

Russian industry: August improvement masked by calendar effect

Russian industrial output accelerated to 2.9% YoY in August, despite the adverse calendar effects, suggesting that the acceleration of the budget spending is already taking effect. Further pick-up is possible, especially in the next couple of months



+2.9% YoY

August industrial output growth

+2.6% YoY for 8M19

Better than expected

- Russian industrial output posted a seemingly modest acceleration from 2.8% year-on-year in July to 2.9% YoY in August, which is still a positive result relative to the 2.2% YoY consensus and our 2.0% expectations, which were based on adverse calendar effects.
- Manufacturing, the core industrial sector, accounting for 50% of the industrial output, posted a minor deceleration from 2.8% YoY to 2.7% YoY. As this sector is the most

vulnerable to the calendar effect (1 workday less than in August 2018), the headline statistic may underestimate the strength of the activity in the segment.

- Commodity extraction sector (38% of industrial output) showed a minor acceleration of growth from 3.0% YoY to 3.1% YoY, mainly thanks to oil and coal production. It so far remains unclear whether the outage of the Saudi oil production in September will require Russia to boost its output, however, the statements by the Ministry of Energy officials suggests that Russia has the capacity to do so.
- In other news, there was a noticeable pick-up in the electricity&heat generation (10.5% of industrial output) from 1.7% YoY to 2.1% YoY and acceleration in water supply, sanitation, and waste utilization (1.7% of industrial output) from 1.6% YoY to 4.1% YoY. The latter may reflect activation of the state environmental programmes.

We expect industrial output to show further acceleration until the year-end, as the support from the budget spending, already seen in August, will intensify further through December.

We remind that the recent budget statistics show an acceleration in state expenditure growth from 3% YoY in 7M19 to 19% YoY in August. It may go up further to 30% YoY for September-December, if the budget plan is executed in full. Combined with favourable-to-neutral calendar effects in September-October, we expect industrial output growth to accelerate further to 3-4% YoY in the coming months.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

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 www.ing.com.