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MNI Russia Business Report November 2013

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Insight and data for better decisions

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MNI Indicators specialises in business and consumer focused macro-economic reports that give our customers the ability to make timely and relevant decisions. We strive to provide up-to-date information on business and consumer confidence on the economy.

MNI Indicators publishes data on a monthly basis. Our indicators are based on a unique and proprietary methodology and are designed to present an advance picture of the economic landscape as perceived by businesses and consumers every month.

Our monthly reports explore attitudes, perspectives and confidence across different countries and regions. They deliver in-depth analysis, highlight changing patterns and how these can affect potential developments in business and consumer activities.

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MNI Russia Business Report - November 2013

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Russia's Broken Growth

Commentators have criticised Russia's outdated growth model and now it seems the government itself has officially joined the band of its own critics. With a lack of drive to reform, Russia will be left stagnating.

For years many have called Russia a one trick pony. It's been accused of simply living off of its energy wealth, which in the good times, with high oil prices, had driven growth to around 7% on average in the years before the financial crisis in 2008. Commentators have criticised Russia's outdated growth model and now it seems the government itself has officially joined the band of its own critics.

"The factors behind the sharp economic growth in the pre-2008 crisis years are exhausted," said Economic Development Minister Alexei Ulyukayev in early November, adding that nobody else was to blame but Russia itself. In the spirit of openness, or possibly throwing in the towel, Prime Minister Dmitry Medvedev said that there was no magic bullet to solve Russia's growth problems and that if there was he didn't know what it was.

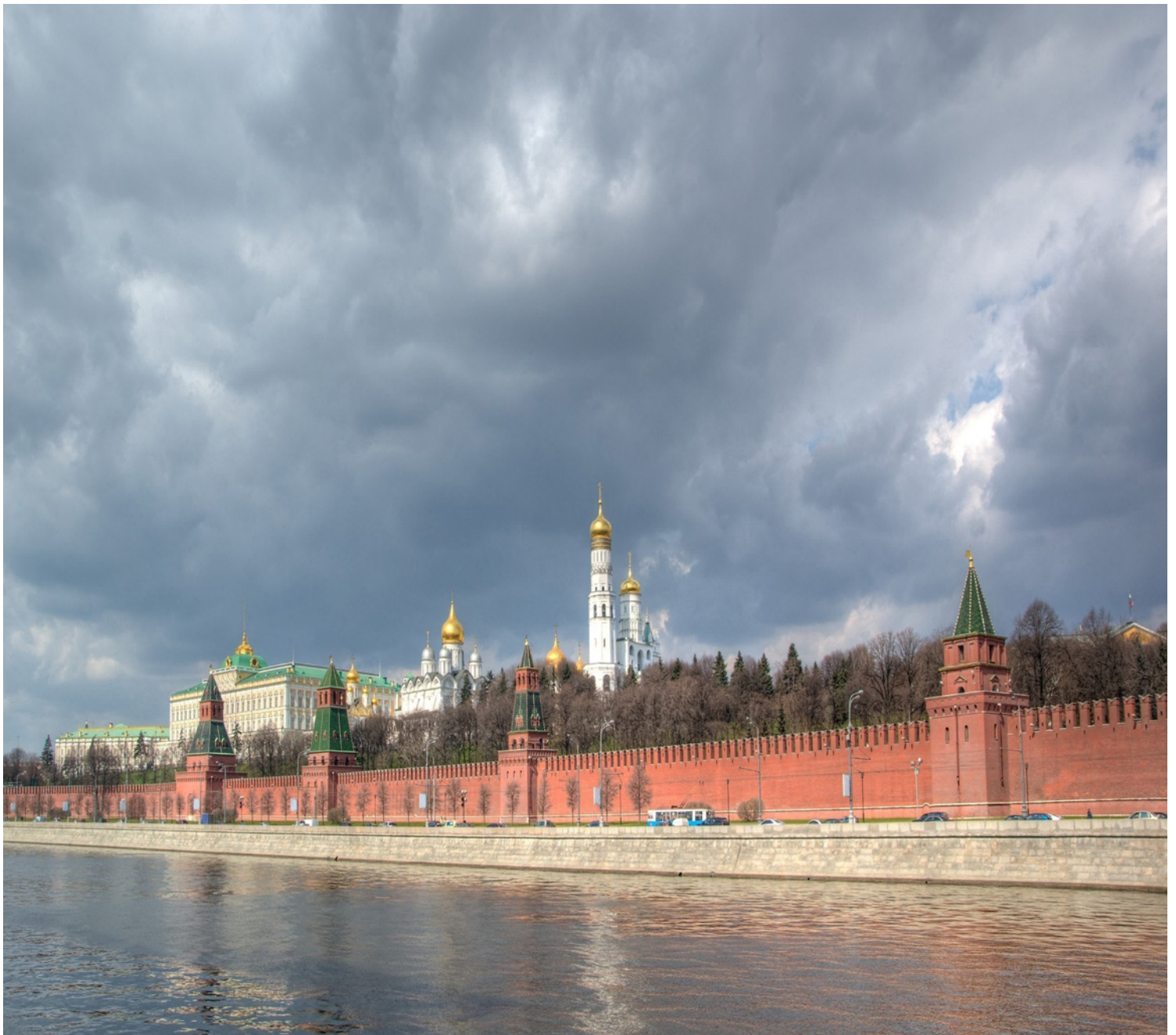
The Economics Ministry revised down Russia's long term growth potential to just 2.5% from 3.4% per annum through to 2030. It's a large downward revision driven partly by the continued meagre growth seen this year. Third quarter GDP stood unchanged at just 1.2% on the year in the third quarter and industrial production has ground to a halt.

The central bank can't help given the strength of inflation seen this year. Moreover, with many analysts and also the World Bank suggesting the Russian economy is already operating close to capacity, cutting official interest rates would likely only lead to more inflation. For years Russia has made use of old soviet spare capacity and in the meantime failed to invest for the future.

The lower growth forecasts are a blow to Putin who has previously promised to raise growth to 5% in a bid to catch up other major economies. Plans to modernise Russia, championed more by Medvedev, such as increasing investment, reducing its reliance on oil and gas revenues and slashing bureaucracy and corruption have so far come to nothing. Instead Russia is still faced with poor infrastructure, an ageing population and damaging competition from US shale gas.

Increased honesty about the challenges facing Russia should be welcomed and the downgraded forecasts for growth put them more in line with other analysts' views – although some have suggested the gloominess has gone a bit far. The concern is, though, that Russia doesn't have an alternative growth model that it has confidence in being able to deliver. And with a lack of drive to reform, Russia will be left stagnating.

Philip Uglow
Chief Economist
MNI Indicators



Executive Summary

Business confidence tumbled further. The MNI Russia Business Indicator declined for the second consecutive month in November following a sharp rise in September, while expectations for the future hit their lowest level since the series began in March.

The MNI Russia Business Indicator declined for the second consecutive month in November following a sharp rise in September, while expectations for the future hit their lowest level since the series began in March.

The Business Indicator posted a reading of 51.5 in November, down 8.5% from 56.3 in the previous month, leaving it only just above the series low of 51.3 reported in August.

Businesses believe conditions will continue to worsen over the next three months, with the Expectations Indicator falling to 45.0 in November, a new series low, from 47.2 in October.

The Production Indicator fell to 53.5 in November from 58.3 in October, a decline of 8.2% on the month. Production bottomed out in August, moving into contraction for the first time since the series started in March. While it has subsequently recovered, the latest fall puts it below the three month average of 56.6.

Following a strong rise in September, the New Orders Indicator has declined for the past two months, dropping to 53.5 in November from 59.5 in October, a 10.1% monthly fall.

The Employment Indicator fell 7.0% to 47.7 in November from 51.3 in October. While the majority of companies continued to report that the number of employees they currently had was “just right”, there was an increase in the number of responses that there were “too many” employees compared with the previous month.

Order Backlogs fell back into contraction in November after rising above the breakeven level in October for the first time since the series started in March.

