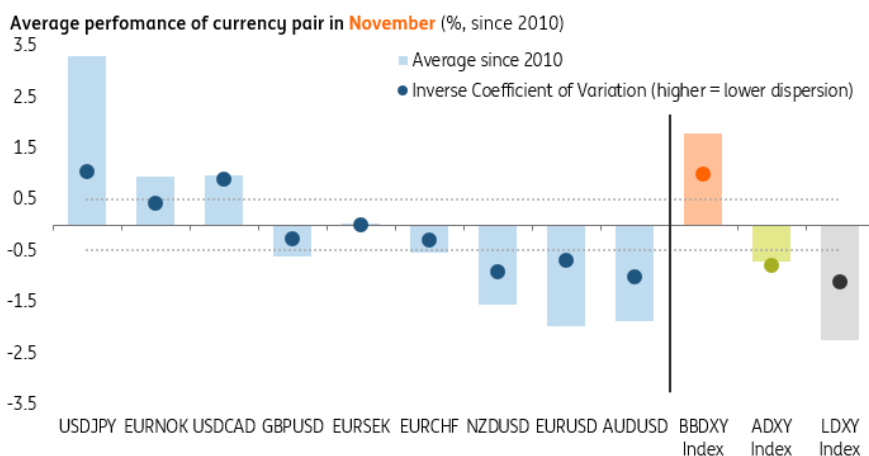
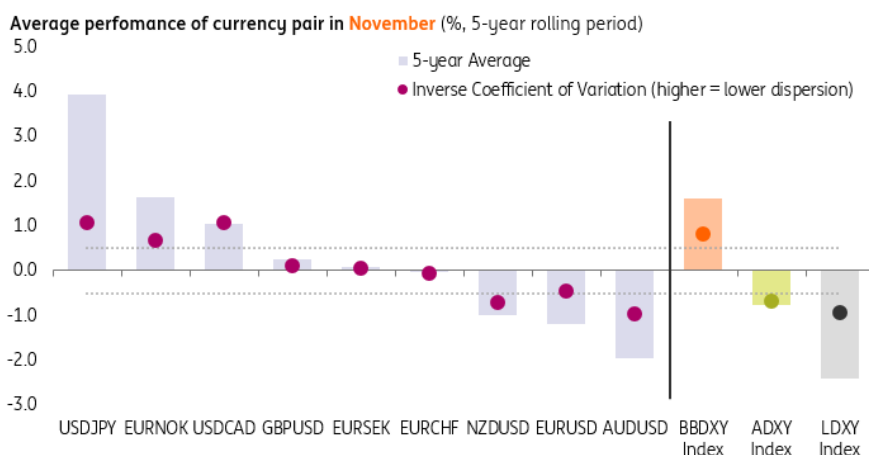
When it comes to year-end USD demand, November appears to be the onset of action

- Amid the noise around dollar funding difficulties, we take a quick look at year-end seasonality trends and find that November is typically a strong month in terms of both performance and positioning for the broad USD index. The Bloomberg Dollar Index (BBDXY) has posted average returns of +1.6% and 1.8% over the last 5 and 10 years respectively in the month of November (see first graphic below). In contrast, our calculations show inconsistent returns for the BBDXY index in the month of December (see the second graphic). However, we would caveat that 2017 was an anomaly - which saw the BBDXY index fall 1.46% in November (and -0.35% in December)
- Looking at individual currency pairs, we find USD/JPY to be most vulnerable to potential year-end USD demand effects; the pair has posted a normalised average return of +1.07% over the past five Novembers. G10 dollar-bloc FX (CAD, AUD and NZD) also appear to underperform against the USD in November. As for EUR/USD, we find some evidence of a downside bias in November - although the lower statistical significance over the past five years hints at possible waning effects.

