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# MNI Russia Business Report November 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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## Release Time

Embargoed until 9:45 a.m. Moscow time  
November 28, 2014

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# MNI Russia Business Report - November 2014

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# Russia's Fiscal Black Hole

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While the economic sanctions and weakening in the rouble have certainly dented Russia's economy, it is perhaps the slide in the price of oil which will hurt Russia the most over the coming year.

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After Brent crude oil peaked at \$115 a barrel in June, the global benchmark for oil has fallen by more than 40% to almost \$70 a barrel now. The decline is the result of the slowdown in both European and Asian economies, resulting in lower demand from these regions, as well as the oversupply of oil that has been compounded by shale drilling in the US.

With oil accounting for around half of Russia's annual budget revenue, Finance Minister Anton Siluanov recently stated that he estimates that the lower price of oil has cost Russia's economy as much as \$100 billion this year, compared with the cost of sanctions which he estimates to be \$40 billion.

On November 27, the 12 member states of the Organisation of the Petroleum Exporting Countries (OPEC), along with Russia and Mexico, met at their headquarters in Vienna to seek a solution to the considerable decline in the price of oil. At the summit, delegates chose to retain OPEC's target production ceiling of 30 million barrels a day; a move that is likely to maintain downward pressure on prices as supply continues to outstrip demand.

In the short-term, Russia will be able to cope with the lower price of oil. Assuming there is not a considerable fall in the price of oil, the average price for this year will come in a little higher than the \$100 a barrel assumption for the budget in 2014. Also, Russia's fiscal budget, denominated in roubles, will be helped significantly by the depreciation in the rouble.

Russia's fiscal budget for 2015, though, is also based on an oil price of \$100 per barrel and continued weakness in prices will see Russia eventually having to dip into its reserves in order to meet the shortfall. Russia's reserves have already taken a beating over the past couple of months after the central bank spent more than \$30 billion defending the slide in the rouble before allowing it to float freely.

The oil industry has already been hit with sanctions by Western nations this year. Both the EU and US have prohibited major Russian oil companies from raising capital on their financial markets in addition to banning the export of advanced oil technologies to such companies. Russia's largest oil company, Rosneft, recently requested state aid totalling 2 trillion roubles (\$49 billion) from the government's National Welfare Fund after being hurt by the sanctions, although it looks unlikely to receive the full amount.

While the short-term impact of the fall in the price of oil might be manageable, in the longer term it will be detrimental and adds to the long list of woes that the central bank and government already have to face.

**George Brown**

Junior Economist

MNI Indicators



# Executive Summary

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The MNI Russia Business Indicator remained broadly stable at 46.8 in November compared with 46.7 in October as a significantly weaker rouble and Western sanctions continued to take their toll on business sentiment.

The MNI Russia Business Indicator remained broadly stable at 46.8 in November compared with 46.7 in October as a significantly weaker rouble and Western sanctions continued to take their toll on business sentiment.

The vast majority of our panel considered overall business conditions had not changed since October, although 15.5% of respondents thought that they had worsened. As expected, there was also a decline in the near-term outlook, but companies were still relatively more optimistic about future business conditions. The Future Expectations Indicator fell by 2.6% to 56.1 in November from 57.6 in October.

Manufacturing sector companies turned marginally optimistic about overall business conditions, while the indicator for both service and construction sector companies remained below the 50 level that separates optimism from pessimism.

Firms continued to be hurt by the exchange rate after the rouble declined to a fresh low against the US dollar during our survey period. The Effect of the Rouble Exchange Rate Indicator, which measures the impact of the exchange rate on business, fell to an all-time low of 46.2 in November.

Exporters have not reported any benefit from the weaker rouble, with the Export Orders Indicator falling to 47.7, the lowest since May. Overall, demand was also down with New Orders falling to a record low of 48.3.

The fall in both domestic and foreign orders was accompanied by a decline in Production to 50.8, the lowest level since December 2013. Inventories reached an all-time high of 52.0 in November, suggesting that companies were not scaling back fast enough in the face of weak demand.

The decision by the Russian central bank to sharply raise the key interest rate to 9.5% at its meeting on October 31 most likely accounted for the worsening in credit conditions. The Availability of Credit Indicator declined the most out of the 15 components included in the business survey, falling by 13.2% to 41.5.

High inflation and the depreciation in the rouble caused input costs to rise above the 50 threshold level to 50.8 for the first time in five months. Consequently, firms in our panel charged higher prices for their goods and services with the Prices Received Indicator rising to 51.0 in November.

In November, seven out of the 15 components in the MNI Russia Business Sentiment survey contracted, while six of the future expectations indicators fell on the month.

