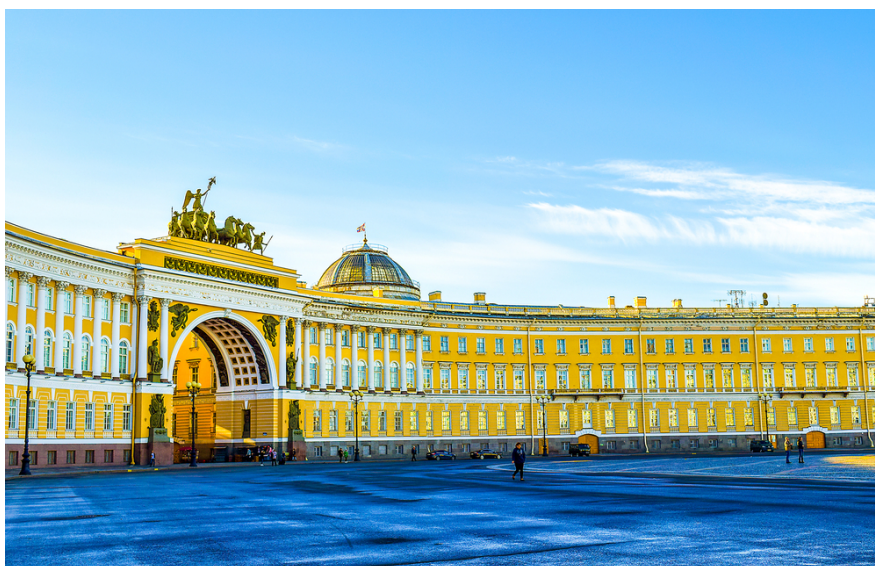


Russia: industrial output slows back to reality

The return of industrial output to moderate 1.2% year-on-year growth in March confirms the technical nature of February's 4.1% YoY spike. So far we see signs of a slowdown of investment activity at the beginning of 2019



Source: Shutterstock

+1.2% YoY

Worse than expected

March industrial output growth

+2.1% YoY in 1Q19

The slowdown in industrial output growth to 1.2% YoY in 1Q19 (we expected 2.5% YoY, consensus 2.8%) confirms the temporary nature of the 4.1% YoY spike seen in February, which, to remind, had received a 2.5 percentage point boost from the calendar effect and a spike of production in volatile sectors. The output in the manufacturing sector, accounting for 50% of total industrial output, slowed from 4.6% YoY in February to 0.3% YoY in March.

Additional pressure came from the deepening drop in the heat&electricity generation (13% of industrial output) from -1.1% YoY to -4.8% YoY amid abnormally warm weather (average temperature in Russia in March 2019 was 6 degrees higher YoY).

The only steady growth is shown by the commodity extraction sector (37% of industrial output), which decelerated only moderately from 5.1% YoY to 4.3% YoY - confirming a high dependence of the economic growth on the external sector at the moment.

Overall, we take the current industrial output dynamic as another sign of weakening local investment activity, along with the zero growth in imports reported for 1Q19, very low 0.1-0.3% YoY growth in construction in 2M19 and modest 5-6% YoY growth in nominal corporate loans (net of FX revaluation effect).

The lack of broad-based investment demand in the real sector results in the accumulation of the foreign assets by the private sector but eases the local competition for credit for the Finance Ministry, which has ambitious RUB1.5-1.8 trillion annual OFZ net placement plans for the next three years. In the longer run, the weak real sector performance might result in increased calls to provide more budget support through state infrastructure spending.

<https://think.ing.com/snaps/russia-february-industrial-output-positive-surprise/>

<https://think.ing.com/snaps/russia-balance-of-payments-increasingly-reliant-on-portfolio-inflows/>

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