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MNI Russia Business Report September 2014

Insight and data for better decisions

MNI Russia Business Report

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.

The survey provides the first monthly snapshot of economic and business conditions, ahead of official data and other business confidence data in Russia.

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.

The survey looks at key business metrics including orders, production, pricing, inventories, credit availability and exchange rate impact. Sentiment on both current and future expectations allows users to comprehensively monitor business and economic trends.

Whether you are forecasting the Russian economy, analysing where to invest in Russia or want to know how other companies in your sector are performing, our monthly intelligence offers an unrivalled insight into exactly what Russia's largest companies are thinking.

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MNI Russia Business Report - September 2014

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Welcome to Our New Look

We've redesigned the report to incorporate new sector information and to provide a richer analysis of the data.

We've redesigned the MNI Russia Business Report this month to incorporate new sector information and to provide a richer analysis of the data.

Since the Russia Business Sentiment Survey was started in March 2013, we've surveyed hundreds of companies each month on the Moscow Exchange to gauge their opinion on a range of key business metrics. In order to provide readers with more granular data, we're publishing data on broad economic sectors such as services and manufacturing. We'll also be able to provide a more detailed breakdown by equity sectors to give users insight into how different industries are performing every month.

Users will be able to see whether each sector is in expansion or contraction and which direction they've moved compared with the previous month.

In order to present the data and our analysis better we've also grouped the indicators together into sections. Our aim is to provide a more rounded, concise and insightful analysis of the data each month.

We hope you enjoy the new format and look forward to receiving your feedback.

Philip Uglow
Chief Economist
MNI Indicators



Executive Summary

The MNI Russia Business Indicator declined by 4.0 points to 47.5 in September from 51.5 in August, the lowest level this year, as sanctions continued to limit companies' access to foreign capital markets.

The MNI Russia Business Indicator declined by 4.0 points to 47.5 in September from 51.5 in August, the lowest level this year, as sanctions by the EU and US continued to limit companies' access to foreign capital markets.

It was the second time that the indicator has fallen into contraction this year, previously in May at the height of the Ukraine crisis. Economic sanctions hit firms' ability to raise capital abroad, causing the Availability of Credit Indicator to fall to a new record low in September.

Despite the decline in overall sentiment, only five of the 14 components were in contraction. The sharpest fall was a 4.1% decline in the Inventories Indicator to 47.3 in September as companies chose to destock faster in the face of weak domestic and external demand.

Business activity was also hit in September with New Orders slipping to the lowest since December 2013. While Export Orders posted a slight improvement in September, they remained in contraction following the implementation of Tier 3 sanctions. A fall in the rouble to a record low of 38.5 against the US dollar this month will support Export Orders over the coming months.

Official economic data, as well as the MNI Russia Consumer Sentiment Survey, have painted a depressing picture of the Russian economic climate. In particular, industrial production stagnated on the year in August following six consecutive months of growth, due to a sharp drop in manufacturing output which shrank by 0.6% on the year. Pressure on the rouble resumed in September following the central bank's decision to keep interest rates on hold, which won't help in their fight against inflation which rose to 7.6% in August, above the upper band of their target of 6.5%.

Production also eased, while the negative business climate saw firms choosing to continue running down their inventories.

Inflationary pressures picked up slightly in September with the Prices Received Indicator increasing for the second consecutive month. Still, both Prices Received and Input Prices remain well below levels seen earlier in the year and provide some hope that consumer price inflation will be kept in check.

The Employment Indicator rose by 2% to 51.3 from 50.3 previously, the highest since May, as slightly more firms said that they had too few employees, indicating an increased demand for labour.

Overview

	Jul-14	Aug-14	Sep-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	54.6	51.5	47.5	-	Dec-13	51.2	-4.0	-7.8%
Future Expectations	54.0	59.8	59.4	-	Jul-14	57.7	-0.4	-0.7%
Production								
Current Conditions	51.5	52.5	52.0	-	Jul-14	52.0	-0.5	-1.0%
Future Expectations	52.6	57.7	55.3	-	Jul-14	55.2	-2.4	-4.2%
New Orders								
Current Conditions	56.8	54.3	53.3	-	Dec-13	54.8	-1.0	-1.8%
Future Expectations	51.8	56.0	57.4	Sep-13	-	55.1	1.4	2.5%
Export Orders								
Current Conditions	53.3	48.0	48.3	Jul-14	-	49.9	0.3	0.6%
Future Expectations	50.4	52.6	52.6	Aug-14	-	51.9	0.0	0.0%
Productive Capacity								
Current Conditions	50.5	50.3	51.3	May-14	-	50.7	1.0	2.0%
Future Expectations	50.0	52.0	52.0	Aug-14	-	51.3	0.0	0.0%
Order Backlogs								
Current Conditions	47.7	48.2	48.5	Feb-14	-	48.1	0.3	0.6%
Future Expectations	45.4	45.9	46.2	Aug-13	-	45.8	0.3	0.7%
Employment								
Current Conditions	50.3	50.3	51.3	May-14	-	50.6	1.0	2.0%
Future Expectations	50.0	51.3	51.3	Aug-14	-	50.9	0.0	0.0%
Inventories								
Current Conditions	48.6	49.3	47.3	-	May-14	48.4	-2.0	-4.1%
Future Expectations	47.3	48.6	47.3	-	Jun-14	47.7	-1.3	-2.7%
Input Prices								
Current Conditions	50.0	50.0	50.0	Aug-14	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Aug-14	-	50.0	0.0	0.0%
Prices Received								
Current Conditions	49.7	50.0	50.8	Jun-14	-	50.2	0.8	1.6%
Future Expectations	50.3	50.3	50.5	May-14	-	50.4	0.2	0.4%
Financial Position								
Current Conditions	54.3	51.0	53.3	Jul-14	-	52.9	2.3	4.5%
Future Expectations	53.9	56.8	57.8	Feb-14	-	56.2	1.0	1.8%
Interest Rates Paid								
Current Conditions	50.0	50.0	50.0	Aug-14	-	50.0	0.0	0.0%
Future Expectations	49.7	49.7	49.7	Aug-14	-	49.7	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	50.0	49.7	49.7	Aug-14	-	49.8	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Aug-14	-	50.0	0.0	0.0%
Supplier Delivery Times								
Current Conditions	50.0	50.0	50.0	Aug-14	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Aug-14	-	50.0	0.0	0.0%
Availability of Credit								
Current Conditions	54.5	41.3	40.3	-	series low	45.4	-1.0	-2.4%
Future Expectations	51.0	55.1	55.0	-	Jul-14	53.7	-0.1	-0.2%

Industrial production growth stood flat in August.

The slowdown was led by a drop in manufacturing output which shrank by 0.6% on the year in August compared with growth of 2.4% in the previous month.



Economic Landscape

Both the EU and US have imposed additional sanctions against Russia, putting further strain on an already struggling economy.

Both the EU and US have imposed additional sanctions against Russia, putting further strain on an already struggling economy. The economic sanctions have been extended to include the oil companies Gazpromneft, Transneft and Rosneft which will be forbidden from raising capital on American and European financial markets and barred any export of oil-related technology to the affected companies. Meanwhile, the Ukrainian government and pro-Russian separatist rebels have signed a memorandum to the Minsk Protocol which would include a 30 kilometre buffer zone in an attempt to bring an end to almost five months of fighting. Despite pockets of sporadic fighting, the truce seems to be holding although both the EU and US have promised to press ahead with enacting additional sanctions while Russia has vowed to “react” to any further sanctions implemented against it but has yet to do so.