## Overview

	Sep-14	Oct-14	Nov-14	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
<b>MNI Russia Business Indicator</b>								
Current Conditions	47.5	46.7	46.8	Sep-14	-	47.0	0.1	0.2%
Future Expectations	59.4	57.6	56.1	-	Jul-14	57.7	-1.5	-2.6%
<b>Production</b>								
Current Conditions	52.0	54.3	50.8	-	Dec-13	52.4	-3.5	-6.4%
Future Expectations	55.3	53.5	52.4	-	Jun-14	53.7	-1.1	-2.1%
<b>New Orders</b>								
Current Conditions	53.3	52.8	48.3	-	series low	51.5	-4.5	-8.5%
Future Expectations	57.4	54.0	52.9	-	Jul-14	54.8	-1.1	-2.0%
<b>Export Orders</b>								
Current Conditions	48.3	49.3	47.7	-	May-14	48.4	-1.6	-3.2%
Future Expectations	52.6	51.1	52.5	Sep-14	-	52.1	1.4	2.7%
<b>Productive Capacity</b>								
Current Conditions	51.3	50.0	50.5	Sep-14	-	50.6	0.5	1.0%
Future Expectations	52.0	51.0	50.5	-	Jul-14	51.2	-0.5	-1.0%
<b>Order Backlogs</b>								
Current Conditions	48.5	49.0	49.0	Oct-14	-	48.8	0.0	0.0%
Future Expectations	46.2	47.0	47.5	Aug-13	-	46.9	0.5	1.1%
<b>Employment</b>								
Current Conditions	51.3	50.0	50.0	Oct-14	-	50.4	0.0	0.0%
Future Expectations	51.3	50.5	50.5	Oct-14	-	50.8	0.0	0.0%
<b>Inventories</b>								
Current Conditions	47.3	49.3	52.0	series high	-	49.5	2.7	5.5%
Future Expectations	47.3	48.6	49.3	Oct-13	-	48.4	0.7	1.4%
<b>Input Prices</b>								
Current Conditions	50.0	50.0	50.8	May-14	-	50.3	0.8	1.6%
Future Expectations	50.0	50.0	50.0	Oct-14	-	50.0	0.0	0.0%
<b>Prices Received</b>								
Current Conditions	50.8	50.8	51.0	Jun-14	-	50.9	0.2	0.4%
Future Expectations	50.5	50.5	50.0	-	Feb-14	50.3	-0.5	-1.0%
<b>Financial Position</b>								
Current Conditions	53.3	52.5	51.3	-	Aug-14	52.4	-1.2	-2.3%
Future Expectations	57.8	58.1	58.4	Feb-14	-	58.1	0.3	0.5%
<b>Interest Rates Paid</b>								
Current Conditions	50.0	49.5	49.5	Oct-14	-	49.7	0.0	0.0%
Future Expectations	49.7	50.0	50.5	Dec-13	-	50.1	0.5	1.0%
<b>Effect of Rouble Exchange Rate</b>								
Current Conditions	49.7	49.4	46.2	-	series low	48.4	-3.2	-6.5%
Future Expectations	50.0	49.7	49.7	Oct-14	-	49.8	0.0	0.0%
<b>Supplier Delivery Times</b>								
Current Conditions	50.0	50.0	50.0	Oct-14	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Oct-14	-	50.0	0.0	0.0%
<b>Availability of Credit</b>								
Current Conditions	40.3	47.8	41.5	-	Sep-14	43.2	-6.3	-13.2%
Future Expectations	55.0	53.6	53.4	-	Jul-14	54.0	-0.2	-0.4%



# The MNI Russia Business Indicator stood at 46.8 in November...

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...compared with 46.7 in October.



# Economic Landscape

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After significantly weakening over the past couple of months, the rouble has stabilised somewhat after the central bank brought forward a planned float of the currency.

After significantly weakening over the past couple of months, the rouble has stabilised somewhat after the central bank brought forward a planned float of the currency. On November 10, the central bank abandoned its support for the currency by abolishing the exchange rate mechanism, adding that it would only intervene if there was a threat to financial stability, thus allowing the currency to float freely. While the currency has firmed following the decision, downward pressure remains, not least from the continued decline in the price of oil. Russia met with the 12 member states of the Organisation of the Petroleum Exporting Countries (OPEC) this week to discuss potential measures to prop up the price of oil. At the summit, delegates chose to retain OPEC's target production ceiling of 30 million barrels a day; a move that is likely to maintain downward pressure on prices as supply continues to outstrip demand.

Russian economic growth slowed slightly in the third quarter of this year. The weakening in the rouble and falling oil prices since September, though, points to a contraction in growth in Q4. Industrial production remained strong in October, boosted by the manufacturing sector due to import substitution from the ban on Western food imports and the utilities sector following the commencement of construction on a new gas pipeline to China.

### Economic growth slows

The latest GDP figures from the Federal Statistics Service revealed that the economy slowed to 0.7% in the three months to September from 0.8% in the previous quarter. The slowdown in growth was, however, much more muted than many had anticipated given the imposition of Western sanctions and the food ban on the economy. While more granular level GDP data is not yet available, many are attributing the resilience of the economy to a good harvest and strong industrial production on the back of import substitution and the commencement of a gas pipeline project to China. Nevertheless, since the end of Q3, Russia has been hit by a significant weakening in the rouble and a slide in oil prices which will likely take their toll on the economy. We therefore anticipate a contraction on the year in the final quarter of 2014 before slipping into recession in 2015.

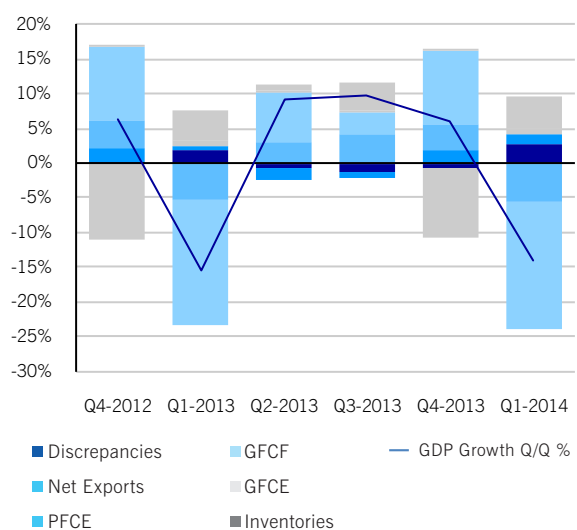
The economy ministry had predicted GDP growth of 2.5% this year before the turmoil in Ukraine. This has, though, been dramatically reduced to just 0.5%, following paltry growth of 1.3% in 2013. They have also halved their growth forecast for 2015 to 1% from 2% previously. The central bank, meanwhile, has estimated that growth will be 0.3% in 2014 and stagnant in 2015, while anticipating that Western sanctions will remain in place until 2017.