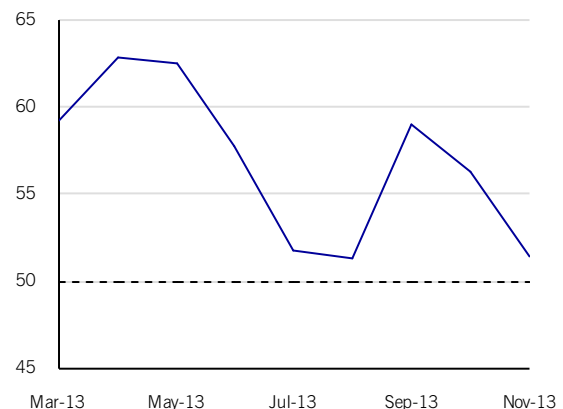
Input Prices eased for the second consecutive month in November and expectations for the future fell to the lowest level since the series began in March.

The Input Prices Indicator declined by 1.5% in November to 53.4, compared with 54.2 in October, the lowest since August. Prices Received fell significantly in November.

The Financial Position Indicator stood at 58.6 in November, compared with 61.9 in October, a drop of 5.3% on the month.

The Effect of the Rouble Exchange Rate Indicator rose to a new high of 54.1 in November from 53.4 in October, showing that more companies believe the exchange rate is helping business.

MNI Russia Business Indicator



Overview

	Sep -13	Oct -13	Nov -13	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	59.0	56.3	51.5	-	Aug-13	55.6	-4.8	-8.5%
Future Expectations	55.0	47.2	45.0	-	series low	49.1	-2.2	-4.7%
Production								
Current Conditions	58.0	58.3	53.5	-	Aug-13	56.6	-4.8	-8.2%
Future Expectations	57.0	48.3	45.5	-	series low	50.3	-2.8	-5.8%
New Orders								
Current Conditions	61.5	59.5	53.5	-	Aug-13	58.2	-6.0	-10.1%
Future Expectations	57.8	48.8	45.5	-	series low	50.7	-3.3	-6.8%
Export Orders								
Current Conditions	54.3	52.1	48.7	-	Aug-13	51.7	-3.4	-6.5%
Future Expectations	43.3	41.6	42.1	Sep-13	-	42.3	0.5	1.2%
Productive Capacity								
Current Conditions	52.0	51.8	50.8	-	Aug-13	51.5	-1.0	-1.9%
Future Expectations	49.5	48.7	48.5	-	series low	48.9	-0.2	-0.4%
Order Backlogs								
Current Conditions	49.2	50.3	47.4	-	Aug-13	49.0	-2.9	-5.8%
Future Expectations	43.8	40.4	40.9	Sep-13	-	41.7	0.5	1.2%
Employment								
Current Conditions	51.0	51.3	47.7	-	series low	50.0	-3.6	-7.0%
Future Expectations	47.5	46.2	46.2	Oct-13	-	46.6	0.0	0.0%
Inventories								
Current Conditions	49.4	48.7	45.7	-	series low	47.9	-3.0	-6.2%
Future Expectations	51.9	51.3	42.6	-	Mar-13	48.6	-8.7	-17.0%
Input Prices								
Current Conditions	55.8	54.2	53.4	-	Aug-13	54.5	-0.8	-1.5%
Future Expectations	55.3	51.3	51.0	-	series low	52.5	-0.3	-0.6%
Prices Received								
Current Conditions	58.3	58.5	53.5	-	Jul-13	56.8	-5.0	-8.5%
Future Expectations	55.3	50.3	50.0	-	series low	51.9	-0.3	-0.6%
Financial Position								
Current Conditions	61.4	61.9	58.6	-	Aug-13	60.6	-3.3	-5.3%
Future Expectations	66.9	59.7	56.2	-	Jun-13	60.9	-3.5	-5.9%
Interest Rates Paid								
Current Conditions	50.8	50.8	50.5	-	series low	50.7	-0.3	-0.6%
Future Expectations	50.3	50.0	50.6	Jul-13	-	50.3	0.6	1.2%
Effect of Rouble Exchange Rate								
Current Conditions	51.0	53.4	54.1	series high	-	52.8	0.7	1.3%
Future Expectations	50.7	50.7	50.0	-	Aug-13	50.5	-0.7	-1.4%
Supplier Delivery Times								
Current Conditions	51.0	50.3	49.7	-	Aug-13	50.3	-0.6	-1.2%
Future Expectations	49.5	49.5	49.2	-	Mar-13	49.4	-0.3	-0.6%
Availability of Credit								
Current Conditions	54.7	54.9	58.0	series high	-	55.9	3.1	5.6%
Future Expectations	54.9	53.4	52.0	-	series low	53.4	-1.4	-2.6%

Business confidence deteriorated further as the economic outlook worsened.

11 out of 15 future expectations indicators fell in November with seven of them hitting the lowest on record. GDP rose only 1.2% in the third quarter while manufacturing contracted for the sixth month.



Economic Landscape

Latest economic data has shown no improvement in economic growth with both GDP and industrial production remaining weak. Meanwhile a rise in inflation will make it more difficult for the central bank to cut interest rates.

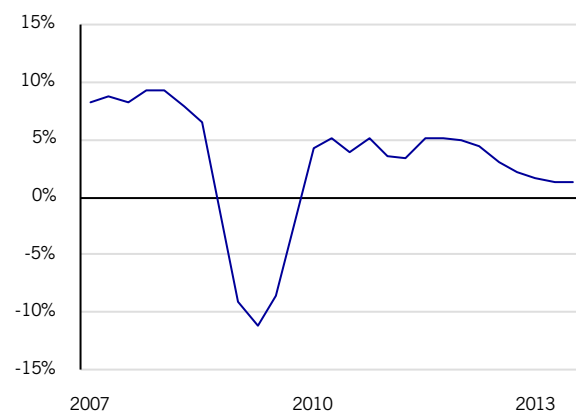
In a stark admission, Prime Minister Dmitry Medvedev said that there is no magic bullet to speed up Russia's growth and there was no one else to blame for the poor outlook but Russia itself. The economy ministry cut its long-term growth forecasts to an average of just 2.5% through 2030 compared with 3.4% previously. Latest economic data has shown no improvement in economic growth with both GDP and industrial production remaining weak.

Meanwhile a rise in inflation will make it more difficult for the central bank to cut interest rates which it held steady at its November monetary meeting. On a more positive note, Russia has made considerable progress in 2013 towards bolstering its business environment, climbing 20 positions to 92nd place out of 189 in the Annual Ease of Doing Business survey compiled by the World Bank and the International Finance Corporation.

GDP Growth Remains Weak

Latest data showed GDP rose 1.2% on the year in the third quarter, unchanged from the growth rate seen in the second quarter. The disappointing outcome was attributed to the agriculture sector which experienced disruption in the harvest in many important rural regions due to heavy rains in September. Growth in

Economic Growth



— GDP Growth y/y %

Source: Federal State Statistics Service of Russia

construction, trade and investment were also weak. Deputy Economy Minister Andrei Klepach said that the figures revealed disappointing signs of an economy that was losing momentum rather than gathering pace. According to the Ministry's estimate, the economy contracted a seasonally adjusted 0.2% compared with the second quarter.

A fall in the oil price, weak global trade, low domestic consumption and reduced investment activity (large infrastructure projects like the Sochi 2014 Olympics and the North Stream gas pipeline are approaching completion) are likely to bear down on future growth. The government expects the economy to grow 1.8% in 2013 and 3.0% in 2014.

Monetary Policy: Interest Rates unchanged

The central bank left its new key rate - the one week repo rate at which it lends money to financial institutions - on hold at 5.5% after the policy meeting on November 8. The central bank said that it would continue to monitor inflation and downside risks to economic growth, adding that it expected economic growth to remain low in the medium-term.

The bank has been unwilling to cut official interest rates due to the continued high level of inflation which rose to 7.4% in May, well above the target of 5.0-6.0%, before falling to 6.1% in September, only slightly above the target range. At the October monetary meeting, the central bank notably removed from its official statement a reference to "no change being made to the benchmark rate in the immediate future". The central bank has previously cautioned that it needs to see a continued downward trend in inflation expectations before it can ease monetary policy. Higher than expected inflation data for October reinforces the central bank's stand to keep interest rates unchanged.