Industrial production did not grow at all in August following six consecutive months of positive growth, prompted by weakness in the manufacturing sector, signalling the hurt that the economic sanctions are doing to the economy. The Russian Central Bank decided to hold its benchmark interest rate at 8%, in spite of growing concerns about inflation due to sanctions and a ban on food imports from Western nations. The bank's inaction prompted a further decline in the rouble which hit a record low of 38.5 this month. Inflation is likely to

be pushed up further by the weak currency with the Economy Ministry recently revising its inflation forecast upwards to 7-7.5% by the end of the year, compared with 6% previously.

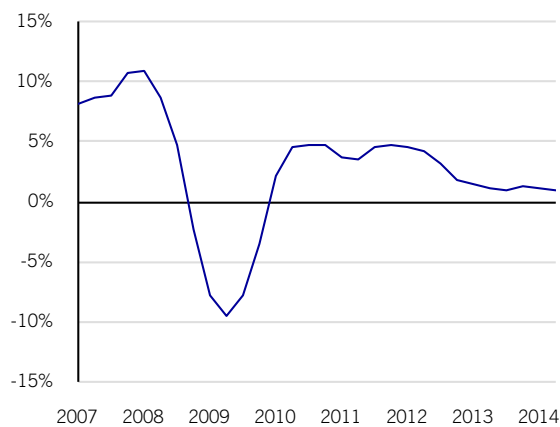
Economic growth slows

The latest update from the Economy Ministry suggests GDP contracted 0.2% in July compared with a year earlier, a poor start to Q3. Moreover, it revised its June estimate to a fall of 0.1% compared with the originally estimated 0.6% increase. Consequently, there could be a downward revision to overall Q2 GDP which was initially estimated at 0.8%, only slightly below the 0.9% outturn seen in Q1. While the Russian economy may have so far escaped slipping into a technical recession (two quarters of negative economic growth), it's far too early to conclude that it is out of the woods yet.

Russian ministers had predicted GDP growth of 2.5% this year before the turmoil in Ukraine. This has, though, been dramatically reduced to just 0.5%, following paltry growth of 1.3% in 2013. They have also halved their growth forecast for 2015 to 1% from 2% previously.

Central Bank governor Elvira Nabiullina expects growth in 2014 of 0.4%, a little below the government's forecast, although believes there will be a slight acceleration in the second half of the year.

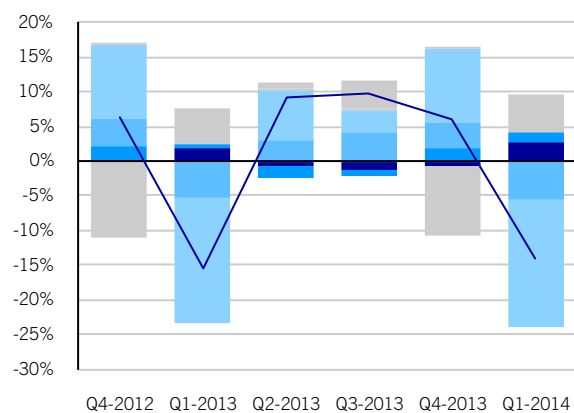
Economic Growth



— GDP Growth Y/Y %

Source: Federal State Statistics Service of Russia

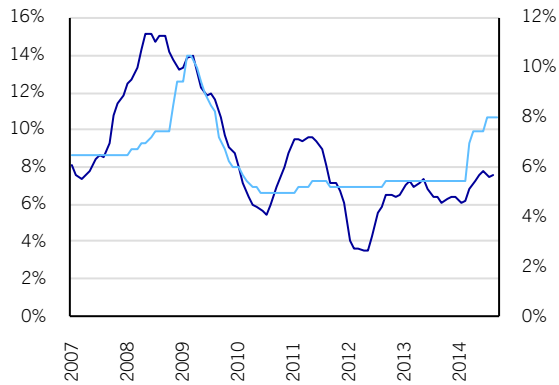
Contribution to Economic Growth



■ Discrepancies ■ GFCF — GDP Growth Q/Q %
 ■ Net Exports ■ GFCE
 ■ PFCE ■ Inventories

Source: Federal State Statistics Service of Russia

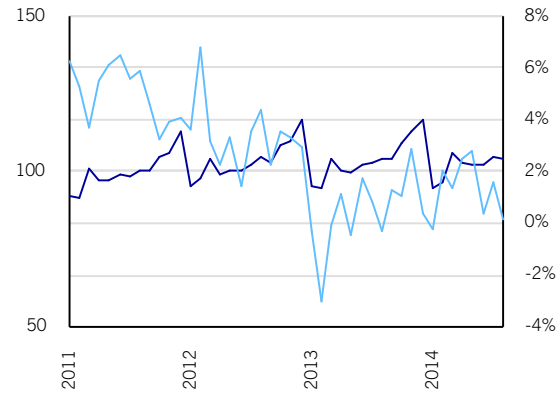
Inflation and Interest Rate



— CPI Y/Y%*
— 7-day repo rate (RHS)**

Source: *Federal State Statistics Service of Russia, **Central Bank of Russia

Industrial Production



— Industrial Production
— Industrial Production Y/Y% (RHS)

Source: Federal State Statistics Service of Russia

Industrial production stagnates in August

Following six consecutive months of growth, industrial production was flat on the year in August, following strong growth of 1.5% in July. The slowdown was led by a drop in manufacturing output which shrank by 0.6% on the year compared with growth of 2.4% in the previous month. Mining and quarrying output accelerated to 0.8% on the year in August compared with growth of 0.2% in the previous month. Utilities output grew for the second consecutive month by 1.2% on the year in August after reversing a trend of eight consecutive months of contraction until July when it witnessed growth of 0.8%.

In the first eight months of 2014, industrial production grew 1.3% on the year having contracted by 0.1% in the same period a year ago. Russia's Economic Development Ministry recently revised its forecast for industrial output, expecting it to expand by about 1.7% this year from 1% previously, after it failed to grow in 2013.

Inflation rises slightly in August

Consumer price inflation accelerated to 7.6% in August from 7.5% in July. Despite a ban on food imports from Western nations, in retaliation to sanctions placed upon Russia, food price inflation remained unchanged from

the previous month at 9.8%. This was due to a seasonal drop in fruit and vegetable prices which fell 10.7% on the month while the price for meat rose by just 2.5% and the price for fish rose by 1.4%. After stripping out the prices of food and fuel, core inflation accelerated to 8.0% from 7.8% in the previous month, the highest since October 2011.