### Economic Growth



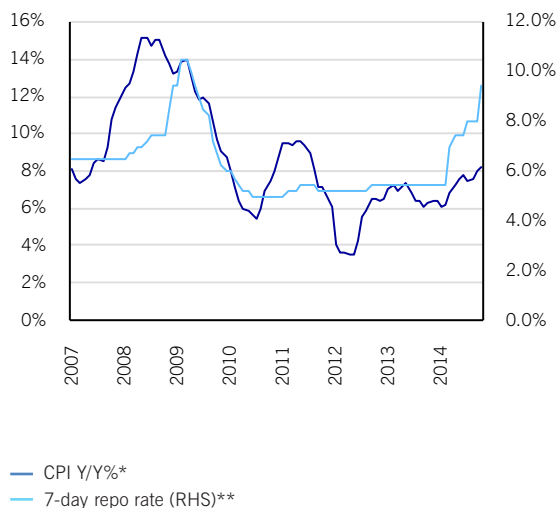
Source: Federal State Statistics Service of Russia

### Contribution to Economic Growth



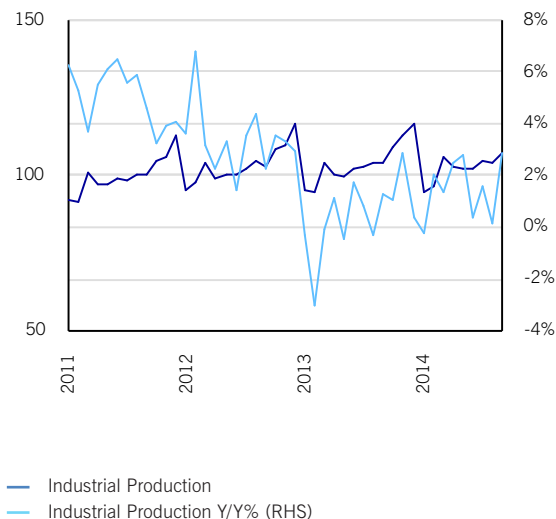
Source: Federal State Statistics Service of Russia

### Inflation and Interest Rate



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

### Industrial Production



Source: Federal State Statistics Service of Russia

However, both of these forecasts assume an oil price of at least \$95 a barrel in 2015. Given the subsequent fall in the oil price to almost \$70 a barrel, GDP looks set to contract in 2015.

#### Industrial production expands in October

Industrial production rose by 2.9% on the year in October following growth of 2.8% in September. On a monthly basis, industrial production rose by 5.1% in October after growing by 2.7% in September.

The improvement was led by manufacturing output, which grew by 3.6% on the year in October for the second consecutive month. The Russian ban on Western food imports has provided a boost to domestic food manufacturers, which accounts for the strong growth for both September and October, following a contraction in August. Industrial production was also boosted by utilities output, which grew by 2.8% on the year in October following a contraction of 0.8% in September as construction started on a new gas pipeline to China following the signing of a \$400 billion contract in May. Growth in mining and quarrying output was comparatively more muted, slowing to 1.9% on the year in October from 2.4% in the previous month.

In the first 10 months of 2014, industrial production grew 1.6% on the year compared with growth of 0.2% in the same period a year ago. Russia's Economic Development Ministry recently revised up its forecast for industrial output, expecting it to expand by about 1.7% this year from 1% previously, after growing by just 0.4% in 2013.

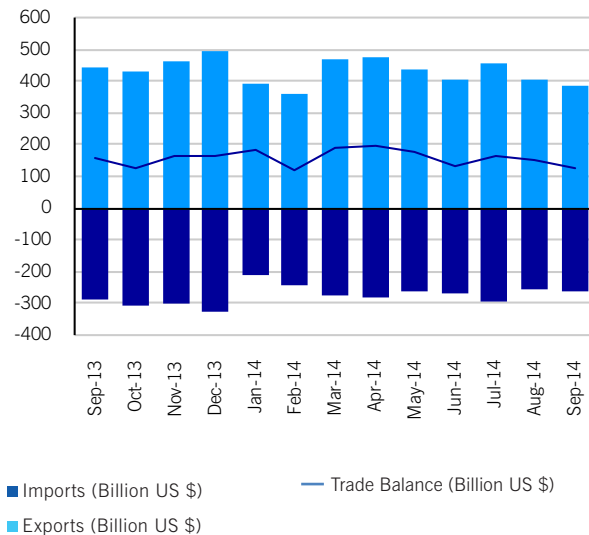
#### Inflation rises in October

Consumer price inflation accelerated to 8.3% in October from 8% in September, the highest since July 2011. A ban on food imports from Western nations, in retaliation to sanctions placed upon Russia, caused food price inflation to reach 11.5% in October driven by the price of meat and poultry which was 18.2% above the same month last year. Even after stripping out the prices of food and fuel, core inflation accelerated to 8.4% from 8.2% in the previous month, the highest since July 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, leaving the central bank very much on a tightening bias.

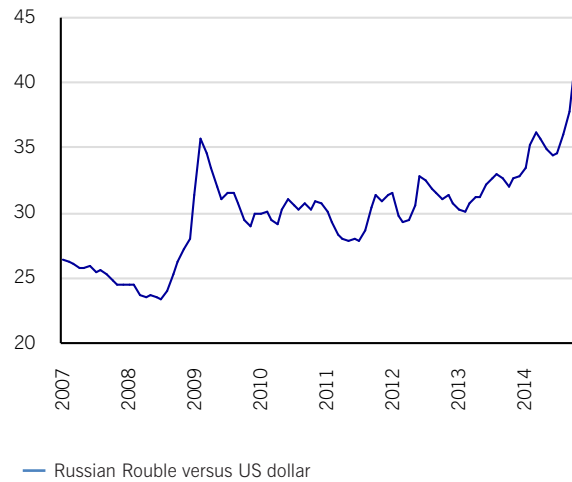
Russia's Economy Ministry currently forecasts that inflation will be around 7-7.5% by the end of 2014 and

### Trade Balance



Source: Central Bank of Russia

### Rouble Exchange Rate



Source: Central Bank of Russia

expects inflation to lie between 6-7% at the end of 2015. Both forecasts are likely to be exceeded given the slide in the rouble and the Russian food ban which appears unlikely to be lifted in the short-term.

### Key Policy Rate Hiked to 9.5%

At its meeting on October 31, Russia's central bank raised the key interest rate by 150 basis points to 9.5% in an effort to stem the slide in the rouble. The central bank has now raised the benchmark interest rate four times this year by a total of 400 basis points.

The hike was far above expectations, with the central bank citing the considerable fall in oil prices and stricter sanctions as the main reasons for the slide in the rouble which had caused such a bold tightening in order to rein in spiralling inflation. The central bank now estimates that inflation is likely to remain above 8% until March 2015, far above the inflation target of 5% (+/-1.5%) for 2014.

Despite this, the central bank has retained its inflation targets of 4.5-5% for 2015 and 3.7-4.2% in 2016 which will almost certainly require further tightening of monetary policy in order for them to be met. These targets are increasingly overambitious given the 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, which are likely push inflation up.