- As for EM currency blocs, LATAM FX looks most vulnerable to year-end USD seasonality trends - with both November and December seeing heavy losses for the overall LATAM FX index. Asian currencies (ADXY index) broadly to move lower in November - but as with the G10 currencies, there is no consistent evidence for December being a bad month for the region.
- Scandi currencies to some extent buck the above pattern - with December being a relatively more difficult month for NOK and SEK (against the EUR). This is somewhat consistent with our bearish outlook for SEK into year-end as the resolution fund related decline in interbank rates should weigh on the currency. However, it's worth noting that we find EUR/NOK to have the more statistically significant year-end effects.
- All of this can be somewhat corroborated when we look at monthly positioning trends across G10 currencies (see third graphic below). Broadly speaking, we have seen strong USD buying by speculative investors in November - followed by a selling theme in December.
- **Bottom line: For those investors concerned about year-end USD demand impact, we find greater evidence of 'USD buying' in spot FX price action and speculative positioning in the month of November - as opposed to December.**

[Disclaimer: These observations are largely factual and we make no attempt to add a fundamental overlay to understanding these trends]

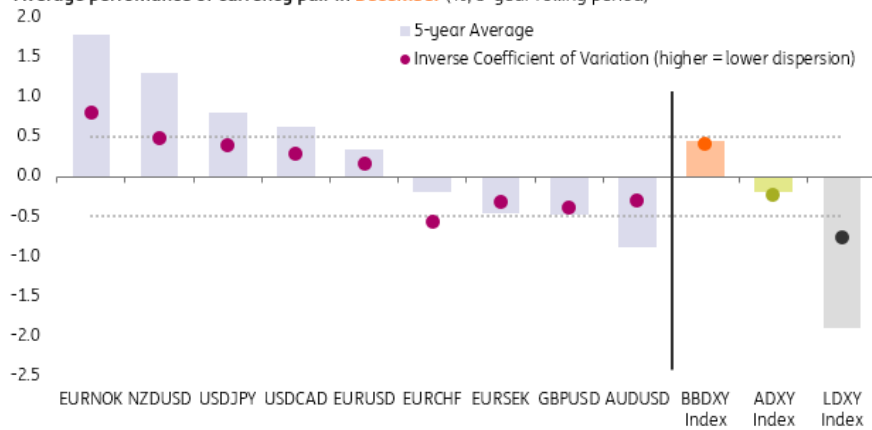
November FX Seasonality (Returns)



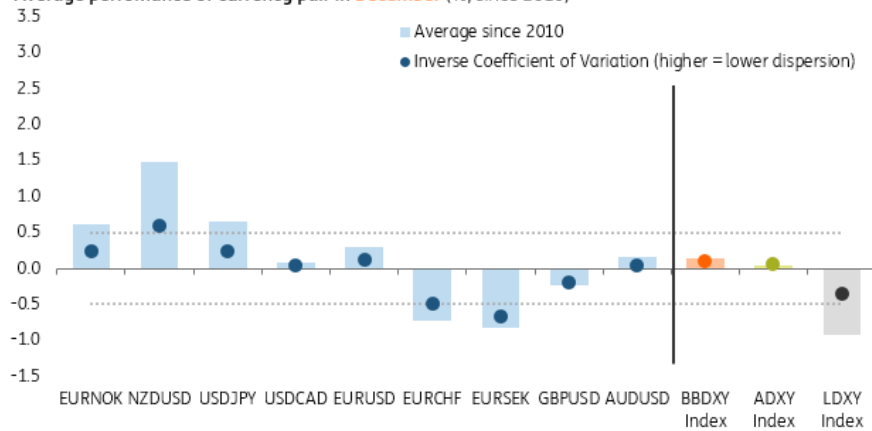
Source: ING estimates, Bloomberg

December FX Seasonality (Returns)

Average performance of currency pair in December (% 5-year rolling period)