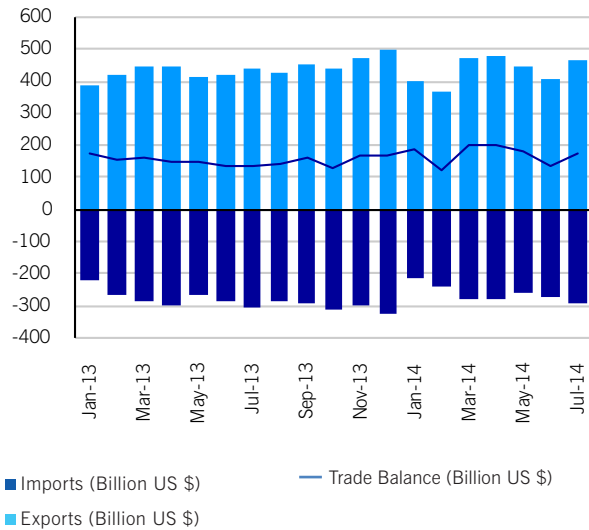
Russia imports a large amount of consumer goods and food items, and the depreciation of the currency has pushed up prices in recent months, forcing the central bank to keep monetary policy tight.

Recently, Russia's Economy Ministry revised its inflation forecast to 7-7.5% by the end of 2014, compared with 6% previously, and expects inflation to lie between 6-7% by the end of 2015, up from its previous forecast of 5%. It cited the ban on Western food imports as the primary cause of the revisions. Moreover, the ministry added that a new sales tax due to come into force next year would add around 1% to the inflation rate in 2015.

Key Policy Rate Held at 8%

On September 12, the Russian central bank retained its benchmark interest rate at 8% citing growing concerns about inflation due to economic sanctions and a Russian

Trade Balance



Source: Central Bank of Russia

Rouble Exchange Rate



Source: Central Bank of Russia

ban on food imports from Western nations. The central bank has raised the benchmark interest rate three times this year by a total of 250 basis points in an attempt to rein in inflation which is far above its target.

Despite the Economy Ministry revising up its inflation forecasts for 2014, the central bank has retained its central case that consumer price inflation will ease to 6-6.5% by the end of the year, as the impact of lower administered price hikes, a good harvest and weak aggregate demand all bear down on inflation. Against this though, negative shocks from increased geopolitical tensions and the global monetary policy impact (a hike in rates by the US Federal Reserve for example) on the rouble, as well as changes to tax and tariffs policy, could push inflation up.

The central bank made clear that should the high rate of inflation persist, it will tighten monetary policy further in order to meet their inflation target.

Rouble Hits Record Low

The rouble fell to a record low of 38.5 against the dollar on September 15 after the key rate was held by the central bank at 8% by the central bank and the implementation of fresh Western economic sanctions.

The depreciation in the rouble has recently stabilised, however, following the reinforcement of the ceasefire between the Ukrainian government and the pro-Russian separatists, with markets reacting positively to NATO reports that Russia had withdrawn a sizeable number of its troops from Ukraine. There remain, though, risks that the rouble could depreciate more given the fragility of the ceasefire in addition to falling oil prices.

Foreign exchange reserves in Russia decreased to \$465.2 billion in August from \$468.8 billion in July.

The Russian Central Bank recently widened its trading corridor for the rouble and reduced the intervention threshold as it moves towards making the currency free-floating by the end of the year in order to adopt a full inflation targeting regime next year.

Trade surplus widens in July

Russia's trade surplus widened to \$17.1 billion in July, from \$14 billion a month earlier, and was above \$13.5 billion recorded a year earlier.

Exports rose to \$46.1 billion in July, up from June's reading of \$40.7 billion, and were 5.4% above the same month a year earlier. Imports declined for the seventh

consecutive month to \$29 billion and were up from \$26.8 billion in June.

Russia retaliated to Western sanctions by introducing bans on certain agricultural imports from the West, and plans to meet any shortfall in the food supply by ramping up domestic production and by increasing imports from alternative trading partners.

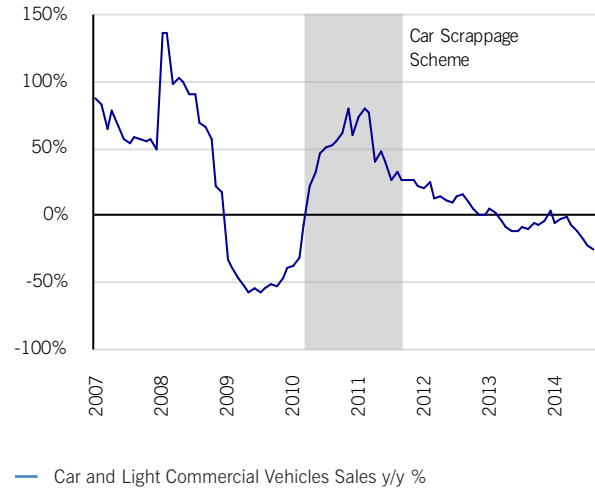
Car sales plummet in August

In August, 172,015 cars were sold in Russia, 25.8% below the level in the same month a year earlier, according to the Association of European Businesses (AEB). The combination of a weaker rouble and increased cost of credit, a result of the central bank raising the key interest rate three times since the start of the year, has had a significant dampening effect on consumer spending on cars.

The eight months to August saw a decline of 12.1% in car sales compared with the same period a year earlier. The AEB forecast a 12% decline in car sales during 2014 following a drop of 5.5% in the previous year. It welcomed the recently announced government car scrappage and trade-in scheme, hoping that this might help reverse the market slide for automobiles, although stressed that the success of the initiative will be dependent on its quick implementation. Under this scheme, old cars would be demolished or traded in with payment to buy a new one and car owners would get a discount for buying a new one from producers.

Amid the poor business climate in the Russian car manufacturing industry, General Motors slashed jobs and output at its assembly plant in St. Petersburg, while Volkswagen halted production for 10 days at its Kaluga plant as a measure of "flexibility".

Car Sales



Source: Association of European Businesses

In August, 25.8% less cars were sold than in the same month a year earlier.

The combination of a weaker rouble and increased cost of credit has had a significant dampening effect on consumer spending on cars.

Business sentiment declined in both the construction and service sector...

...although rose slightly in the manufacturing sector.



Indicators

Business sentiment fell into contraction for the first time since May as companies continued to feel the impact of Tier 3 sanctions.

MNI Russia Business Indicator

Sentiment Falls to Lowest This Year



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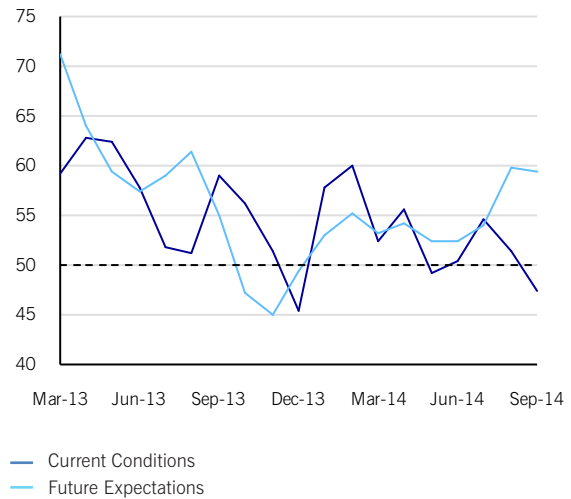
The MNI Russia Business Indicator fell below the 50 threshold that separates expansion from contraction in companies' confidence, falling by 4.0 points to 47.5 in September from 51.5 in August, the lowest since December. This marked the second time that the indicator has been in contraction this year, previously dipping below the breakeven level at the height of the Ukraine crisis in May.