### Rouble Hits Record Low

The rouble fell to 48 against the US dollar for the first time on November 7, in spite of the hike in the key interest rate, as the slump in oil prices continued and amid reports of fresh Russia military incursions into Ukraine.

Economic sanctions and the slide in the price of oil caused the rouble to breach the central bank's trading range in October sparking unlimited interventions from the central bank to defend the currency, the first time it has had to do so since May. In October alone, the central bank spent more than \$30 billion defending the rouble. On November 10, the central bank abandoned its support for the currency by abolishing the exchange rate mechanism, adding that it would only intervene if there was a threat to financial stability.



### Trade surplus narrows in September

Russia's trade surplus narrowed to \$13 billion in September, from \$16.6 billion a month earlier, and was above \$16.1 billion recorded a year earlier.

Exports fell to \$38.8 billion in September, down from August's reading of \$41 billion, and were 13.5% below the same month a year earlier. Imports rose to \$25.8 billion in September from \$25 billion in August.

Russia is the second largest exporter of oil in the world, the fall in global oil prices therefore accounts for the steep 13.5% decline on the year in exports. Oil prices have fallen even further since September to almost \$70 a barrel in November and so it is likely that this trend will continue in the months to come.

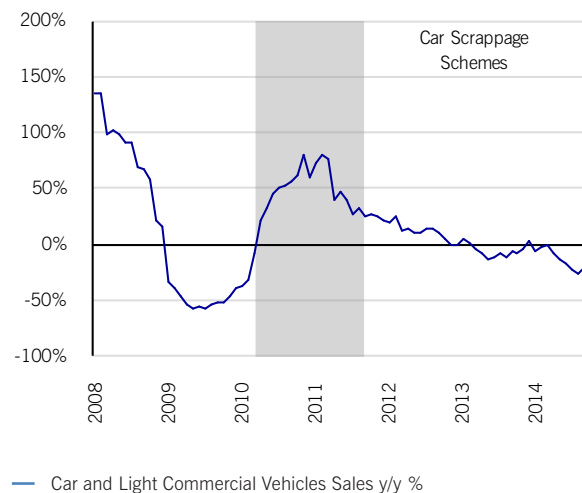
### Car sales fall in October

In October, 211,365 cars were sold in Russia, 9.9% 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 four times since the start of the year, has had a significant dampening effect on consumer spending on cars. The AEB has forecast a 12% decline in car sales during 2014 following a drop of 5.5% in the previous year.

The ten months to October saw a decline of 12.7% in car sales compared with the same period a year earlier. The government has recently introduced a car scrappage and trade-in scheme, in an attempt to kick-start the market. Under the programme, consumers who trade in a car which is at least six-years old are eligible for a discount of at least 40,000 roubles (around \$1,000) off a new vehicle. While the government measures have not reversed the downward trend in car sales, it has certainly helped to mitigate them with the decline in October considerably below the 25.8% fall in August just prior to the introduction of the scrappage scheme.

### Car Sales



Source: Association of European Businesses

# GDP slowed to 0.7% on the year in the three months to September...

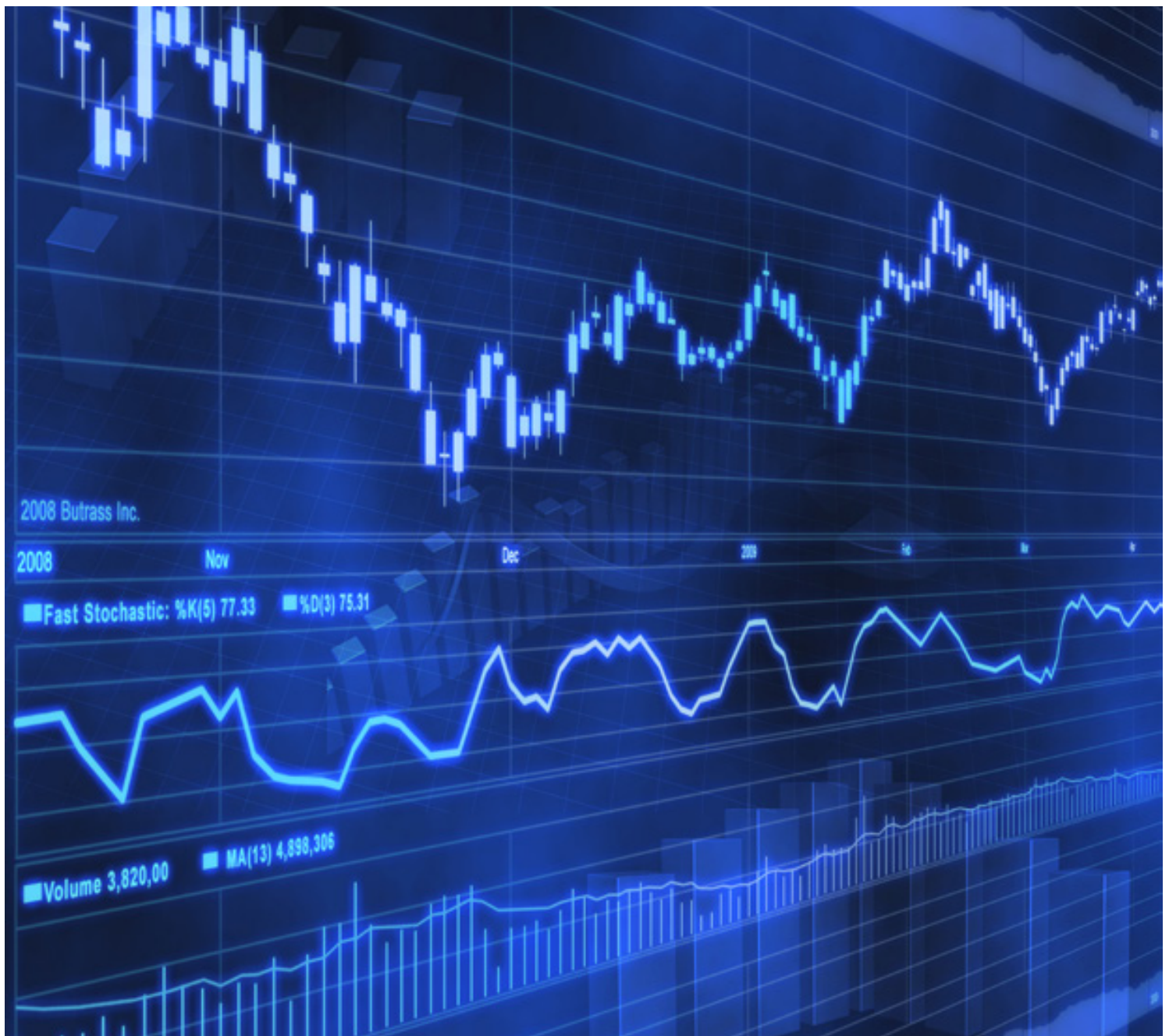
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...from 0.8% in the previous quarter.