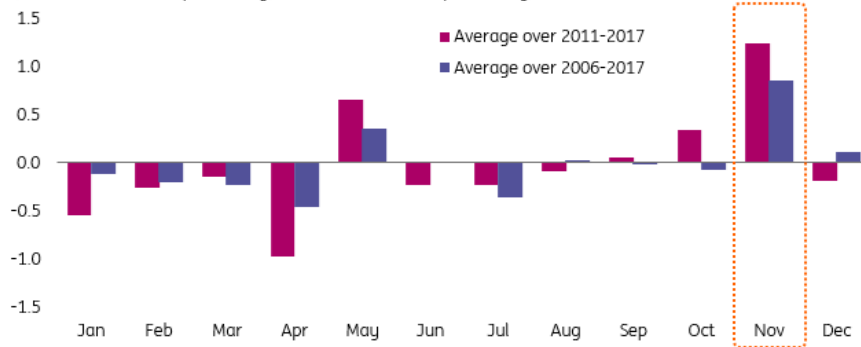
Average performance of currency pair in December (% since 2010)



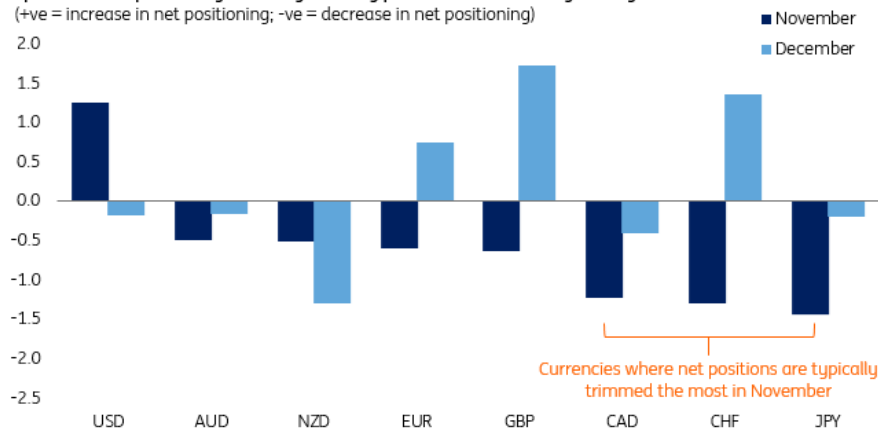
Source: ING estimates, Bloomberg

G10 FX Positioning Seasonality

Speculative FX positioning trends by month: Normalised average change in aggregate USD contracts
 (+ve = increase in net positioning; -ve = decrease in net positioning)



Speculative FX positioning trends by currency pair: Normalised average change in month
 (+ve = increase in net positioning; -ve = decrease in net positioning)



Source: ING estimates, CFTC positioning data

Opportunities and threats for EU firms in the US-China trade war

The hot topic at Thursday's Asia Europe (ASEM) meeting will no doubt be the China-America trade conflict. There are opportunities here for European...



Why we are where we are

In the first week of September, the US announced another round of increased tariffs targeting a group of import products from China worth some \$200bn. Shortly after, China announced its retaliation, raising tariffs on 60 billion dollars-worth of US products. Currently, the trade flows covered by both countries' tariffs add up to approximately 2% of world trade. An escalation of trade tensions between the EU and the US is on hold after President Trump and the EU's Jean Claude Juncker started trade negotiations in July, but this does not mean the EU remains unaffected by the conflict between the US and China.

