Russia: Industrial output weakness may prove temporary

The slowdown of industrial output to 2.1% year-on-year in September from 3.7% YoY in the prior eight months is a result of an adverse calendar effect. Stable corporate lending growth combined with favourable calendar and base effects ahead suggest the figures are likely to be solid in 4Q18. Yet longer-term prospects are more uncertain

+2.1%

Worse than expected

September industrial output (YoY)

9M18: +3.1% YoY

Russian industrial output decelerated from 2.7% YoY in August (and 3.7% YoY in 8M18) to 2.1% YoY in September, below the 2.5% YoY consensus expectations, but slightly better than our 2.0% YoY forecast. The key reason for the slowdown was the adverse calendar effect: September 2018 had one workday less than September 2017, which caused the output in the manufacturing segment to drop 0.1% YoY in September after 2.2% YoY growth in August. In contrast, output in the commodity extraction sector, which is less dependent on the number of workdays, accelerated from 4.5% YoY to 6.9% YoY.

Key events in EMEA and Latam next week

We believe the current mood in the Russian real sector is stable, at least in the short-term, as the recently published Bank of Russia data indicates a gradual acceleration in corporate lending growth to 9% YoY in September (adjusted for FX revaluation effects) from 5% YoY as of mid-year and zero growth in 2017. We take this as an indication that the Russian corporate sector may have intensified local borrowing as a substitute for the declining foreign debt.

Stable demand for credit, indicative of stable activity, combined with upcoming favourable statistical effects - that include an extra workday in October and a statistical low base effect of 4Q17 - all suggest that the industrial output growth rate should return to the 3-4% YoY growth range in 4Q18.

Russia intensifies net foreign debt redemption in 3Q

In the meantime, the prospects for 2019 appear less certain, as the real sector may be negatively affected by 1) the ongoing external uncertainties which may affect global trade growth, 2) the potential deterioration of consumer sentiment following the end of the local electoral cycle and the upcoming VAT hike in 2019 and 3) the resulting halt in the interest rate policy easing cycle.

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