

Russian industry: a VERY strange slowdown in July

We are very surprised to see industrial production growth decelerating to 2.8% YoY in July, as it contradicts the favourable calendar effect, better dynamics of the key manufacturing sectors, and acceleration in budget spending. We suspect July data to be contaminated by some one-off effects, non-indicative of actual trends



+2.8% YoY

July industrial output growth

+2.6% YoY for 7M19

Worse than expected

The slowdown in the Russian industrial output from 3.3% year-on-year in June to 2.8% YoY in July looks like a negative surprise, as the July result is worse than the 3.0% consensus forecast and much worse than our 4.7% expectations. The result looks particularly negative, especially given that July manufacturing (50% of industrial output volume) data was supposed to benefit from an

extra workday, while the June data was dragged down by a similar negative effect. However, the detailed analysis of the official July dataset suggests that the headline numbers might not be fully indicative of the actual economic trends.

- The headline output in the commodity extraction sector (37% of industrial output) posted an acceleration from 2.3% YoY in June to 3.0% YoY in July. However, according to that same document, all the key subcomponents, including oil, gas, and coal showed a deceleration in output growth. This either means some improvement in other subsegments not covered in the preliminary release (such as metal ore) or raises questions about the quality of the first estimate. To remind, there already were technical issues and subsequent revisions in the ComEx sector data for April this year.
- The headline output in manufacturing (50% of industrial output) showed a deceleration from 3.4% YoY in June to 2.8% YoY in July. However, the majority of manufacturing subsegments posted an improvement in dynamics. We see better growth rates in food processing, textiles, wood processing, pulp and paper, furniture, oil and gas downstream, production of chemicals and fertilizers, bricks, steel pipes, car manufacturing and construction of railroad locomotives. Those subsectors account for up to two-thirds of the overall manufacturing output. Therefore the overall deceleration in manufacturing may indicate some negative one-offs in other subsegments, and not necessarily indicative of broad-based activity.
- The slowdown in the overall industrial output contradicts the acceleration in the federal budget spending. According to the recently released data, the federal budget spending accelerated from 2% YoY in 1H19 to 17% YoY in July, reflecting both social spending and activation of the National Projects (predominantly infrastructure). The annual budget plan suggests that in 2H19 the real sector will receive much more stimulus from the budget, than in 1H19.

The improvement in dynamics of commodity extraction (although somewhat controversial) and in a broad spectrum of manufacturing subsegments amid an acceleration in budget spending lowers the significance of the headline deceleration in industrial output.

We do not take the overall industry data as a sign of deteriorating economic activity. We also believe the upcoming key rate decision in September will be made based on the considerations related to the CPI trend (points at a continued deceleration of the annual CPI) and financial market conditions (have deteriorated since the previous policy rate decision).

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