Gaps in American markets

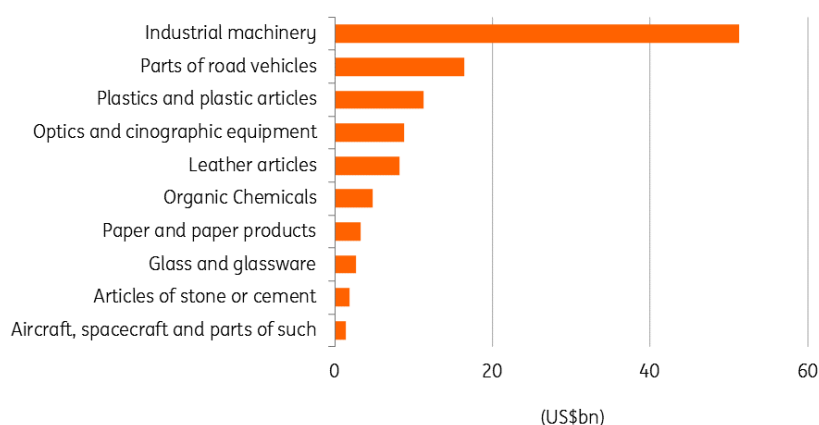
So what about the opportunities here for European firms active on the American and Chinese markets that are affected by the trade war? Obviously, the raising of import tariffs by the US makes Chinese products more expensive for US importers. Where substitution is possible, US importers may switch to European products. European companies that already export to the US seem best suited to benefit quickly from this improvement in their competitiveness, and the products that European exporters specialise in are prime candidates to fill the gap in American

markets.

We found the EU has a relative specialisation in more than half of the product categories currently taxed in the trade dispute between China and the US. Of course, the degree to which these European industries will gain from the tariffs depends on the substitutability of these products and how they can compete with domestic American producers and Chinese suppliers, which are more expensive.

Most promising American markets for the EU

Good performing EU-product groups on US markets for which the US has raised import tariffs from China. The figure shows the value of US imports from China for these markets.*



Who can gain the most?

As we see above, mostly European machine makers could gain from the US tariffs on China. This is the largest category of exports by China to the US in which Europe is also relatively specialised. The EU is also relatively specialised in the export of beverages and tobacco to the US, which are both included in the US tariff measures. However, because China doesn't export too much of those to the US, the tariffs do not offer that much of an advantage for those European drink and tobacco firms.

If the tariffs cause the US to substitute 10% of the industrial machinery that it imports from China with imports from the EU, European machine makers would gain US\$5 bn in extra orders from the US. However, the recent 7.5% depreciation of the Chinese currency RMB since May (according to the average USD/RMB exchange rate for September relative to the average rate for May) could compensate for the US tariff increases and thereby diminish the gains in competitiveness for European firms.

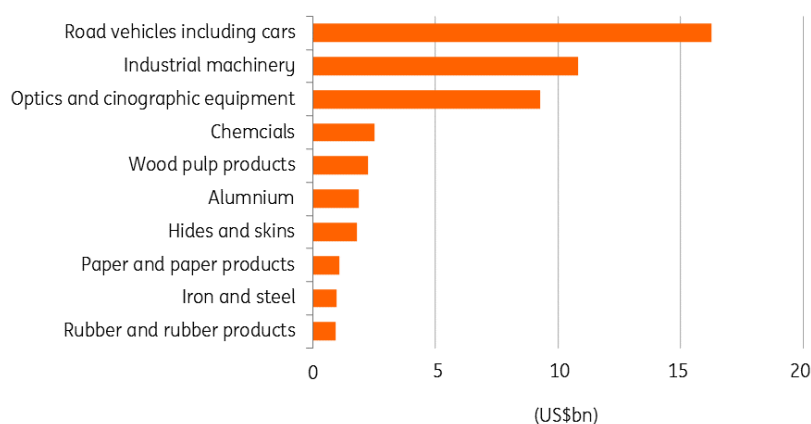
Similarly, the elevated Chinese import tariffs on US products offer chances for EU companies. In particular, the automobile industry (including car parts), machine makers and manufactures of optics are well suited to gain from the improvement in competitiveness due to the Chinese retaliatory tariffs, as we can see below. They are already relatively specialised in these product groups as far as exports to China are concerned.

*Balassa indices (ING calculations) show specialisation of European firms relative to the rest of the

world. Products groups selected in the chart all have a Balassa index larger than one meaning that for those product groups European firms are on average more specialised in exporting to China than firms in the rest of the World.