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# Indicators

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Business confidence among Russian companies remained weak in November as Western sanctions continued to take their toll on an already struggling economy, amid a weak demand backdrop, depreciating rouble and falling oil prices.

# MNI Russia Business Indicator

## Business Sentiment Remains Subdued



Business confidence among Russian companies remained weak in November as Western sanctions continued to take their toll on an already struggling economy, amid a weak demand backdrop, depreciating rouble and falling oil prices.

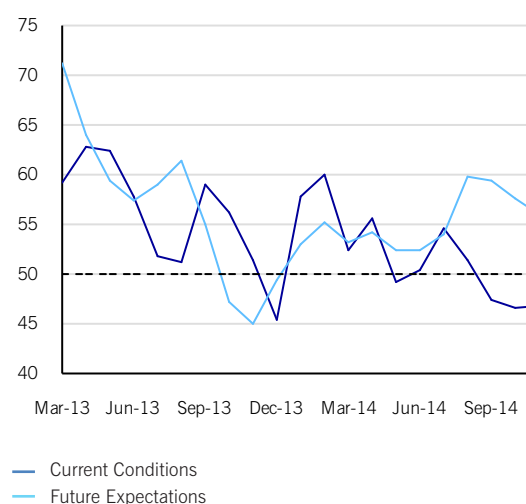
The MNI Russia Business Indicator stood at 46.8 in November compared with 46.7 in October. The vast majority of our panel considered overall business conditions had not changed since October, although 15.5% of respondents thought that they had worsened. As expected, there was also a decline in the near-term outlook, but companies were still relatively more optimistic about future business conditions. The Future Expectations Indicator fell by 2.6% to 56.1 in November from 57.6 in October.

Latest official data revealed that economic growth slowed to 0.7% in the three months to September, down from 0.8% in the previous quarter. There is a clear correlation between GDP growth and quarterly movements in the MNI Russia Business Sentiment Indicator, reflected in the decline in the three-month trend to 51.2 in September from 51.8 in June. Consequently, the considerable weakness in both our October and November surveys points to a further easing in growth in the final quarter of 2014.

Companies continued to suffer from the economic sanctions which have prevented many of Russia's largest state-owned companies from raising capital on Western financial markets. The Availability of Credit Indicator fell sharply by 13.2% to 41.5 from 47.8 in October, posting the largest decline on the month.

The rouble continued its rapid descent and fell to a fresh low of 48 to the US dollar during our survey period, fuelling fears of economic instability among companies.

MNI Russia Business Indicator



MNI Russia Business Indicator

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Current Conditions	51.5	50.5	54.6	51.5	47.5	46.7	46.8



The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, fell to a series low in November. The weakness of the currency did not seem to benefit exporters with the Export Orders Indicator falling to the lowest since May, as the negative impact of Western sanctions likely outweighed any benefit.

Manufacturing sector companies turned marginally optimistic about overall business conditions, while the indicator for both service and construction sector companies remained below the 50 level that separates optimism from pessimism.

The fall in both domestic and foreign orders was accompanied by a fall in Production to the lowest level since December 2013. Inventories reached an all-time high in November, suggesting that companies are not scaling back fast enough in the face of weaker demand.

In November, seven out of the 15 components in the MNI Russia Business Sentiment survey contracted, while six of the future expectations indicators fell on the month.

#### Sectors - Overall Business Conditions

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

#### MNI Russia Business Indicator

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Future Expectations	45.0	52.5	54.0	59.8	59.4	57.6	56.1

## Orders

### New Orders at Record Low



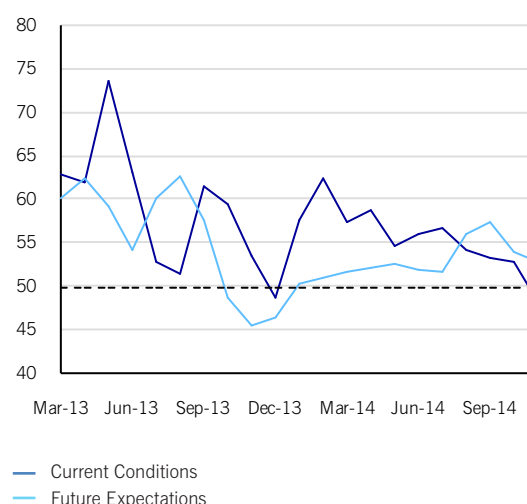
In spite of the significantly weaker rouble, foreign demand for Russian goods and services declined further, while New Orders fell into contraction for the first time this year as companies continued to suffer from Western sanctions and weak demand.

Demand for Russian goods and services declined severely in November with the New Orders Indicator falling by 8.5% to 48.3 in November from 52.8 in October, the lowest reading in the survey's history. The EU and US have 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 across the three sectors have weakened, with the three month trend for New Orders averaging 51.5 in November, a series' low.