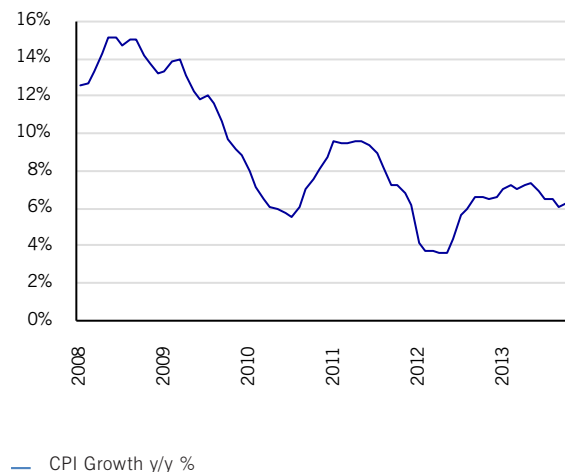
A quarterly survey by the central bank showed that in September, more than three quarters of Russians thought that inflation would outpace wage growth over the next 12 months. Some 67% of the respondents said they expected price rises in October compared with 65% previously.

Spike in consumer prices

The September consumer prices data had raised hopes that inflation would soon fall within the central bank's target range, but it accelerated to 6.3% in October from 6.1% in September. Flooding in the Far East and limits on imports from Belarus in previous months have added to inflationary pressures. Policymakers said the jump in food prices that pushed up the headline inflation rate in October was temporary, adding that they expected the rate of consumer price growth to slow in 2014.

The Central Bank of Russia acknowledges that inflationary expectations are quite high. The bank's first deputy chief, Ksenia Yudayeva, said that the risk of inflation topping 6.0% in 2013 has increased and Russian households believe the inflation is almost double the official figure.

Consumer Price Inflation



Source: Federal State Statistics Service of Russia

Weak investment and heavy capital outflows

In an investment forum in October, Putin acknowledged that Russia had to focus on new sources of economic development. He said that infrastructure limitations would be addressed and investment in the communications sector would be increased. Measures would also be taken to create more high paid jobs in modern industries, while small and medium sized

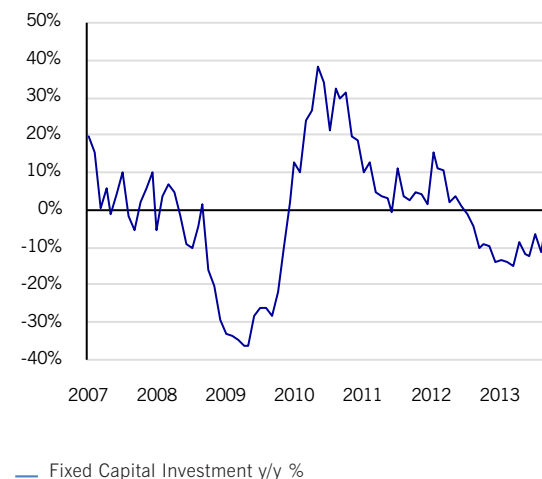
businesses would be provided with easier access to credit to expand.

Investment levels have declined in 2013, with fixed capital investment down 6.3% in the third quarter compared with the same quarter in 2012, although this was an improvement from a decline of 10.7% and 14.0% seen in the second and first quarters of 2013 respectively.

Moscow and Abu Dhabi agreed on a joint investment venture totaling \$5 billion to develop Russian roads, ports and bridges. Russia also launched an investment strategy for civil aviation with investment of \$9 billion and over 100 sites are currently undergoing reconstruction and modernization in public and private partnership.

The private capital outflow from Russia increased to almost \$13 billion in the third quarter from \$8 billion in the same period last year. The Ministry of Finance remains optimistic and expects the outflow to be \$25 billion in 2014 and zero in 2015, compared with \$30 billion and \$10 billion forecast previously. Projections for 2016 have been revised up to a capital inflow of \$20 billion, compared with zero previously.

Fixed Capital Investment

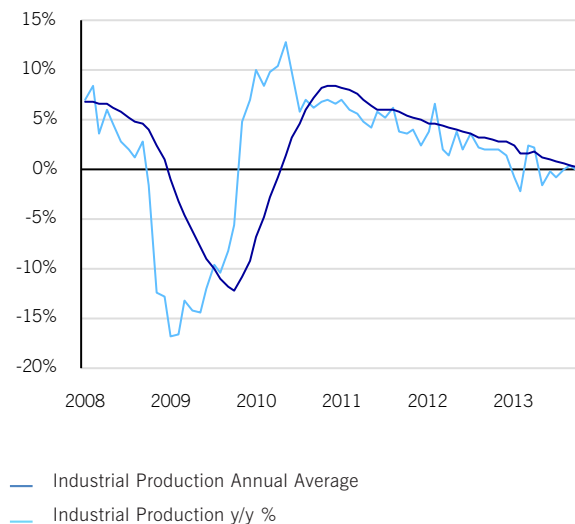


Source: Federal State Statistics Service of Russia

Industrial production drops again

After a meagre rise in industrial production of 0.3% on the year in September, it fell again in October by 0.2%, with manufacturing weakening sharply. Utilities which had led the growth in industrial production in September, slowed to 1.9% on the year compared with 2.9% in September.

Industrial Production



Source: Federal State Statistics Service of Russia

Mining and quarrying production grew in October by 1.8% from a year ago, slightly above the 1.7% growth registered in September. The manufacturing sector contracted for the sixth straight month, posting an annual drop of 1.9%, significantly more than the decline of 0.7% in September.

Stagnating industrial output has prompted industry to call for a rate cut to boost growth. After growth of 2.7% in 2012, the government expects industrial output to expand 2.0% in 2013, which looks optimistic given the current gloomy economic scenario.

Retail Sales Recovered Slightly

Retail sales recovered slightly in October, increasing by 3.5% on the year compared with 3% in the previous month, but still below 4.0% seen in August.

In August, Russia overtook Germany to become Europe's biggest car market but the weaker economy has seen slowed the sales growth. New car sales fell by 7.7% in October to 234,481 units according to Association of European Businesses. This was the eighth consecutive month of falling sales and from January to October, sales of new cars fell by 6.7% compared with the same period in 2012. The Russian government has announced plans to allocate \$3.3 billion in indirect subsidies for the country's automotive industry. These subsidies are designed to both develop Russian car production and include support for importing cars from the Far East, subsidisation of interest rates on loans and compensation of banks' expenses on preferential car loans.

Trade Surplus Falls on the year

The trade surplus rose to \$15.6 billion in September from \$13.8 billion in August, although down from the surplus of \$17.2 billion recorded in January. The trade surplus for September was down by 0.2% compared with the same period last year and in August the trade surplus was 22.5% higher compared with the same period in 2012, mostly due to base effects.

Exports expanded 3.1% to \$44.5 billion compared with the same month a year earlier, the fourth consecutive month of growth, according to the Ministry of Economic Development. Imports rose 5.4% to \$28.8 billion in September, following the 5.3% drop to \$28.4 billion recorded in August.

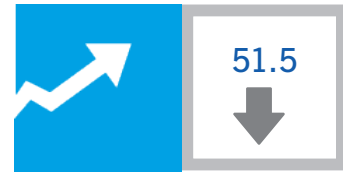


Indicators

The depth of concern among Russia's largest companies was underlined by a fall in 11 of 15 future expectations indicators in November, with seven of them hitting the lowest on record. For current conditions, 13 out of 15 indicators fell.

MNI Russia Business Indicator

Future Expectations Lowest on Record



The MNI Russia Business Indicator declined for the second consecutive month in November following a sharp rise in September, while expectations for the future hit their lowest level since the series began in March.

The headline Indicator stood at 51.5 in November, 8.5% down from 56.3 in the previous month, and leaving it only just above the series low of 51.3 reported in August.

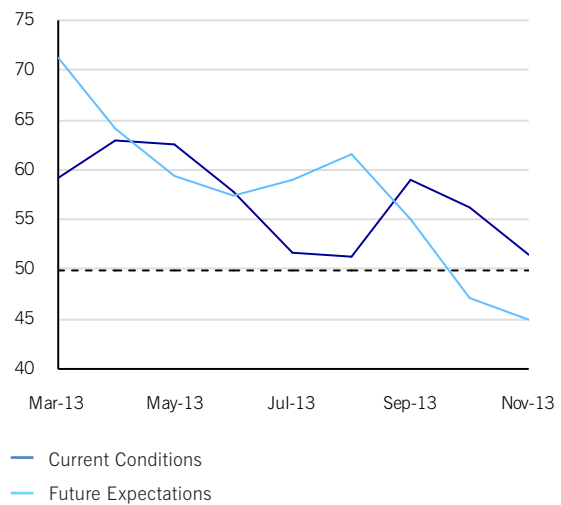
For current conditions, 13 out of 15 indicators fell in November. Only the Effect of the Rouble Exchange Rate and Availability of Credit indicators increased.