Companies were more optimistic about business conditions in the next three months compared with current conditions, with the Future Expectations Indicator standing at 59.4 in September compared with 59.8 in August, significantly above the series average of 56.0.

Both the US and EU introduced fresh sanctions against Russia this month, which included restricting large Russian state-owned oil companies from raising capital on European capital markets. Many Western projects in Russia are now in jeopardy, including a \$700 million joint-venture Arctic drilling programme between US-owned ExxonMobil and Russian-owned Rosneft. There's little doubt that this will cause further pain to the Russian economy as the government is counting on Arctic and shale oil reserves to sustain oil production which has been declining in the traditional fields of West Siberia. These sanctions, however, were implemented towards the very end of our survey period and we will have to wait until the October survey to see what impact they have.

Business sentiment declined in both the construction and service sector, although rose slightly in the manufacturing sector. While confidence among both

MNI Russia Business Indicator



MNI Russia Business Indicator

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Current Conditions	59.0	55.6	49.2	50.5	54.6	51.5	47.5

construction and manufacturing companies remained above the 50 threshold, there was a sharp decline among service sector companies, with sentiment hitting a record low.

Despite the decline in overall sentiment, only five of the 14 components were in contraction. The sharpest fall was a 4.1% decline in the Inventories Indicator to 47.3 in September as companies chose to destock faster in the face of weak domestic and external demand.

Official economic data, as well as the MNI Russia Consumer Sentiment Survey, have painted a depressing picture of the Russian economic climate. In particular, industrial production stagnated on the year in August following six consecutive months of growth, due to a sharp drop in manufacturing output which shrank by 0.6% on the year. Pressure on the rouble resumed in September following the central bank's decision to keep rates on hold, which won't help in their fight against inflation which rose to 7.6% in August, above the upper band of their target of 6.5%. Thankfully, both price measures in the report remained close to the threshold level.

Sectors - Overall Business Conditions

	Manufacturing	Services	Construction
Current Conditions	↑ >50	↓ <50	↓ >50
Future Expectations	↓ >50	↑ >50	→ >50

MNI Russia Business Indicator

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Future Expectations	55.0	54.3	52.5	52.5	54.0	59.8	59.4

Orders

New Orders Lowest Since December



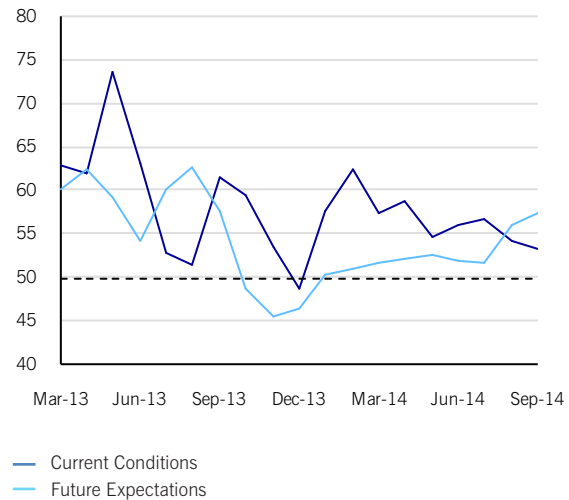
Orders remained weak in September as domestic demand conditions were subdued and Western economic sanctions continued to take their toll on exporters.

The New Orders Indicator fell by 1.8% to 53.3 in September from 54.3 in August, posting the lowest reading since December. At the end of July, the EU and US enacted Tier 3 sectoral sanctions against Russia who then retaliated by imposing a ban on Western food imports. Faced with a highly uncertain business environment, companies' order books have weakened, with the three month trend for New Orders averaging 54.8 in September, the lowest since the onset of the Ukraine crisis. Manufacturing companies' sentiment about New Orders fell into contraction to a 13-month low.

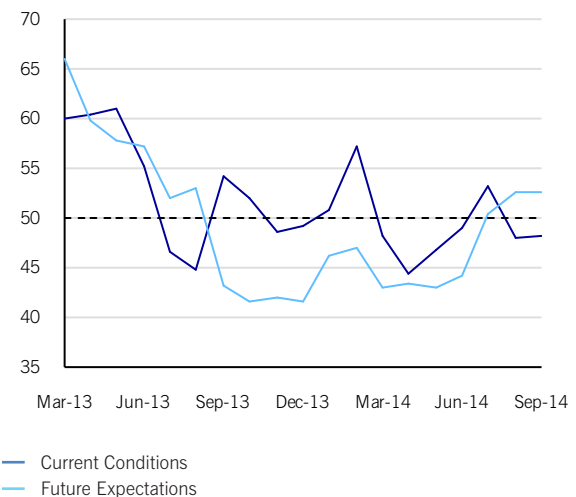
The Export Orders Indicator managed a small increase to 48.3 in September compared with 48.0 in August, although remained below the 50 threshold which separates expansion from contraction. Western economic sanctions have prevented trade with certain Russian companies, resulting in numerous joint-ventures having to be cancelled and has made new trade agreements a rarity amid fears of additional sanctions. The continued fall in the rouble, which declined below 38.5 to the US dollar after our survey period closed, should help exporters although the negative impact of the sanctions is currently outweighing any benefit.

Companies, though, remained optimistic about Export Orders in the next three months in spite of the threat of further sanctions, with the Expectations Indicator unchanged at 52.6, the highest since August 2013.

New Orders



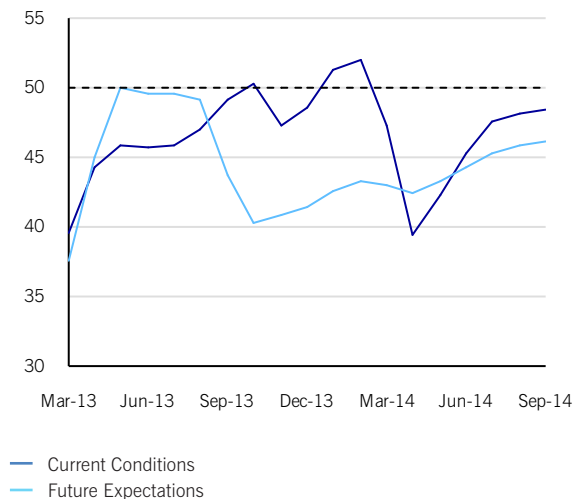
Export Orders



Orders - Current Conditions

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
New Orders	61.5	58.8	54.8	56.0	56.8	54.3	53.3
Export Orders	54.3	44.4	46.9	49.0	53.3	48.0	48.3
Order Backlogs	49.2	39.5	42.3	45.4	47.7	48.2	48.5

Order Backlogs



Order Backlogs contracted for the seventh consecutive month, standing at 48.5 in September compared with 48.2 in August. The slight improvement was led by service sector companies, where sentiment rose to the 50 breakeven level, while both construction and manufacturing companies reported no change from the previous month.

Companies remained pessimistic about demand conditions over the next three months, with the Future Expectations Indicator for Order Backlogs standing at 46.2 in September. Except for May last year, when the Future Expectations Indicator was exactly 50.0, expectations for Order Backlogs have always been in contraction, although have trended up gradually since October.