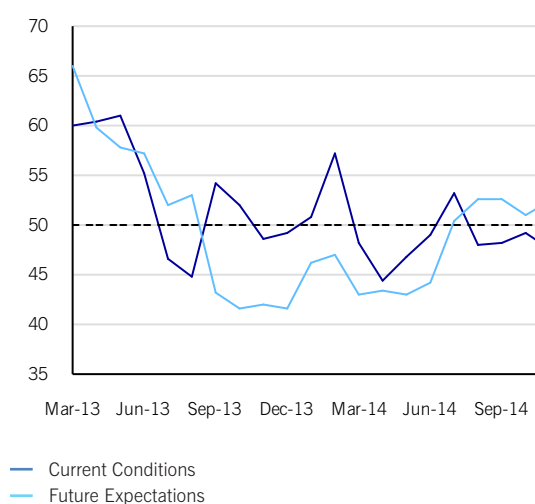
The Export Orders Indicator fell to the lowest since May to 47.7 in November from 49.3 in October. Western economic sanctions have prevented trade with certain Russian companies, resulting in numerous joint-ventures having to be cancelled, while new trade agreements have become a rarity amid fears of additional sanctions. The decline in the rouble to a fresh low of 48 to the US dollar during our survey period, should help exporters that are unaffected by the sanctions, although the negative impact of the sanctions is currently outweighing any benefit. Companies with overseas debt are also impacted negatively by rouble's weakness.

Our panel was more optimistic about export orders in the next three months, with the Expectations Indicator rising to 52.5 in November from 51.1 in October as companies likely anticipated that the weakening in the rouble would eventually help to boost foreign demand.

#### New Orders



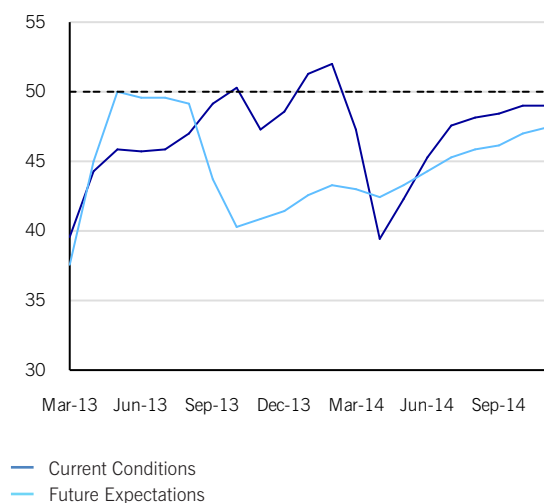
#### Export Orders



#### Orders - Current Conditions

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
New Orders	53.5	56.0	56.8	54.3	53.3	52.8	48.3
Export Orders	48.7	49.0	53.3	48.0	48.3	49.3	47.7
Order Backlogs	47.4	45.4	47.7	48.2	48.5	49.0	49.0

## Order Backlogs



Order backlogs remained in contraction amid the weak demand backdrop, with the Order Backlogs Indicator standing at 49.0 in November, the ninth consecutive month it has been below the 50 level. The Future Expectations Indicator for Order Backlogs remained firmly in contraction, albeit rising slightly to 47.5 in November from 47.0 in October. 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 2013.

## 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

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
New Orders	45.5	51.9	51.8	56.0	57.4	54.0	52.9
Export Orders	42.1	44.3	50.4	52.6	52.6	51.1	52.5
Order Backlogs	40.9	44.4	45.4	45.9	46.2	47.0	47.5

# Output and Employment

## Production Lowest Since December 2013



Given the weak level of demand, production fell to the lowest level this year among our panel of Moscow Exchange-listed Russian companies.

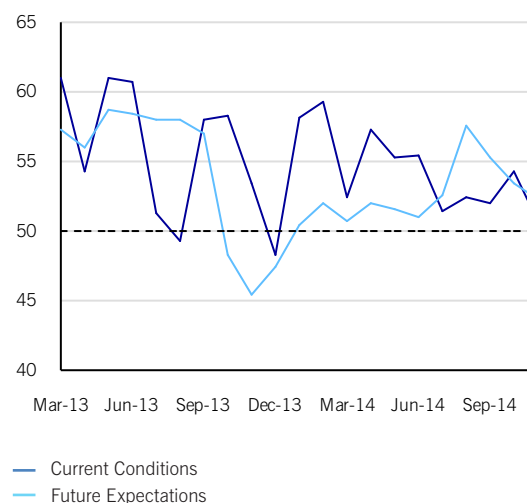
The Production Indicator fell by 3.5 points to 50.8 in November from 54.3 in the previous month and was 5% below the same month a year earlier. Both construction and service sector companies scaled back their production, while manufacturing companies expanded output and were the only sector for which the indicator was above the 50 level.

Western sanctions against the Russian economy have taken their toll on our panel of companies in recent months, causing the demand backdrop to considerably worsen. Indeed, our panel reported that they had received fewer orders from both domestic and foreign firms this month.

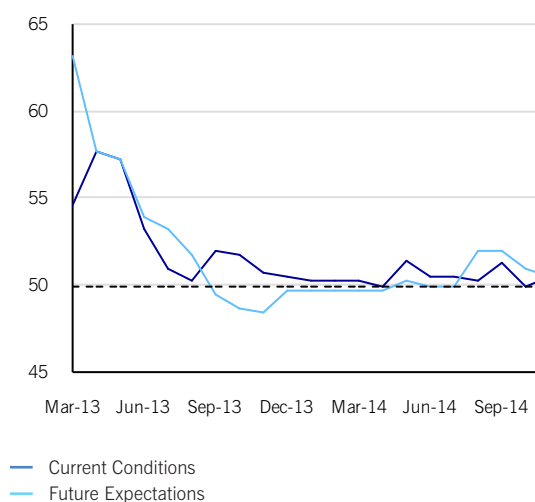
Expectations for Production in the coming three months fell 2.1% to 52.4 in November compared with 53.5 in the previous month, although were still above the average of 52.7 seen so far this year.

Official data showed that industrial production rose by 2.9% on the year in October following growth of 2.8% in September. On a monthly basis, industrial production rose by 5.1% in October after growing by 2.7% in September. The improvement was driven by both manufacturing and utilities output which grew by 3.6% and 2.8% on the year respectively in October, with the later expanding by a remarkable 29% in monthly terms following the commencement of construction of a new gas pipeline to China.