Most promising Chinese markets for the EU

Good performing EU-product groups on Chinese markets for which China has raised import tariffs from the US. The figure shows the value of Chinese imports from the US for these markets.*



Not all good

Although it may seem promising that European firms potentially benefit from additional export orders as the China-American trade dispute escalates, it is not all good. The bilateral trade dispute potentially also harms European firms. A lot of products shipped between the US and China contain foreign parts. If the US demands fewer Chinese goods as a result from the tariffs, it indirectly demands fewer European intermediate goods which are processed in these Chinese products.

Using the world input-output database (WIOD), we calculated that the size of European inputs in bilateral China-American trade equals US\$10bn. Although this amount is relatively small, the exposure can inflict pain on individual businesses.

Downward price pressure is another European pain point

Another potential source of harm for European businesses is downward price pressure due to oversupply from China and the US. When the US imports fewer products from China, these products will be shipped to other markets instead. The European Union is an important market for the Chinese. Increased supply will lead to lower prices and therefore lower profit margins for European firms. However, these effects would be temporary as the additional supply by China may (partly) be compensated for by extra demand for EU products from the US (and the other way around). Temporary lower profits may cause firms to postpone investments and forgo employing new workers.

A still unknown balancing act

A tit for tat tariff war creates some opportunities for European firms, but this isn't something to shout about. The bilateral trade flows between the US and China contain EU intermediate products and dumping of Chinese and American goods on the European markets hurts profit margins of those firms which produce primarily for European markets.

On top of that, lower US and Chinese investments, due to lower profit margins and rising uncertainty, potentially affect the demand for European capital goods in the US and China. The net effect of the bilateral trade conflict between China and the US is uncertain. Moreover, it is important to realise that the net effect will differ per industry and per EU- country. Countries whose exports to the US are dominated by capital goods such as Germany and the Netherlands will be hurt relatively more if American investment declines due to the trade war. Countries that are more specialised in goods that are dominant in the Chinese US bilateral trade flows may gain some extra orders from China and the US. However, those countries are potentially also hit most by negative price pressure from excess supply by China and the US. Overall, the net macro effect could just as well be negative as positive.

Indonesian and Philippines central banks can afford to hit the pause button

Bank Indonesia (BI) and Bangko Sentral ng Pilipinas (BSP) can keep the powder dry as pressure on emerging markets eases in October



Source: IMF/Flickr

Perry Warjiyo, Governor of Bank Indonesia

Relative calm affords some breathing room

Two of the busier Asian central banks this year have been the Bank Indonesia (BI) and the Bangko Sentral ng Pilipinas (BSP), both having hiked their policy rates by a cumulative 150 basis points in 2018. BI has been aggressive in tightening monetary policy to provide financial market stability and to ensure “that the country’s financial markets remained attractive to investors”, according to Governor Warjiyo (pictured). Meanwhile, the BSP has unleashed a flurry of rate hikes, with the last two policy actions being more forceful 50bp rate adjustments, as domestic inflation moved well-past their 2-4% target range.

With risk sentiment improving somewhat in recent sessions despite elevated levels for oil and Treasury yields, we’ve witnessed both the Indonesian Rupiah (IDR) and Philippine Peso (PHP) strengthened over the past week. Positive economic data has helped improve sentiments towards the two currencies. Indonesia’s trade balance swung to surplus in September from deficit in the previous month, while the government budget also improved to produce a smaller than target fiscal deficit this year. And in the Philippines, inflation slipped below market expectations in September. Given these developments, the respective central banks are under less pressure to

hike rates further, at least for their upcoming policy meetings, while still leaving the door open for respective 25 basis point rate hikes by the end of the year.

Dovish undertones from BI and BSP

The BI's governing board meets on 23 October with the latest comments from Governor Warjio pointing to improved confidence in the currency on as he believes the "supply and demand in the forex market run quite well and the IDR rate shows stable movement". With economic data helping to boost sentiment and with the IDR relatively stable, the BI may afford some breathing space to hold off the policy tightening for a while.