Business conditions worsened considerably in the construction sector with the current conditions indicator sliding into contraction, as signalled by a downward trend of the future expectations indicator. In contrast, companies in the manufacturing sector reported an improvement in business conditions in November, while optimism among service sector companies fell, but remained above the breakeven 50 mark.

Weak third quarter GDP, which rose 1.2% on the year, unchanged from the second quarter, has reinforced concerns about Russia's growth outlook. High inflation, policy inaction and downgrades to official growth forecasts have all hit business confidence.

Businesses believe conditions will continue to worsen over the next three months, with the Expectations Indicator falling to 45.0 in November, a new series low, from 47.2 in October. The decline was led by

MNI Russia Business Indicator



both service and manufacturing companies for which the future expectations indicator fell into contraction. Business expectations among construction sector companies remained broadly unchanged following September's sudden drop below 50.

The depth of concern shared by Russia's largest companies was underlined by a fall in 11 out of 15 future expectations indicators, with seven of them hitting the lowest on record in November. Only Export Orders, Order Backlogs and Interest Rates Paid rose between October and November.

MNI Russia Business Indicator

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	62.5	57.8	51.8	51.3	59.0	56.3	51.5
Future Expectations	59.5	57.5	59.0	61.5	55.0	47.2	45.0

Production Down Sharply in November



Production activity fell in November, led by a sharp decline among construction companies, while expectations for the future hit a new series low.

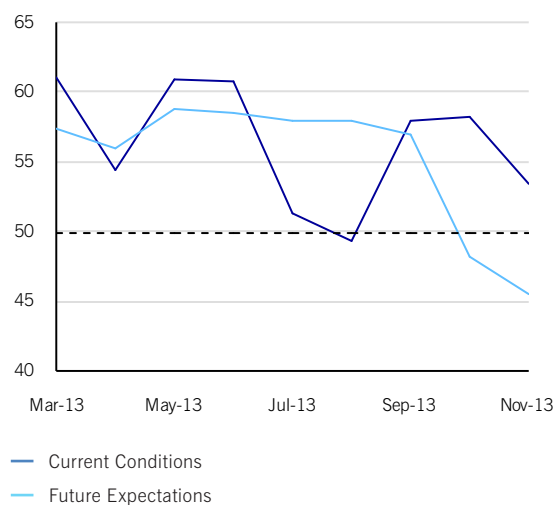
The Production Indicator fell to 53.5 in November from 58.3 in October, a decline of 8.2% on the month. Production bottomed out in August, moving into contraction for the first time since the series started in March. While it has subsequently recovered, the latest fall puts it below the three month average of 56.6.

The decline in the Production Indicator in November was led by a large fall in the construction sector, which dropped into contraction. For manufacturing firms the Production Indicator rose having remained unchanged between September and October. For service sector companies, the indicator fell compared with the previous month, though remained above the breakeven 50 mark.

The Future Expectations Indicator plunged into contraction in October, having remained broadly stable around 58.0 until September. The indicator fell further to 45.5 in November from 48.3 in October, as firms were the gloomiest about production in three months' time since the series began in March.

Construction sector companies remained in contraction for the third consecutive month and for manufacturing and services sector companies, the future expectations indicator fell below 50.

Production



Production

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	61.0	60.8	51.3	49.3	58.0	58.3	53.5
Future Expectations	58.8	58.5	58.0	58.0	57.0	48.3	45.5

New Orders

Expectations Hit Record Low



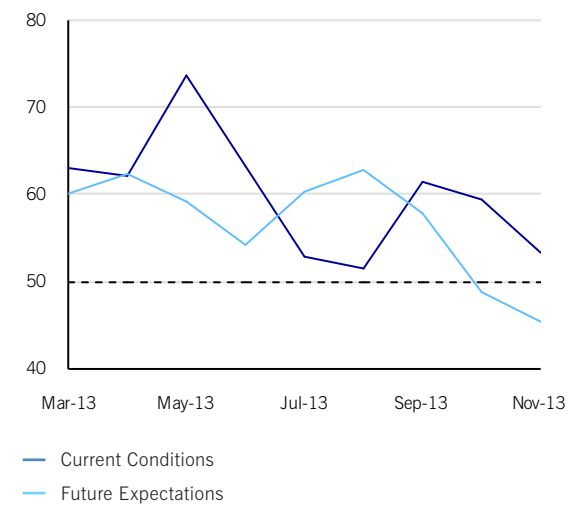
Following a strong rise in September, the New Orders Indicator has declined for the past two months, dropping to 53.5 in November from 59.5 in October, a 10.1% monthly fall.

In October, the construction sector was the strongest in terms of New Orders, but it fell sharply into contraction in November. Manufacturing remained broadly stable, while the indicator for the service sector fell slightly, although remained above the breakeven 50 mark, and showed the strongest growth.

Firms' Expectations for New Orders in three months' time fell further into contraction and to the lowest since the series began in March. The indicator stood at 45.5 in November compared with 48.8 in October, a decline of 6.8% on the month. Expectations for New Orders were far below the series average of 56.8.

The weakness was led by the service sector, for which the indicator measuring firms' expectations for New Orders moved into contraction. The New Orders Indicator for the construction sector was unchanged and remained in contraction, while the expectations indicator for the manufacturing sector fell for the second consecutive month, but remained above the 50 breakeven mark.

New Orders



New Orders

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	73.8	63.3	53.0	51.5	61.5	59.5	53.5
Future Expectations	59.3	54.3	60.3	62.8	57.8	48.8	45.5

Export Orders Fall Back Below 50

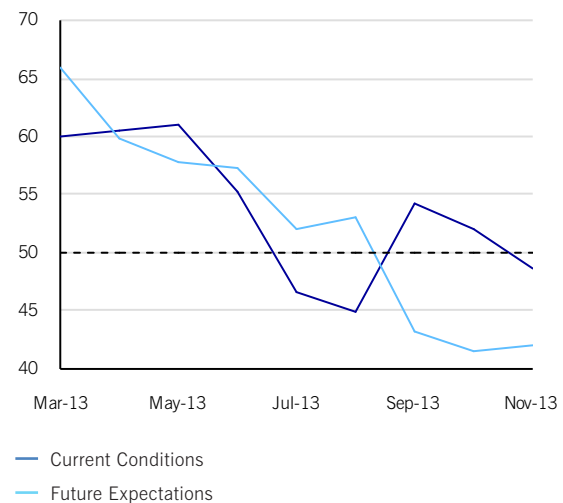


After remaining in expansion territory for two months, the Export Orders Indicator fell back into contraction in November, while expectations for the future remained well below the breakeven 50 level.

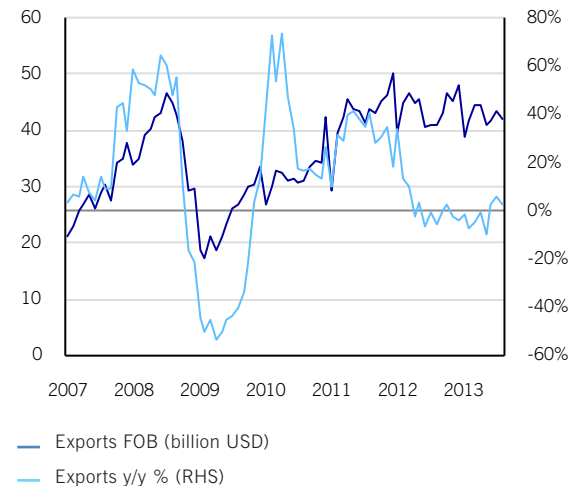
The Export Orders Indicator declined 6.5% in November to 48.7, the lowest reading since August. The indicator for manufacturing companies fell below the 50 breakeven mark in October and remained in contraction in November as well. The Export Orders Indicator fell into contraction for the construction sector, while service sector companies reported a marginal decline, although remained above 50.

With concerns mounting over the outlook for both the domestic economy and that of its trade partners, companies' expectations for the future remained weak. Future Expectations improved marginally to 42.1 in November from 41.6 in October, the highest reading since September. Expectations have trended downwards since the series started in March, although September was the first time the indicator moved below 50.