### Production



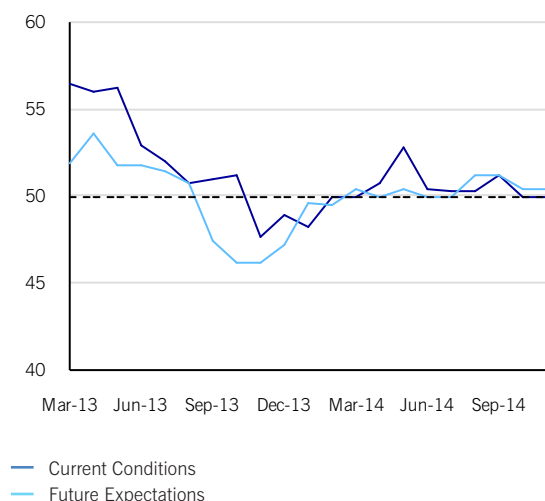
### Productive Capacity



### Output and Employment - Current Conditions

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Production	53.5	55.5	51.5	52.5	52.0	54.3	50.8
Productive Capacity	50.8	50.5	50.5	50.3	51.3	50.0	50.5
Employment	47.7	50.5	50.3	50.3	51.3	50.0	50.0

## 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

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 50.5 in November from a series low of 50.0 last month.

The Employment Indicator has remained relatively flat over the past 15 months, close to the 50 threshold which separates expansion from contraction. In November, the Employment Indicator remained at 50.0 as firms reported that they had just the right number of employees.

## Output and Employment - Future Expectations

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Production	45.5	51.1	52.6	57.7	55.3	53.5	52.4
Productive Capacity	48.5	50.0	50.0	52.0	52.0	51.0	50.5
Employment	46.2	50.0	50.0	51.3	51.3	50.5	50.5



## Prices

# Exchange Rate Hurting More Than Ever Before



High inflation and the depreciation in the rouble were key negatives in November, causing input costs to rise and companies to charge more for their goods and services.

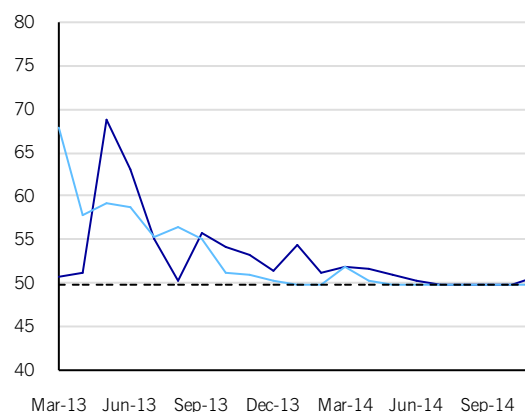
Input Prices rose above the 50 threshold level to 50.8 for the first time in five months. Companies, though, expected prices to remain stable over the next three months, with the Expectations Indicator remaining flat at 50.0.

Official figures showed that consumer price inflation accelerated to 8.3% in October from 8% in September, the highest since July 2011. A Russian ban on Western food imports caused food price inflation to reach 11.5% in October driven by the price of meat and poultry which was 18.2% above the same month last year. Even after stripping out the prices of food and fuel, core inflation accelerated to 8.4% from 8.2% in the previous month, the highest since July 2011. The Russian central bank has raised the official interest rate four times by a total of 400 basis points 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.

In line with Input Prices, firms in our panel charged higher prices for their goods and services with the Prices Received Indicator rising to 51.0 in November from 50.8 in the previous month.

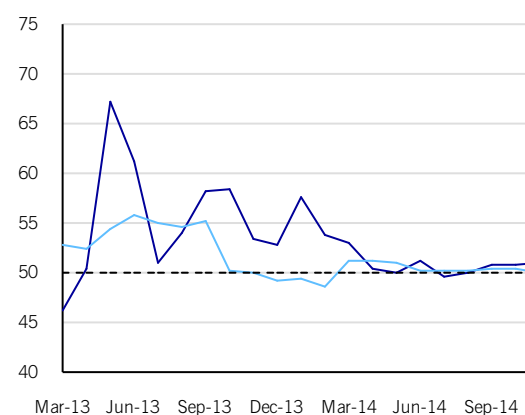
Inflationary pressures have been compounded by the rapid descent of the rouble to a fresh low of 48 to the US dollar during our survey period, fuelling fears of economic instability among companies. The Effect of the Rouble Exchange Rate Indicator, which measures whether the exchange rate is helping or hurting businesses, fell to a series low of 46.2 in November from 49.4 in October.

### Input Prices



— Current Conditions  
— Future Expectations

### Prices Received



— Current Conditions  
— Future Expectations

### Prices - Current Conditions

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Input Prices	53.4	50.5	50.0	50.0	50.0	50.0	50.8
Prices Received	53.5	51.3	49.7	50.0	50.8	50.8	51.0
Exchange Rate	54.1	50.3	50.0	49.7	49.7	49.4	46.2

The chart displays the death rate per 100,000 population in the United States from March 2013 to September 2014. The y-axis represents the death rate, ranging from 45 to 65. The x-axis shows time in months, with labels for Mar-13, Jun-13, Sep-13, Dec-13, Mar-14, Jun-14, and Sep-14. A dark blue line represents the observed death rate, which shows a significant peak in early 2014, reaching over 60 deaths per 100,000. A light blue line represents the expected death rate, which remains relatively flat around 50. A horizontal dashed line is also present at the 50 mark.

Month	Observed Death Rate (per 100,000)	Expected Death Rate (per 100,000)
Mar-13	50.0	49.0
Jun-13	51.0	49.5
Sep-13	49.5	49.0
Dec-13	54.0	50.0
Mar-14	61.0	50.0
Jun-14	50.0	50.0
Sep-14	46.0	50.0

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# Money and Credit

## Financial Position Weakest Since August



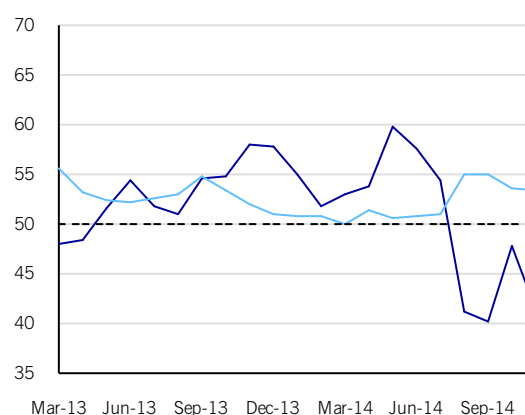
There has been much debate about whether Western sanctions are having any impact on Russia at all. A look at our Availability of Credit Indicator over the past few months suggests that the capital restrictions have certainly hurt our panel of companies.