The BSP's next policy meeting is scheduled in mid-November. There has been a growing chorus of Philippine monetary policy officials singing dovish tunes of late. A voting member, Medalla, indicated that a pause in rate hikes was plausible given that the BSP had "done a bit already and that 150bp was very significant". Another voting member, Tolentino, appears to share the same opinion, suggesting that they could afford to pause if the numbers (data) prove helpful. Utilising a mix of hawkish bias with dovish undertones, the BSP has remained consistent in the past few weeks to signal both readiness to hike, though with an adherence to their "data dependent" ways. Financial Secretary Dominguez noted that "if more aggressive actions are required, (BSP) will take it. If not, (BSP) will ease off", while BSP Officer-In-Charge Amador has pledged to remain "watchful for all developments so that systematic policy responses can be considered".

The EM space has faced a rocky September but for most of October pressure appears to have abated to some extent, affording central banks some breathing room to allow their policy initiatives so far to bear fruit and economies to regain their growth momentum while keeping the powder dry for possible rate hikes (25 basis points) to close out 2018.

Russia: Weaker consumer activity - a challenge to budget conservatism?

Retail trade growth decelerated to 2.2% year-on-year in September, below expectations, despite unemployment dropping to a new low of 4.5% and real...



Source: Shutterstock

+2.2%

Worse than expected

September retail trade (YoY)

9M18: +2.6% YoY

The official reading of September retail trade growth was 2.2% YoY, below the 2.4% consensus and our 2.3% forecast. It also marks a deceleration from the 2.8% YoY rate seen in August. We think this is a case of deteriorating expectations, rather than an actual erosion of fundamental income trends. The unemployment rate declined to a new record low of 4.5% vs. the market expectation of an increase to 4.7%, and real salary growth surprisingly accelerated to 7.2% YoY, higher than the 6.0-6.5% YoY expectations and the August reading of 6.8% YoY.

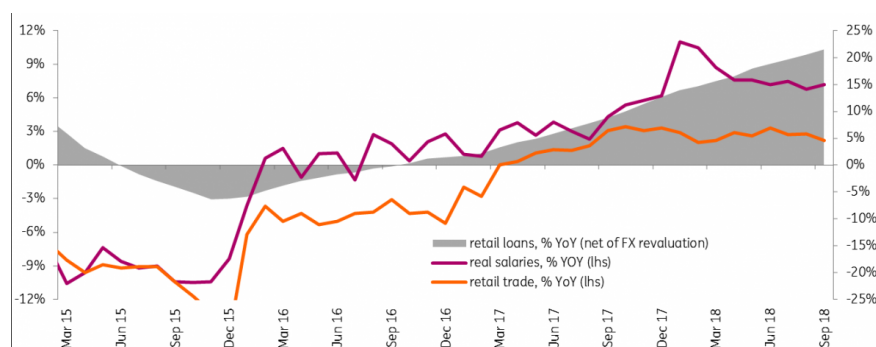
The persistent strength in income growth fundamentals (we disregard the real disposable income

metric due to its inherent statistical imperfections) suggests that the deterioration of consumption reflects a higher preference for savings, which is a standard defensive reaction from Russian households amid growing uncertainties. Indeed, the recent polls ordered by the Bank of Russia show a noticeable drop in consumer sentiment since May this year. Possible reasons include higher geopolitical uncertainties as well as local factors such as the end of the electoral cycle, the decision to increase the retirement age, the VAT rate increase and tighter monetary policy signals.

We also note that the deceleration in retail trade was attributable mostly to the food segment, while non-food retail growth totalled 4.1% YoY, which is very close to the August level of 4.2% YoY. This might be an indication that the deterioration in sentiment is concentrated among the lower income groups. Meanwhile, the continued acceleration in retail loan growth to 22% suggests that the higher income strata (as the income threshold for consumer loans and mortgages is quite high in Russia) are less affected.