Sectors - Current Conditions

	New Orders	Export Orders	Order Backlogs
Manufacturing	↓ <50	↑ <50	— <50
Services	— >50	— <50	↑ =50
Construction	↓ >50	— =50	— =50

Sectors - Future Expectations

	New Orders	Export Orders	Order Backlogs
Manufacturing	↑ >50	— <50	↑ <50
Services	↓ >50	↑ >50	↓ <50
Construction	↓ =50	— =50	— =50

Orders - Future Expectations

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
New Orders	57.8	52.2	52.7	51.9	51.8	56.0	57.4
Export Orders	43.3	43.5	43.0	44.3	50.4	52.6	52.6
Order Backlogs	43.8	42.5	43.3	44.4	45.4	45.9	46.2

Output and Employment

Production Falls Slightly



Production remained lacklustre in September as it has been in the previous two months, although firms reported a marginal improvement in their demand for labour.

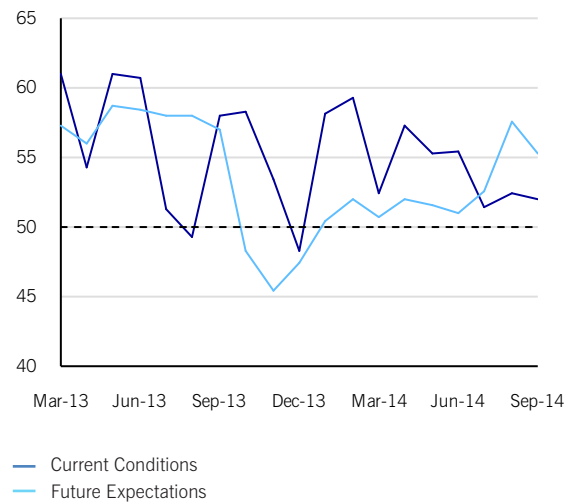
The Production Indicator fell slightly to 52.0 in September from 52.5 in the previous month, as Western sanctions against the Russian economy take their toll on our panel of companies. Sentiment among manufacturing companies fell into contraction for the first time this year, while service sector companies were less optimistic than ever before.

Expectations for the coming three months fell 4.2% to 55.3 in September compared with 57.7 in the previous month, although were still above the average of 52.6 seen so far this year.

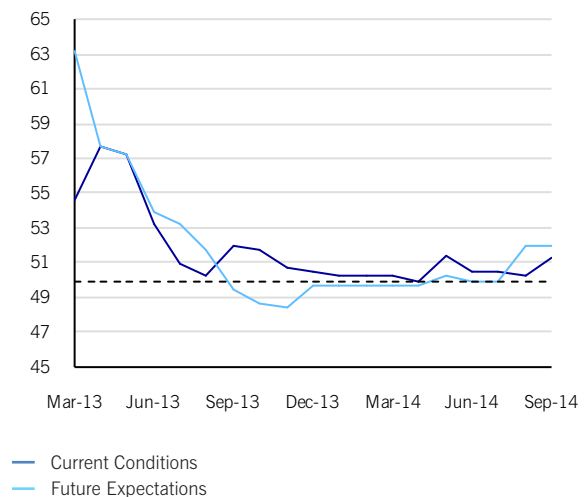
Official data showed that following six consecutive months of growth, industrial production stagnated in August after accelerating to 1.5% in the previous month. On a monthly basis, industrial production shrank by 0.2% after expanding by 2.2% in July. This was led by a drop in manufacturing output which shrank by 0.6% on the year compared with growth of 2.4% in July.

Weak consumer demand and a tough economic climate have left many companies with a high degree of excess capacity and evidence from the survey suggests that firms have done little to cut back in recent months, with the Productive Capacity Indicator rising to 51.3 in September from 50.3 last month. The rise was solely driven by an increase in capacity for service sector companies with both construction and manufacturing companies remaining unchanged at 50.0.

Production



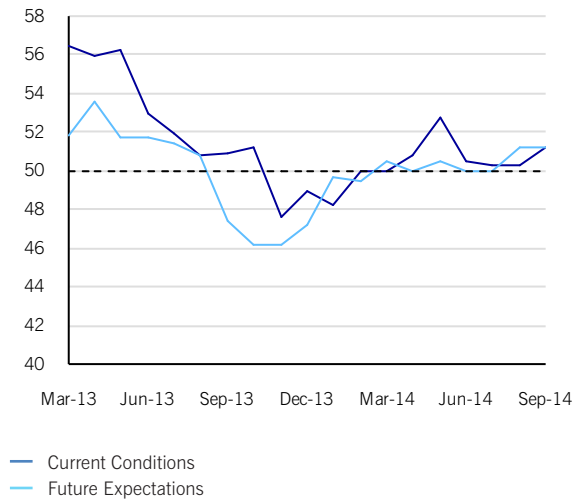
Productive Capacity



Output and Employment - Current Conditions

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Production	58.0	57.3	55.3	55.5	51.5	52.5	52.0
Productive Capacity	52.0	50.0	51.5	50.5	50.5	50.3	51.3
Employment	51.0	50.8	52.8	50.5	50.3	50.3	51.3

Employment



Sectors - Current Conditions

	Production	Productive Capacity	Employment
Manufacturing	↓ <50	— =50	— =50
Services	↓ <50	↑ >50	↑ >50
Construction	↓ >50	— =50	— =50

Sectors - Future Expectations

	Production	Productive Capacity	Employment
Manufacturing	↓ >50	— >50	— =50
Services	↓ >50	— >50	— =50
Construction	— >50	— =50	— =50

The Employment Indicator has remained relatively flat over the past 13 months, close to the 50 threshold in the face of the slowdown, a reflection of Russia's overstaffing and low levels of productivity. In September, the Employment Indicator rose by 2% to 51.3 from 50.3 previously, the highest since May, as slightly more firms said that they had too few employees, indicating an increased demand for labour.

Output and Employment - Future Expectations

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Production	57.0	52.0	51.7	51.1	52.6	57.7	55.3
Productive Capacity	49.5	49.7	50.3	50.0	50.0	52.0	52.0
Employment	47.5	50.0	50.5	50.0	50.0	51.3	51.3

Prices

Exchange Rate Continues to Hurt



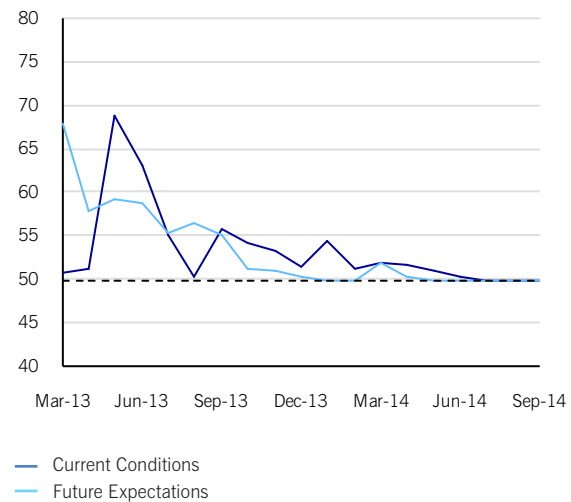
Inflationary pressures remained relatively subdued in September, in spite of the renewed weakness in the currency over the past month, with price pressures seemingly being kept in check by the weak demand backdrop.

Input prices stood at the 50 level for the third consecutive month in September and companies expected input prices to remain stable in the next three months, with the Expectations Indicator remaining flat at 50 for the fifth month in a row.

