

## Russian industry shows no improvement in September

Russian industrial output failed to accelerate materially in September, staying at 3.0% year-on-year, as the slowdown in the oil upstream and downstream sectors and lack of budget support neutralized a favourable calendar effect in manufacturing. We still expect some support to come from state spending, but its effect might be delayed till next year



# +3.0% YoY

Worse than expected

September industrial output growth

+2.7% YoY for 9M19

Russian industrial output accelerated modestly from 2.9% YoY in August to 3.0% YoY in September, which is in the middle of a wide range of market expectations, and lower than our

4.0% forecast. Our aggressive outlook was based on the approaching year-end budget spending and the favourable calendar effect, which added 0.6 percentage points to the growth rate, as September 2019 had one workday more than September 2018, while August 2019 had one workday less than August 2018.

- Our favourable expectations failed to materialise mainly due to still restrained budget spending. Even though overall expenditure growth did pick up from 4% in 8M19 to 24% YoY in September (preliminary estimate will be downgraded later), the spending targeted at the real sector picked up only modestly from 4% YoY in 8M19 to 10% in September, as investment expenditure seems to keep struggling to power through. Manufacturing growth accelerated only modestly from 2.7% YoY in August to 3.2% YoY in September, but without the favourable calendar effect it would have likely posted a deceleration.
- Oil&gas sector, which is less vulnerable to calendar effects, was another drag, as commodity extraction growth decelerated from 3.1% YoY in August to 2.5% YoY in September, confirming limitations coming from the OPEC+ deal, while growth in manufacturing of oil products turned to -0.7% YoY in September following 3.3% YoY growth in the preceding month.

Overall, we still believe the industrial output will find support from the budget spending, which should accelerate to 17% YoY in October-December (and to 13% YoY in the segment of targeted support to the economy), but should the main bulk of it be delayed until the very end of the year, the favourable effect on industry may be postponed till next year. Given the still cautious mood in the private sector, lack of strong growth expectations in the oil&gas output and less favourable calendar situation, we would not exclude a deceleration of industrial output to 1.5-2.5% YoY in 4Q19.

While not directly related to monetary policy, this may serve as an additional argument in favour of the continued key rate cycle by the Central Bank of Russia. We continue to expect a set of consecutive 25 basis point key rate cuts at the 25 October and 13 December meetings.

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