Key events in EMEA and Latam next week

Russian consumer trends



Source: State Statistics Service, Bank of Russia, ING

Regardless of the reasons for the slowdown in consumption, it suggests that GDP growth- having already decelerated from 1.9% YoY in 2Q18 to 1.3% YoY in 3Q18, as reported by the Ministry of Economic development just now- will remain under pressure in the coming quarters. While neutral for monetary policy, which has to remain moderately hawkish because of the heightened inflationary risks, this weakening consumer activity amid declining approval rates for the country's political leadership, might become a challenge to the conservative budget policy implemented so far. An easing in the budget rule and calls for extra social spending to be incorporated into the 2019-21 budget draft would be the major factors to watch.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Time to ditch the 9 to 5 and embrace the 4-day week?

Smart management of flexible working may ensure productivity and performance aren't reduced if we want to cut the working week



Singer, Dolly Parton didn't much care for the 9-5

What a way to make a living

Dolly Parton was on to something when she bemoaned that working 9-5 would drive you crazy if you let it. The way many people work today is changing, and it's not just about going part-time or hot-desking. The shared office space company, WeWork now occupies more office space in Manhattan than any other company as it responds to different demands from workers and companies. And there are increasing calls to reduce the length of the working week, not least in the UK. Recently, the Trades Union Congress claimed that eight out of ten British workers want to reduce working time in the future, with nearly half opting for a four-day working week, without loss of pay, with the TUC suggesting new technology will make work more efficient and profitable.

And while people embrace working from different locations, [behavioural studies](#) suggest remote working won't necessarily stifle innovation and productivity if you manage it correctly. Creativity in how people manage their contributions to organisations is open for continued exploration.

[The TUC calls for new tech to pave way to shorter working week](#)

Want to move ahead?

Trialling four-day weeks is already underway. Results suggest preparation and re-organisation of our ways of working might be key to that extended weekend. While there are no doubt concerns that such a dramatic reduction of office time would reduce performance or impact productivity, these fears were proven wrong in a recent trial in [New Zealand](#). Perpetual Guardian cut workers' hours to 32 from 40. They found that staff productivity didn't change, punctuality improved and people took fewer breaks.

The team implemented productivity measures aimed to ensure the continued performance of the group before freeing up one day per week. These changes were found to have such a positive effect in prompting people to question their ways of working and developing more efficient approaches prior to the trial, that the removal of a whole workday each week did not interfere with overall [performance](#).

And results like these aren't restricted to New Zealand, organisations in many countries have been trailing this type of experiment recently. In Iceland, the city government in Reykjavik found that costs and productivity remained the same with half a work day removed each week while in [Sweden](#) they are trailing similar ideas across a range of sectors and roles.

The New York Times: [A 4-Day Workweek? A Test Run Shows a Surprising Result](#)

Try to come to life

Research suggests spending large amounts of time in the office can make us unhappier and less productive than we would be otherwise. When we are more productive we are more likely to be happier in our work and save costs associated with employees changing jobs.

Work-life balance is a top priority for many

Work-life balance is a top priority for many and the trend towards increased efficiency isn't new. Back in 1930, the economist John Maynard Keynes predicted that technical progress could lead to a 15-hour work week. We're not there yet, but being able to improve efficiency and reduce work hours isn't so surprising if we look at a 2016 [survey](#) which found that the average office worker in the UK is actually productive for all of 2 hours and 53 minutes out of their 8 hour work day; It seems like we may have some room to play with here.

All taking and no giving?

But while one less day of 'work' per week may be the dream for some not everyone will welcome it. The design of efficiency improvements sparks some interesting questions: How exactly would you reduce your work week by a fifth? Which processes could be automated? Can you really have fewer meetings? Do we just work more hours Monday to Thursday? Would all this cause increased fatigue or even less productivity at times?

While it's a tempting thought and some preliminary trial results are interesting, there's still no firm evidence whether a company or even country would benefit from a reduction in work days.

But if new technology does increase productivity and ultimately profit, we could soon see a considerable change to the traditional 9 to 5. Perhaps Dolly Parton will have to rework the lyrics of the song that made her so famous.

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.