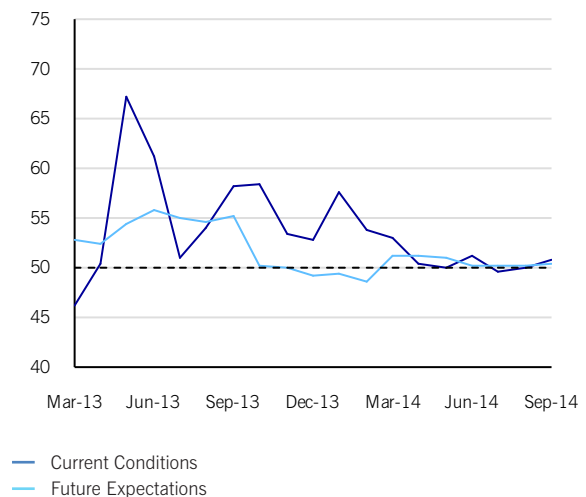
Official figures showed that consumer price inflation accelerated to 7.6% in August from 7.5% in July. Despite a ban on food imports from Western nations, in retaliation to sanctions placed upon Russia, food price inflation remained unchanged from the previous month at 9.8%. This was due to a seasonal drop in fruit and vegetable prices which fell 10.7% on the month while the price for meat rose by just 2.5% and the price for fish rose by 1.4%. Stripping out the prices of food and fuel, core inflation accelerated to 8% from 7.8% in the previous month, the highest since October 2011. The central bank has raised interest rates three times this year in a bid to counter rising prices and has stated that it is prepared to tighten monetary policy further if inflation remains too high.

While our panel reported no change in Input Prices, there was marginal increase in the Prices Received Indicator to 50.8 from 50.0 previously. The indicator for service sector companies moved into expansion, while it remained stable at the 50 level for both construction and manufacturing companies. The relatively subdued level

Input Prices



Prices Received



Prices - Current Conditions

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Input Prices	55.8	51.8	51.0	50.5	50.0	50.0	50.0
Prices Received	58.3	50.5	50.0	51.3	49.7	50.0	50.8
Exchange Rate	51.0	50.9	53.3	50.3	50.0	49.7	49.7

Money and Credit

Credit Availability Hits Record Low



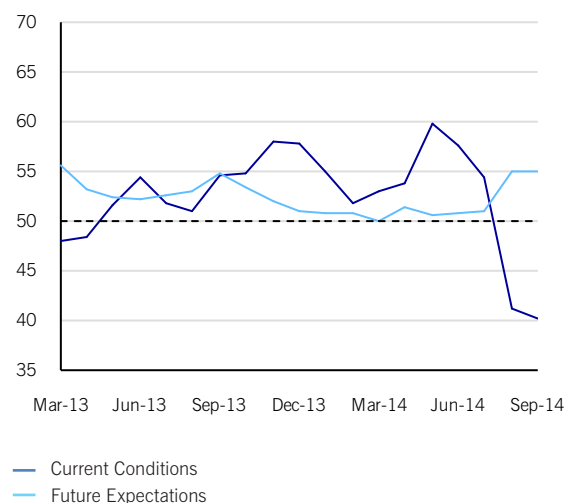
There has been much talk about whether Western sanctions are having any impact on Russia at all. A look at our Availability of Credit Indicator over the past few months, suggests that the new financial restrictions have started to bite.

Several EU and US banks had already reduced their lending to Russia businesses since the annexation of Crimea in March, although the downing of Malaysia Airlines flight MH17 prompted Western nations to step up economic sanctions by restricting Russian access to capital markets including the major state-owned banks VTB Bank, Bank of Moscow and Russian Agricultural Bank.

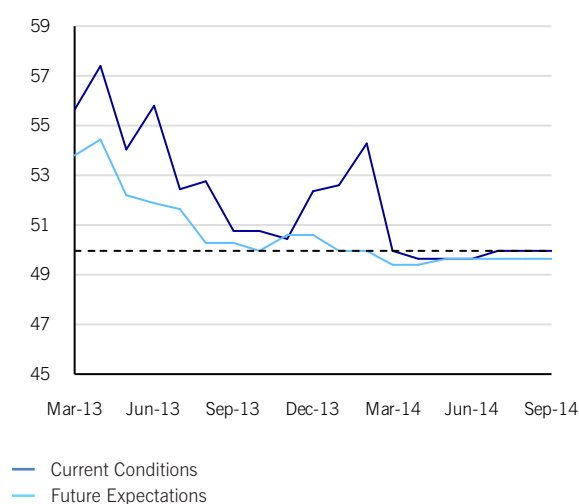
As a consequence, the Availability of Credit Indicator fell to a new series low of 40.3 in September compared with 41.3 in the previous month. Service sector companies reported much poorer credit availability with the indicator falling into contraction to a series low, while credit availability improved for construction companies. The central bank has vowed to support banks which are hit by the sanctions which possibly accounts for the Expectations Indicator remaining broadly unchanged at 55.0.

Since the onset of the Ukraine crisis, the central bank has hiked the key interest rate three times by a total of 250 basis points although the effect of this does not seem to have been passed onto businesses, with the Interest Rates Paid Indicator remaining unchanged for the third consecutive month. Moreover, companies expected that the interest rates they would pay over the coming three months will fall, with the Expectations

Availability of Credit



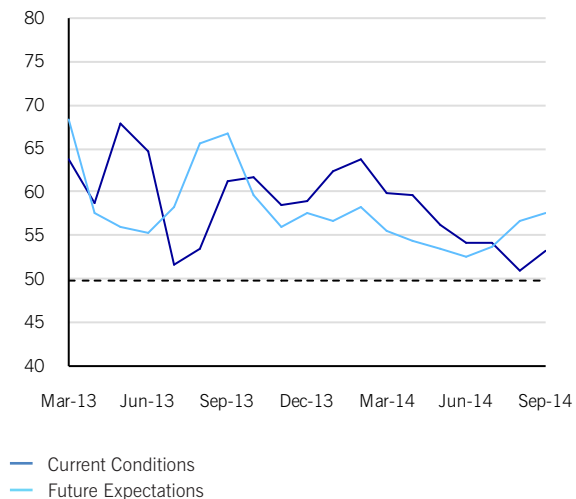
Interest Rates Paid



Money and Credit - Current Conditions

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Availability of Credit	54.7	53.9	59.9	57.7	54.5	41.3	40.3
Interest Rates Paid	50.8	49.7	49.7	49.7	50.0	50.0	50.0
Financial Position	61.4	59.8	56.3	54.3	54.3	51.0	53.3

Financial Position



Indicator remaining in contraction and flat for the fifth consecutive month.

The financial health of our panel of companies has shown a downward trend since the start of the year, exacerbated by Russia's stand-off with the West, although they reported a slight improvement in September. The Financial Position Indicator rose by 4.5% to 53.3 in September from a series low of 51.0 in August, although remained far below the series average of 58.8 suggesting that many companies continue to be hurt by the economic sanctions.