Export Orders



Exports Increased Since May



Source: Federal State Statistics Service of Russia

Export Orders

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	61.1	55.3	46.6	44.9	54.3	52.1	48.7
Future Expectations	57.9	57.3	52.1	53.0	43.3	41.6	42.1

Productive Capacity Posts Small Decline



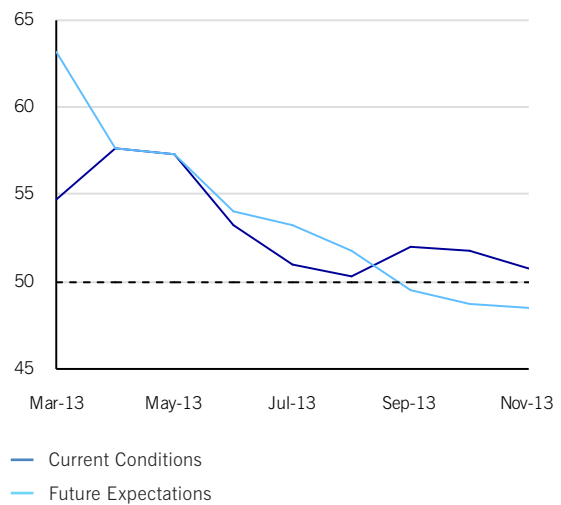
Productive Capacity ticked down in November as more companies reported that, compared with a month ago, their productive capacity was the same rather than higher. Most companies also expected productive capacity to remain unchanged in three months' time.

The Productive Capacity Indicator stood at 50.8 in November, compared with 51.8 in October and below the three month average of 51.5. Both manufacturing and service sector companies saw little change in Productive Capacity, while the indicator fell to the breakeven level for construction companies.

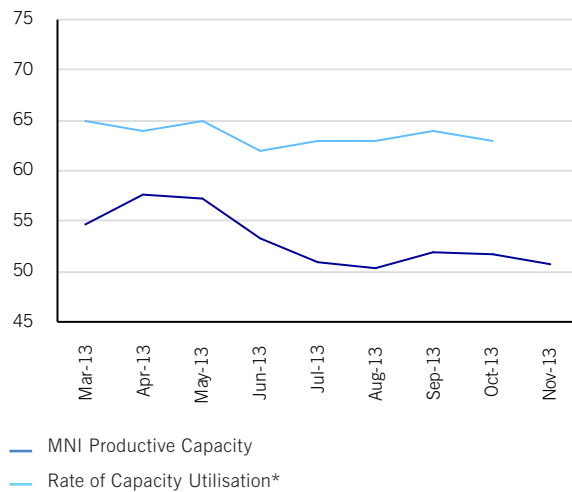
Productive Capacity has eased throughout most of this year given the slowdown in the economy. Investment levels have continued to decline in 2013 and the rate of capacity utilisation has trended lower, dropping to 63% in October compared with 64% in September and 65% at the start of the year.

Expectations for the next three months have been on a downward trend seen the series started in March, falling below the 50 breakeven level in September for the first time. The indicator fell further into contraction in November, declining to 48.5 from 48.7 in October, below the three month average of 48.9.

Productive Capacity



Productive Capacity and Rate of Capacity Utilisation



*Source: Federal State Statistics Service of Russia

Productive Capacity

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	57.3	53.3	51.0	50.3	52.0	51.8	50.8
Future Expectations	57.3	54.0	53.3	51.8	49.5	48.7	48.5

Order Backlogs Below 50 Again



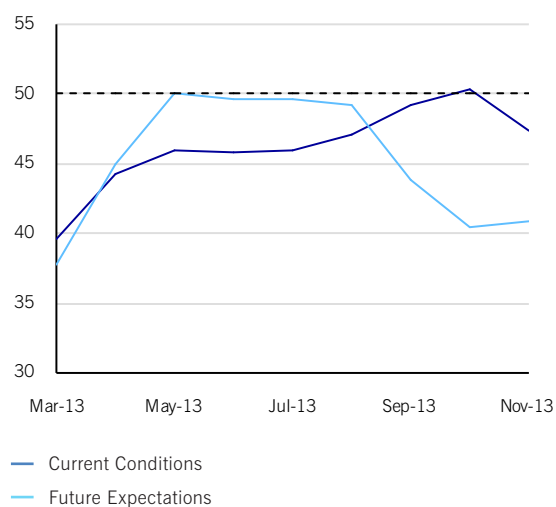
Order Backlogs fell back into contraction in November after rising above the breakeven level in October for the first time since the series started in March.

Backlogs declined 5.8% on the month to 47.4 in November, down from 50.3 in October. The indicator, which measures the amount of unfilled orders at companies, has mostly been in contraction since March when the survey started, reflecting weak demand and excess capacity in the economy.

Both construction and service sector companies' Order Backlogs fell on the month, the former moving into contraction again after last month's rise to expansion territory. The Indicator for manufacturing sector companies remained in contraction.

Companies remained pessimistic about the future, as expectations for the next three months stayed beneath the breakeven level. The Future Expectations Indicator stood at 40.9 in November, compared with 40.4 in October. Except for May, when the indicator rose exactly to 50.0, expectations for Order Backlogs have always been in contraction.

Order Backlogs



Order Backlogs

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	45.9	45.8	45.9	47.1	49.2	50.3	47.4
Future Expectations	50.0	49.7	49.7	49.2	43.8	40.4	40.9

Employment

First Time Under 50



The situation in the labour market worsened considerably in November with an increased number of companies reporting that they had too many employees.

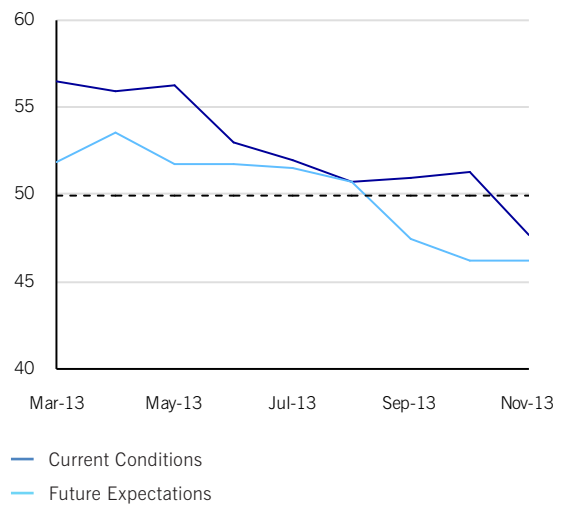
The Employment Indicator fell 7.0% to 47.7 in November from 51.3 in October. While the majority of companies continued to report that the number of employees they currently had was “just right”, in November more companies reported they had “too many” employees compared with the previous month.

In spite of the weakening seen in the Russian economy, official data showed that the unemployment rate has been on a downward trend since the start of the year, save for the latest data for October which showed a rise to 5.5% from 5.3% in September. The deterioration in the Employment Indicator in November suggests we could see a further reversal of the downward trend ahead.

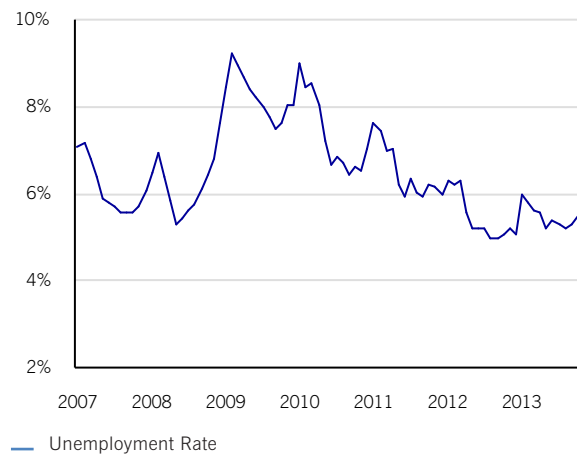
It could also be that government’s promise to relax pressure on companies to keep workers on their payrolls, is already starting to have an impact on the labour market.

The Future Expectations Indicator remained unchanged at 46.2 in November, the lowest since the series began in March.

Employment



Unemployment Falls in the Third Quarter



Source: Federal State Statistics Service of Russia

Employment

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	56.3	53.0	52.0	50.8	51.0	51.3	47.7
Future Expectations	51.8	51.8	51.5	50.8	47.5	46.2	46.2

Inventories

Lowest on Record



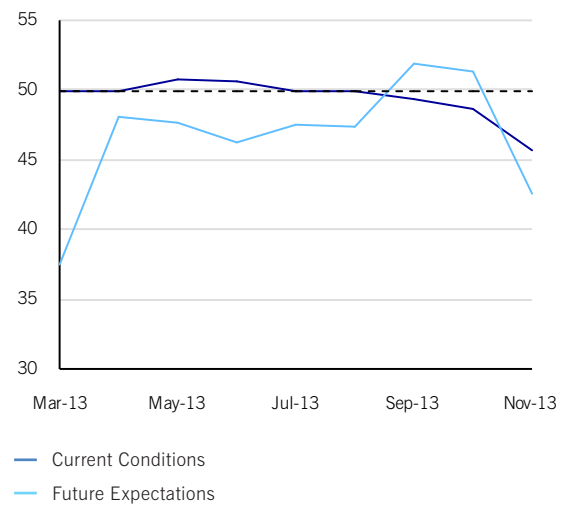
The indicator measuring Inventories of Finished Goods fell for the third consecutive month, leaving it at the lowest level since the series started in March.

In November, the indicator fell 6.2% on the month to 45.7 from 48.7 in the previous month. The decline was led by both manufacturing and construction companies. For manufacturing companies, the indicator contracted for the third consecutive month and for construction companies, the indicator fell after remaining stable in previous months.

The Indicator had remained steady since March, hovering very close to the 50 breakeven level, but since August it has declined steadily. With demand weak and firms expecting growth to remain subdued for the foreseeable future, it is not surprising to see companies running down stock levels.

Expectations for three months' time fell to 42.6 in November from 51.3 on October, the lowest since March, indicating more companies expect to reduce their stock levels in three months' time.

Inventories



Inventories

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	50.8	50.6	50.0	50.0	49.4	48.7	45.7
Future Expectations	47.7	46.3	47.5	47.4	51.9	51.3	42.6

Input Prices

Expectations Hit a New Record Low



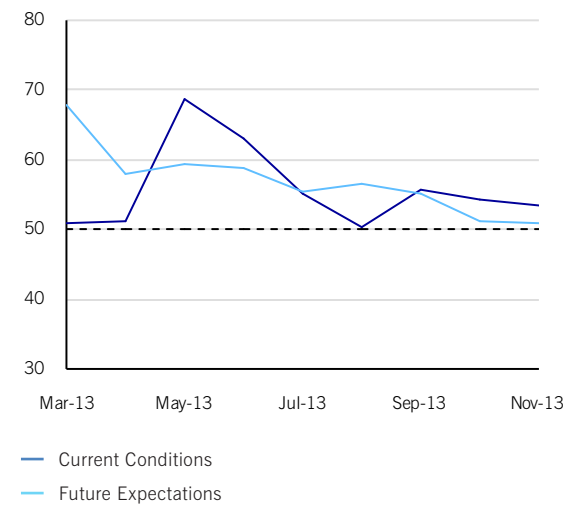
Input Prices eased for the second consecutive month in November and expectations for the future fell to the lowest level since the series began in March.

The Input Prices Indicator declined by 1.5% in November to 53.4, compared with 54.2 in October, the lowest since August. The fall was mainly led by construction companies which have seen lower input prices in the past two months. The indicator increased slightly for manufacturing firms, while for service sector firms, it remained unchanged compared with the previous month.

Oil prices have fallen from over \$117 per barrel in September to just under \$107 on November 13.

Expectations for three months' time have been on a declining trend since the start of the series in March. The Expectations Indicator remained broadly unchanged in November at 51.0, compared with 51.3 in October, a new series low.

Input Prices



Input Prices

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	68.8	63.1	55.2	50.5	55.8	54.2	53.4
Future Expectations	59.4	58.9	55.5	56.6	55.3	51.3	51.0

Prices Received Down Significantly



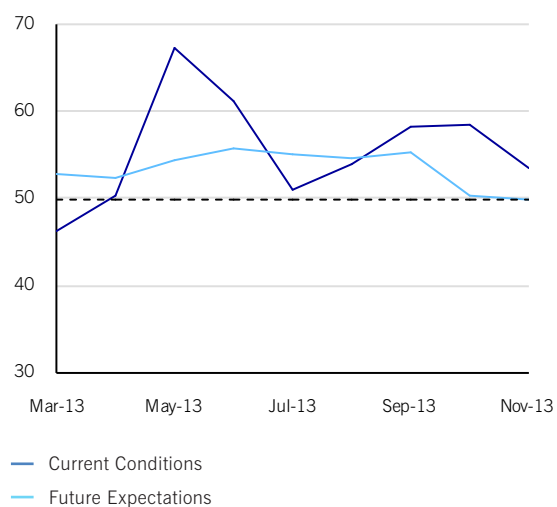
The Prices Received Indicator decreased to 53.5 in November from 58.5 in October, the lowest since July, likely reflecting the recent decline in Input Prices.

The latest fall was led by construction sector companies where the indicator fell to the breakeven level following strong growth in October. The indicator for manufacturing and service sector companies also fell, but remained above 50.

Expectations for Prices Received in three months' time fell in November to the breakeven 50 mark, the lowest since the series started in March.

Consumer price inflation increased to 6.3% in October after slowing to 6.1% in September. According to first deputy chief of the central bank, Ksenia Yudayeva, inflation expectations remain high.

Prices Received



Prices Received

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	67.3	61.3	51.0	54.0	58.3	58.5	53.5
Future Expectations	54.5	55.8	55.1	54.6	55.3	50.3	50.0

Financial Position

Current and Future Conditions Worsen



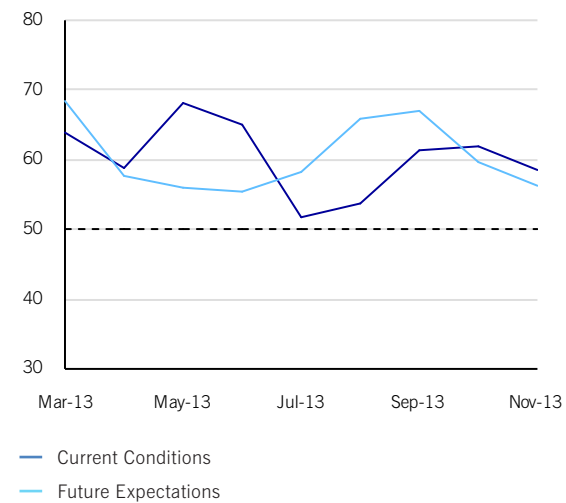
The Indicator measuring the Financial Position of companies fell in November, led by a significant decline among construction companies.

The Financial Position Indicator stood at 58.6 in November, compared with 61.9 in October, a drop of 5.3% on the month.

Construction companies reported a marked fall in their financial positions in October, offsetting the gain in the previous month. Manufacturing and service sector companies reported that their financial positions were broadly stable in November compared with the previous month.

Expectations for three months' time fell by almost 6.0% to 56.2 in November from 59.7 in October, the second consecutive monthly decline. Both manufacturing and service sector companies expected to see a decline in their financial positions in the next three months after a pick-up in optimism in September.

Financial Position



Financial Position

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	68.0	64.9	51.8	53.6	61.4	61.9	58.6
Future Expectations	56.0	55.4	58.3	65.8	66.9	59.7	56.2

Interest Rates Paid Trending Down



The indicator on Interest Rates Paid had been on a downward trend since the start of the survey in March and fell to the lowest level on record in November.

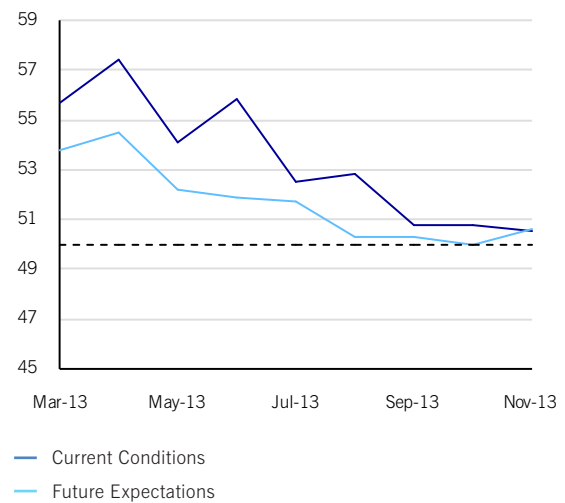
Interest Rates Paid fell to 50.5 in November having stood at 50.8 in both September and October. The indicator peaked in April this year at 57.4 and the November reading was below the series average of 53.4.