Companies were also more optimistic about their financial situation in three months' time, with the Expectations Indicator rising to 57.8 in September from

Sectors - Current Conditions

	Availability of Credit	Interest Rates Paid	Financial Position
Manufacturing	↓ <50	— =50	↓ =50
Services	↓ <50	— =50	↑ >50
Construction	↑ >50	— =50	↑ >50

Sectors - Future Expectations

	Availability of Credit	Interest Rates Paid	Financial Position
Manufacturing	↑ >50	— =50	↑ >50
Services	↑ >50	— <50	↑ >50
Construction	— =50	— =50	↑ >50

56.8 in the previous month, the highest since February. In spite of the rise, companies' expectations have weakened over the past year and in September were 13.6% below the level seen in the same month a year ago.

Money and Credit - Future Expectations

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Availability of Credit	54.9	51.5	50.6	50.8	51.0	55.1	55.0
Interest Rates Paid	50.3	49.4	49.7	49.7	49.7	49.7	49.7
Financial Position	66.9	54.4	53.6	52.7	53.9	56.8	57.8

Logistics

Inventories Lowest Since May



An increasing number of companies reported that they were running down their existing level of stocks while supplier delivery times remained unchanged.

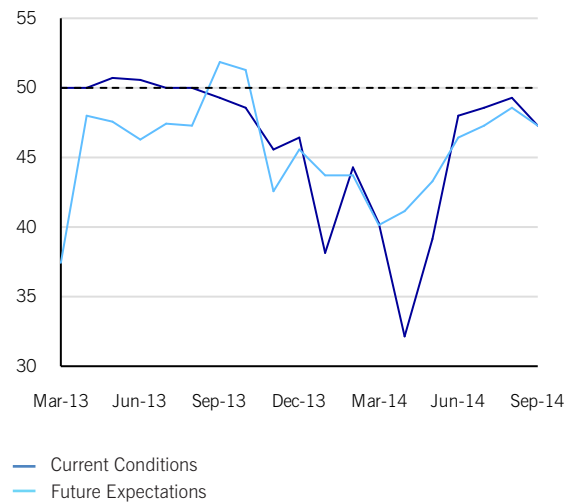
Companies have been aggressively destocking this year in the face of weak domestic and external demand. The Inventories Indicator remained in contraction for the 13th consecutive month, falling to 47.3 in September from 49.3 in the previous month. Still, the indicator remains above the record low of 32.2 recorded in April.

After remaining neutral at the 50 threshold for three consecutive months, construction companies reported that they had lower inventories in September pushing the indicator into contraction while manufacturing companies remained stable but in contraction.

Companies began destocking in September last year, long before Russia's annexation of the Crimean peninsula in March, with their expectations for the future turning negative in November. The Future Expectations Indicator fell slightly to 47.3 in September from 48.6 in the previous month.

The Supplier Delivery Times Indicator measures sentiment about the speed of supplier deliveries compared with the previous month. A reading above 50 indicates that a higher proportion of companies reported that supplier deliveries were longer compared with a month ago while a reading below 50 indicates a higher proportion of companies reporting that supplier delivery times were shorter compared with a month ago.

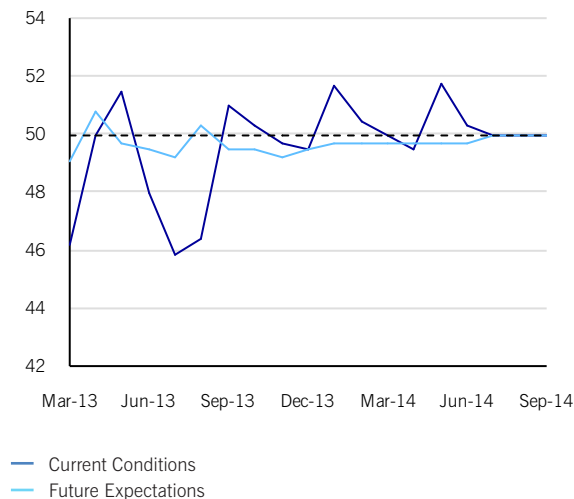
Inventories



Logistics - Current Conditions

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Inventories	49.4	32.2	39.2	48.0	48.6	49.3	47.3
Supplier Deliveries	51.0	49.5	51.8	50.3	50.0	50.0	50.0

Supplier Delivery Times



The time taken to deliver supplies to companies remained unchanged at the 50 level for the third consecutive month. Moreover, future expectations have remained broadly stable since the beginning of the survey in March last year, with the series averaging 49.7, and in September they remained flat at the 50 threshold level which separates expansion from contraction in companies' sentiment.

Sectors - Current Conditions

	Inventories of Finished Goods	Supplier Delivery Times
Manufacturing	— < 50	— = 50
Construction	↓ < 50	— = 50

Sectors - Future Expectations

	Inventories of Finished Goods	Supplier Delivery Times
Manufacturing	↓ < 50	— = 50
Construction	— < 50	— = 50

Logistics - Future Expectations

	Sep-13	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Inventories	51.9	41.2	43.4	46.5	47.3	48.6	47.3
Supplier Deliveries	49.5	49.7	49.7	49.7	50.0	50.0	50.0



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Historical Summary

	2013				2014								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
MNI Russia Business Indicator													
Current Conditions	59.0	56.3	51.5	45.5	57.9	60.0	52.5	55.6	49.2	50.5	54.6	51.5	47.5
Future Expectations	55.0	47.2	45.0	49.5	53.0	55.3	53.3	54.3	52.5	52.5	54.0	59.8	59.4
Production													
Current Conditions	58.0	58.3	53.5	48.3	58.2	59.3	52.5	57.3	55.3	55.5	51.5	52.5	52.0
Future Expectations	57.0	48.3	45.5	47.5	50.5	52.0	50.8	52.0	51.7	51.1	52.6	57.7	55.3
New Orders													
Current Conditions	61.5	59.5	53.5	48.8	57.6	62.5	57.5	58.8	54.8	56.0	56.8	54.3	53.3
Future Expectations	57.8	48.8	45.5	46.5	50.3	51.0	51.8	52.2	52.7	51.9	51.8	56.0	57.4
Export Orders													
Current Conditions	54.3	52.1	48.7	49.2	50.8	57.2	48.3	44.4	46.9	49.0	53.3	48.0	48.3
Future Expectations	43.3	41.6	42.1	41.7	46.3	47.1	43.0	43.5	43.0	44.3	50.4	52.6	52.6
Productive Capacity													
Current Conditions	52.0	51.8	50.8	50.5	50.3	50.3	50.3	50.0	51.5	50.5	50.5	50.3	51.3
Future Expectations	49.5	48.7	48.5	49.7	49.7	49.7	49.7	49.7	50.3	50.0	50.0	52.0	52.0
Order Backlogs													
Current Conditions	49.2	50.3	47.4	48.7	51.4	52.0	47.4	39.5	42.3	45.4	47.7	48.2	48.5
Future Expectations	43.8	40.4	40.9	41.5	42.7	43.3	43.0	42.5	43.3	44.4	45.4	45.9	46.2
Employment													
Current Conditions	51.0	51.3	47.7	49.0	48.3	50.0	50.0	50.8	52.8	50.5	50.3	50.3	51.3
Future Expectations	47.5	46.2	46.2	47.2	49.7	49.5	50.5	50.0	50.5	50.0	50.0	51.3	51.3
Inventories													
Current Conditions	49.4	48.7	45.7	46.5	38.2	44.4	40.4	32.2	39.2	48.0	48.6	49.3	47.3
Future Expectations	51.9	51.3	42.6	45.7	43.8	43.8	40.2	41.2	43.4	46.5	47.3	48.6	47.3
Input Prices													
Current Conditions	55.8	54.2	53.4	51.5	54.5	51.3	52.1	51.8	51.0	50.5	50.0	50.0	50.0
Future Expectations	55.3	51.3	51.0	50.5	50.0	50.0	52.1	50.3	50.0	50.0	50.0	50.0	50.0
Prices Received													
Current Conditions	58.3	58.5	53.5	52.8	57.7	53.8	53.1	50.5	50.0	51.3	49.7	50.0	50.8
Future Expectations	55.3	50.3	50.0	49.2	49.4	48.7	51.3	51.3	51.0	50.3	50.3	50.3	50.5
Financial Position													
Current Conditions	61.4	61.9	58.6	59.1	62.6	63.8	60.1	59.8	56.3	54.3	54.3	51.0	53.3
Future Expectations	66.9	59.7	56.2	57.8	56.9	58.4	55.6	54.4	53.6	52.7	53.9	56.8	57.8
Interest Rates Paid													
Current Conditions	50.8	50.8	50.5	52.4	52.6	54.3	50.0	49.7	49.7	49.7	50.0	50.0	50.0
Future Expectations	50.3	50.0	50.6	50.6	50.0	50.0	49.4	49.4	49.7	49.7	49.7	49.7	49.7
Effect of Rouble Exchange Rate													
Current Conditions	51.0	53.4	54.1	55.4	56.9	61.0	53.7	50.9	53.3	50.3	50.0	49.7	49.7
Future Expectations	50.7	50.7	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Supplier Delivery Times													
Current Conditions	51.0	50.3	49.7	49.5	51.7	50.5	50.0	49.5	51.8	50.3	50.0	50.0	50.0
Future Expectations	49.5	49.5	49.2	49.5	49.7	49.7	49.7	49.7	49.7	49.7	50.0	50.0	50.0
Availability of Credit													
Current Conditions	54.7	54.9	58.0	57.9	55.0	51.9	53.0	53.9	59.9	57.7	54.5	41.3	40.3
Future Expectations	54.9	53.4	52.0	51.1	50.9	50.9	50.0	51.5	50.6	50.8	51.0	55.1	55.0

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	54.6	54.6
Future Expectations	45.0	71.3	56.0	55.0
Production				
Current Conditions	48.3	61.1	55.3	55.3
Future Expectations	45.5	58.8	53.6	52.6
New Orders				
Current Conditions	48.8	73.8	58.0	57.5
Future Expectations	45.5	62.8	54.4	52.7
Export Orders				
Current Conditions	44.4	61.1	51.5	49.2
Future Expectations	41.6	66.0	49.4	47.1
Productive Capacity				
Current Conditions	50.0	57.7	51.8	50.8
Future Expectations	48.5	63.2	51.9	50.0
Order Backlogs				
Current Conditions	39.5	52.0	46.7	47.4
Future Expectations	37.7	50.0	44.5	43.8
Employment				
Current Conditions	47.7	56.5	51.5	50.8
Future Expectations	46.2	53.6	50.1	50.5
Inventories				
Current Conditions	32.2	50.8	46.3	48.6
Future Expectations	37.5	51.9	45.7	46.5
Input Prices				
Current Conditions	50.0	68.8	53.5	51.5
Future Expectations	50.0	67.9	53.5	51.0
Prices Received				
Current Conditions	46.3	67.3	53.7	52.8
Future Expectations	48.7	55.8	51.7	51.0
Financial Position				
Current Conditions	51.0	68.0	58.8	59.1
Future Expectations	52.7	68.5	58.0	56.9
Interest Rates Paid				
Current Conditions	49.7	57.4	52.0	50.8
Future Expectations	49.4	54.5	50.7	50.0
Effect of Rouble Exchange Rate				
Current Conditions	49.4	61.0	52.1	50.9
Future Expectations	48.2	50.7	49.8	50.0
Supplier Delivery Times				
Current Conditions	45.9	51.8	49.6	50.0
Future Expectations	49.1	50.8	49.7	49.7
Availability of Credit				
Current Conditions	40.3	59.9	52.6	53.9
Future Expectations	50.0	55.6	52.5	52.2

Historical Records - Quarterly

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator							
Current Conditions	54.0	51.1	56.8	51.8	51.2	-0.6	-1.2%
Future Expectations	58.5	47.2	53.9	53.1	57.7	4.6	8.7%
Production							
Current Conditions	52.9	53.4	56.7	56.0	52.0	-4.0	-7.1%
Future Expectations	57.7	47.1	51.1	51.6	55.2	3.6	7.0%
New Orders							
Current Conditions	55.3	53.9	59.2	56.5	54.8	-1.7	-3.0%
Future Expectations	60.3	46.9	51.0	52.3	55.1	2.8	5.4%
Export Orders							
Current Conditions	48.6	50.0	52.1	46.8	49.9	3.1	6.6%
Future Expectations	49.5	41.8	45.5	43.6	51.9	8.3	19.0%
Productive Capacity							
Current Conditions	51.1	51.0	50.3	50.7	50.7	0.0	0.0%
Future Expectations	51.5	49.0	49.7	50.0	51.3	1.3	2.6%
Order Backlogs							
Current Conditions	47.4	48.8	50.3	42.4	48.1	5.7	13.4%
Future Expectations	47.6	40.9	43.0	43.4	45.8	2.4	5.5%
Employment							
Current Conditions	51.3	49.3	49.4	51.4	50.6	-0.8	-1.6%
Future Expectations	49.9	46.5	49.9	50.2	50.9	0.7	1.4%
Inventories							
Current Conditions	49.8	47.0	41.0	39.8	48.4	8.6	21.6%
Future Expectations	48.9	46.5	42.6	43.7	47.7	4.0	9.2%
Input Prices							
Current Conditions	53.8	53.0	52.6	51.1	50.0	-1.1	-2.2%
Future Expectations	55.8	50.9	50.7	50.1	50.0	-0.1	-0.2%
Prices Received							
Current Conditions	54.4	54.9	54.9	50.6	50.2	-0.4	-0.8%
Future Expectations	55.0	49.8	49.8	50.9	50.4	-0.5	-1.0%
Financial Position							
Current Conditions	55.6	59.9	62.2	56.8	52.9	-3.9	-6.9%
Future Expectations	63.7	57.9	57.0	53.6	56.2	2.6	4.9%
Interest Rates Paid							
Current Conditions	52.0	51.2	52.3	49.7	50.0	0.3	0.6%
Future Expectations	50.8	50.4	49.8	49.6	49.7	0.1	0.2%
Effect of Rouble Exchange Rate							
Current Conditions	50.0	54.3	57.2	51.5	49.8	-1.7	-3.3%
Future Expectations	49.7	50.2	50.0	50.0	50.0	0.0	0.0%
Supplier Delivery Times							
Current Conditions	47.8	49.8	50.7	50.5	50.0	-0.5	-1.0%
Future Expectations	49.7	49.4	49.7	49.7	50.0	0.3	0.6%
Availability of Credit							
Current Conditions	52.6	56.9	53.3	57.2	45.4	-11.8	-20.6%
Future Expectations	53.6	52.2	50.6	51.0	53.7	2.7	5.3%

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