Almost all respondents said that the interest rates paid on their borrowings were the same in November. For the next three months, they did not expect borrowing costs to change either. For the manufacturing sector, the indicator fell to the breakeven mark and for construction and services it remained stable at just above 50.

The yield on the Russian 10-year government bond has fallen from 7.41% last year to stand at 7.16% on November 19, while three month interbank rates have fallen from 7.18% to 6.81% over the same period.

Expectations for the next three months increased slightly to 50.6 in November from 50.0 in October, the highest since July and the first monthly rise since April. Russia's central bank has maintained that it will only cut the key interest rate when inflation expectations ease. The current level of consumer price inflation rose to 6.3% in October, above the 5.0%-6.0% target range.

Interest Rates Paid



Interest Rates Paid

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	54.1	55.8	52.5	52.8	50.8	50.8	50.5
Future Expectations	52.2	51.9	51.7	50.3	50.3	50.0	50.6

Effect of Rouble Exchange Rate Positive Effect on Businesses



The Effect of the Rouble Exchange Rate Indicator rose to a new high of 54.1 in November from 53.4 in October, showing that more companies believe the exchange rate is helping business.

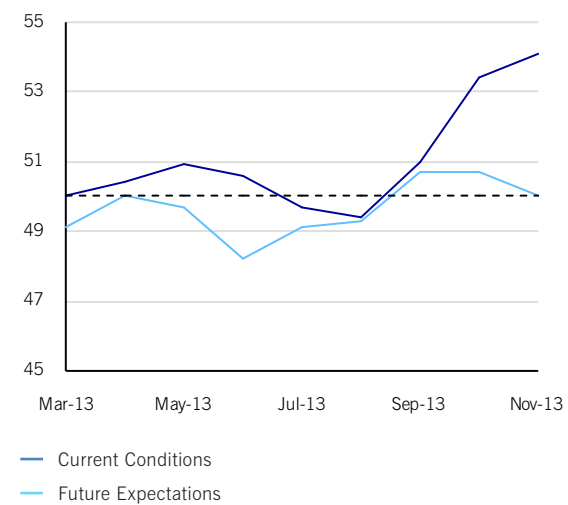
Businesses are asked whether the exchange rate is helping or hurting their company and a value above 50 shows more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting business.

Over the past year, the rouble has fallen around 3.6% against the US dollar, although the decision in September by the US Federal Reserve to postpone tapering Quantitative Easing has prompted a rebound in the currency.

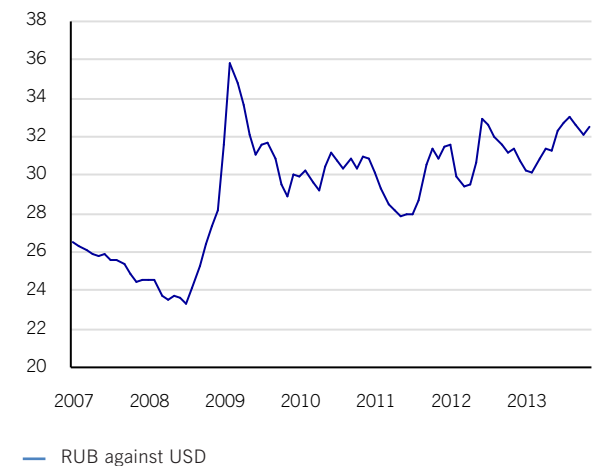
Compared with some other emerging markets, the risk to the currency from any policy change in the US looks limited given Russia's large current account surplus, low fiscal deficit and little reliance on foreign direct investment. Slow economic growth, however, coupled with a lack of investment potential puts pressure on the attractiveness of the currency.

After remaining unchanged between September and October, the expectation for the next three months fell slightly to 50.0 in November, the lowest since August.

Effect of Rouble Exchange Rate



RUB Depreciates Against USD



Source: The Central Bank of the Russian Federation

Effect of Rouble Exchange Rate

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	50.9	50.6	49.7	49.4	51.0	53.4	54.1
Future Expectations	49.7	48.2	49.1	49.3	50.7	50.7	50.0

Supplier Delivery Times Down for Second Consecutive Month



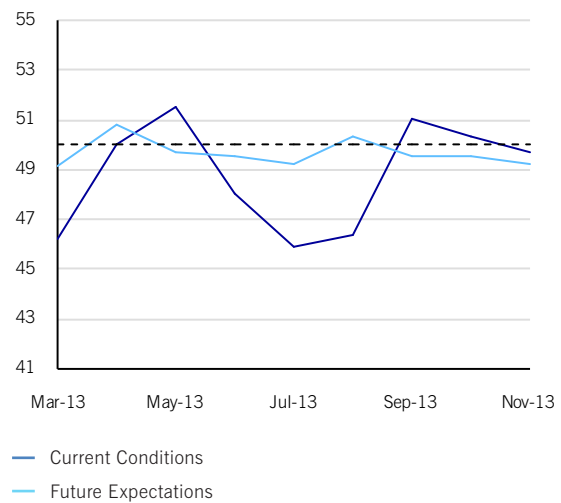
The time taken to deliver supplies to companies fell in November, having lengthened for the past two months.

The Supplier Delivery Times Indicator shortened by 1.2% to 49.7 in November from 50.3 in October. Manufacturing sector companies reported shorter delivery times, slipping below the 50 breakeven level. In contrast construction companies have reported a lengthening of delivery times in recent months.

The slowdown in Delivery Times was in line with the decline in New Orders in October and November.

Expectations for Supplier Delivery Times in three months' time shortened to 49.2 in November, having remained unchanged at 49.5 in October. The expectations indicator has remained broadly stable since March with the series averaging 49.6, and only rising above the breakeven level of 50 twice since then.

Supplier Delivery Times



Supplier Delivery Times

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	51.5	48.0	45.9	46.4	51.0	50.3	49.7
Future Expectations	49.7	49.5	49.2	50.3	49.5	49.5	49.2

Availability of Credit

New Record High



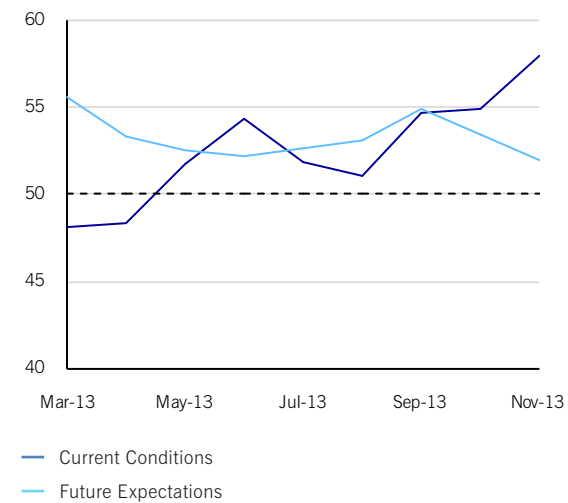
Credit conditions for firms improved for the third consecutive month in November, rising 5.6% on the month to 58.0 from 54.9 in October.

The Availability of Credit Indicator moved from contraction to expansion in May and has subsequently remained above the 50 breakeven mark.

Companies in the manufacturing sector continued to show an improvement in credit conditions, while for construction sector firms the indicator fell to the breakeven level, having remained stable for the last three months. Service sector companies also showed an increased availability of credit, following a decline in the previous month.

The Future Expectations Indicator declined by 2.6% to 52.0 in November from 53.4 in October, and below the series average of 53.3.

Availability of Credit



Availability of Credit

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
Current Conditions	51.7	54.4	51.9	51.1	54.7	54.9	58.0
Future Expectations	52.5	52.2	52.7	53.1	54.9	53.4	52.0



Data Tables

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Historical Summary

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13
MNI Russia Business Indicator									
Current Conditions	59.3	62.9	62.5	57.8	51.8	51.3	59.0	56.3	51.5
Future Expectations	71.3	64.1	59.5	57.5	59.0	61.5	55.0	47.2	45.0
Production									
Current Conditions	61.1	54.4	61.0	60.8	51.3	49.3	58.0	58.3	53.5
Future Expectations	57.4	56.0	58.8	58.5	58.0	58.0	57.0	48.3	45.5
New Orders									
Current Conditions	63.0	62.1	73.8	63.3	53.0	51.5	61.5	59.5	53.5
Future Expectations	60.2	62.5	59.3	54.3	60.3	62.8	57.8	48.8	45.5
Export Orders									
Current Conditions	60.0	60.5	61.1	55.3	46.6	44.9	54.3	52.1	48.7
Future Expectations	66.0	59.9	57.9	57.3	52.1	53.0	43.3	41.6	42.1
Productive Capacity									
Current Conditions	54.7	57.7	57.3	53.3	51.0	50.3	52.0	51.8	50.8
Future Expectations	63.2	57.7	57.3	54.0	53.3	51.8	49.5	48.7	48.5
Order Backlogs									
Current Conditions	39.6	44.3	45.9	45.8	45.9	47.1	49.2	50.3	47.4
Future Expectations	37.7	45.0	50.0	49.7	49.7	49.2	43.8	40.4	40.9
Employment									
Current Conditions	56.5	56.0	56.3	53.0	52.0	50.8	51.0	51.3	47.7
Future Expectations	51.9	53.6	51.8	51.8	51.5	50.8	47.5	46.2	46.2
Inventories									
Current Conditions	50.0	50.0	50.8	50.6	50.0	50.0	49.4	48.7	45.7
Future Expectations	37.5	48.1	47.7	46.3	47.5	47.4	51.9	51.3	42.6
Input Prices									
Current Conditions	50.9	51.3	68.8	63.1	55.2	50.5	55.8	54.2	53.4
Future Expectations	67.9	58.0	59.4	58.9	55.5	56.6	55.3	51.3	51.0
Prices Received									
Current Conditions	46.3	50.4	67.3	61.3	51.0	54.0	58.3	58.5	53.5
Future Expectations	52.8	52.4	54.5	55.8	55.1	54.6	55.3	50.3	50.0
Financial Position									
Current Conditions	63.9	58.9	68.0	64.9	51.8	53.6	61.4	61.9	58.6
Future Expectations	68.5	57.7	56.0	55.4	58.3	65.8	66.9	59.7	56.2
Interest Rates Paid									
Current Conditions	55.7	57.4	54.1	55.8	52.5	52.8	50.8	50.8	50.5
Future Expectations	53.8	54.5	52.2	51.9	51.7	50.3	50.3	50.0	50.6
Effect of Rouble Exchange Rate									
Current Conditions	50.0	50.4	50.9	50.6	49.7	49.4	51.0	53.4	54.1
Future Expectations	49.1	50.0	49.7	48.2	49.1	49.3	50.7	50.7	50.0
Supplier Delivery Time									
Current Conditions	46.2	50.0	51.5	48.0	45.9	46.4	51.0	50.3	49.7
Future Expectations	49.1	50.8	49.7	49.5	49.2	50.3	49.5	49.5	49.2
Availability of Credit									
Current Conditions	48.1	48.4	51.7	54.4	51.9	51.1	54.7	54.9	58.0
Future Expectations	55.6	53.3	52.5	52.2	52.7	53.1	54.9	53.4	52.0

Historical Records

	Minimum	Maximum	Median	Mean
MNI Russia Business Indicator				
Current Conditions	51.3	62.9	56.9	57.8
Future Expectations	45.0	71.3	57.8	59.0
Production				
Current Conditions	49.3	61.1	56.4	58.0
Future Expectations	45.5	58.8	55.3	57.4
New Orders				
Current Conditions	51.5	73.8	60.1	61.5
Future Expectations	45.5	62.8	56.8	59.3
Export Orders				
Current Conditions	44.9	61.1	53.7	54.3
Future Expectations	41.6	66.0	52.6	53.0
Productive Capacity				
Current Conditions	50.3	57.7	53.2	52.0
Future Expectations	48.5	63.2	53.8	53.3
Order Backlogs				
Current Conditions	39.6	50.3	46.2	45.9
Future Expectations	37.7	50.0	45.2	45.0
Employment				
Current Conditions	47.7	56.5	52.7	52.0
Future Expectations	46.2	53.6	50.1	51.5
Inventories				
Current Conditions	45.7	50.8	49.5	50.0
Future Expectations	37.5	51.9	46.7	47.5
Input Prices				
Current Conditions	50.5	68.8	55.9	54.2
Future Expectations	51.0	67.9	57.1	56.6
Prices Received				
Current Conditions	46.3	67.3	55.6	54.0
Future Expectations	50.0	55.8	53.4	54.5
Financial Position				
Current Conditions	51.8	68.0	60.3	61.4
Future Expectations	55.4	68.5	60.5	58.3
Interest Rates Paid				
Current Conditions	50.5	57.4	53.4	52.8
Future Expectations	50.0	54.5	51.7	51.7
Effect of Rouble Exchange Rate				
Current Conditions	49.4	54.1	51.1	50.6
Future Expectations	48.2	50.7	49.6	49.7
Supplier Delivery Time				
Current Conditions	45.9	51.5	48.8	49.7
Future Expectations	49.1	50.8	49.6	49.5
Availability of Credit				
Current Conditions	48.1	58.0	52.6	51.9
Future Expectations	52.0	55.6	53.3	53.1

Historical Records - Quarterly

	Q2 13	Q3 13	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator				
Current Conditions	61.1	54.0	-7.1	-11.6%
Future Expectations	60.4	58.5	-1.9	-3.1%
Production				
Current Conditions	58.7	52.9	-5.8	-9.9%
Future Expectations	57.8	57.7	-0.1	-0.2%
New Orders				
Current Conditions	66.4	55.3	-11.1	-16.7%
Future Expectations	58.7	60.3	1.6	2.7%
Export Orders				
Current Conditions	59.0	48.6	-10.4	-17.6%
Future Expectations	58.4	49.5	-8.9	-15.2%
Productive Capacity				
Current Conditions	56.1	51.1	-5.0	-8.9%
Future Expectations	56.3	51.5	-4.8	-8.5%
Order Backlogs				
Current Conditions	45.3	47.4	2.1	4.6%
Future Expectations	48.2	47.6	-0.6	-1.2%
Employment				
Current Conditions	55.1	51.3	-3.8	-6.9%
Future Expectations	52.4	49.9	-2.5	-4.8%
Inventories				
Current Conditions	50.5	49.8	-0.7	-1.4%
Future Expectations	47.4	48.9	1.5	3.2%
Input Prices				
Current Conditions	61.1	53.8	-7.3	-11.9%
Future Expectations	58.8	55.8	-3.0	-5.1%
Prices Received				
Current Conditions	59.7	54.4	-5.3	-8.9%
Future Expectations	54.2	55.0	0.8	1.5%
Financial Position				
Current Conditions	63.9	55.6	-8.3	-13.0%
Future Expectations	56.4	63.7	7.3	12.9%
Interest Rates Paid				
Current Conditions	55.8	52.0	-3.8	-6.8%
Future Expectations	52.9	50.8	-2.1	-4.0%
Effect of Rouble Exchange Rate				
Current Conditions	50.6	50.0	-0.6	-1.2%
Future Expectations	49.3	49.7	0.4	0.8%
Supplier Delivery Time				
Current Conditions	49.8	47.8	-2.0	-4.0%
Future Expectations	50.0	49.7	-0.3	-0.6%
Availability of Credit				
Current Conditions	51.5	52.6	1.1	2.1%
Future Expectations	52.7	53.6	0.9	1.7%

Methodology

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange. Companies are a mix of manufacturing, service, construction and agricultural firms.

Respondents are asked their opinion on whether a particular business activity has increased, decreased or remained the same compared with the previous month as well as their expectations for three months ahead, e.g. Is Production Higher/Same/Lower compared with a month ago?

A diffusion indicator is then calculated by adding the percentage share of positive responses to half the percentage of those respondents reporting no change. An indicator reading above 50 shows expansion, below 50 indicates contraction and a result of 50 means no change.

Data is collected through computer aided telephone interviews and around 200 companies are surveyed each month.



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