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, credit availability to firms has been severely dented.

In November, the Availability of Credit Indicator fell sharply by 13.2% to 41.5 from 47.8 in October, posting a record decline on the month. All three sectors reported poorer credit availability this month with the indicator below the 50 level for manufacturing and service sector companies.

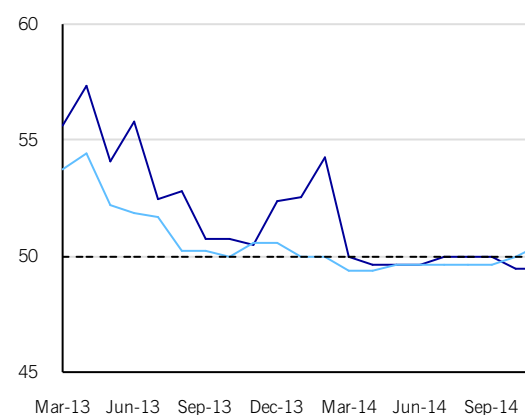
Since the onset of the Crimean crisis, the central bank has hiked the key interest rate four times by a total of 400 basis points, although the effect of this does not seem to have been passed onto businesses yet, with the Interest Rates Paid Indicator remaining at 49.5 in November. However, companies expected that the interest rates they would pay over the coming three months would increase, with the Expectations Indicator rising to 50.5 in November from 50.0 in October, the highest since December 2013.

### Availability of Credit



— Current Conditions  
— Future Expectations

### Interest Rates Paid

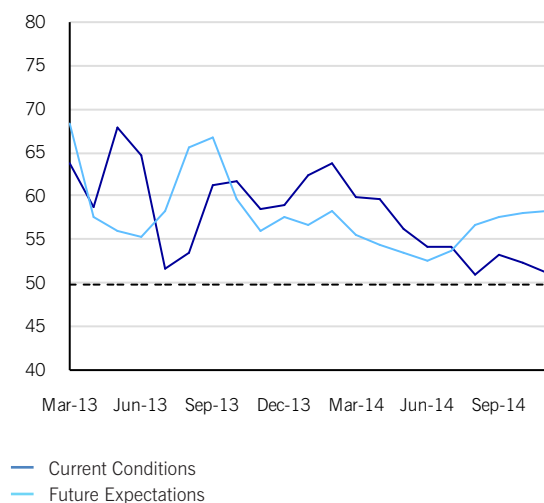


— Current Conditions  
— Future Expectations

### Money and Credit - Current Conditions

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Availability of Credit	58.0	57.7	54.5	41.3	40.3	47.8	41.5
Interest Rates Paid	50.5	49.7	50.0	50.0	50.0	49.5	49.5
Financial Position	58.6	54.3	54.3	51.0	53.3	52.5	51.3

## Financial Position



## 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

The financial health of our panel of companies has shown a downward trend since February, exacerbated by Russia's stand-off with the West. In November, it declined further suggesting that many companies continued to be hurt by the economic sanctions and the sharp slide in oil prices. The Financial Position Indicator fell by 2.3% to 51.3 in November from 52.5 in October, substantially below the series average of 58.2.

Companies were, however, more optimistic about their financial situation in three months' time than their current conditions, with the Expectations Indicator broadly stable at 58.4 in November compared with 58.1 in the previous month.

## Money and Credit - Future Expectations

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Availability of Credit	52.0	50.8	51.0	55.1	55.0	53.6	53.4
Interest Rates Paid	50.6	49.7	49.7	49.7	49.7	50.0	50.5
Financial Position	56.2	52.7	53.9	56.8	57.8	58.1	58.4

## Logistics

### Inventories at Record High



Amid the weak demand backdrop, stocks of finished goods have built up following a significant draw down of inventories over the past year.

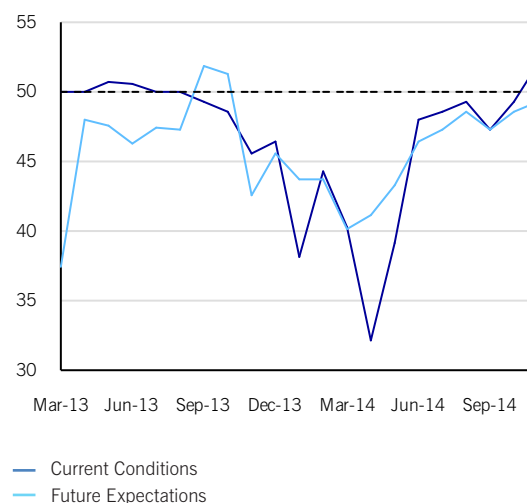
Companies had been aggressively destocking since September 2013 albeit at a slower pace in recent months. Faced with the severe downturn in demand, companies' stocks of finished goods piled up in November with the Inventories Indicator rising above the 50 level into expansion to a series' high of 52.0 from 49.3 in October, having been in contraction for over a year.

Manufacturing companies reported that their inventories of finished goods had risen, pushing the indicator above 50 for the first time since the survey began, while construction companies continued to report that they were destocking in November.

Companies began destocking in September last year, before Russia's annexation of the Crimean peninsula in March, with their expectations for the future turning negative in November. Companies expected to destock to meet future demand as depicted by the Future Expectations Indicator which remained below the 50 level at 49.3 in November compared with 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. In November, the time taken to deliver supplies to

#### Inventories

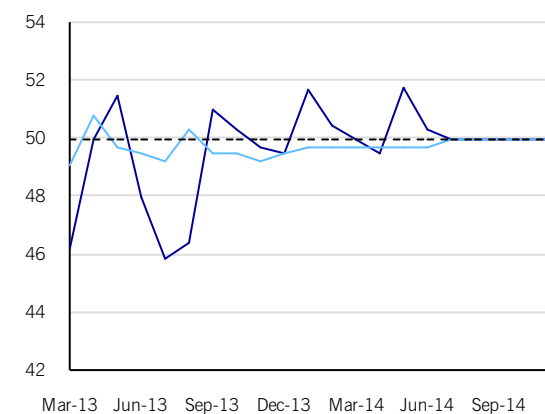


#### Logistics - Current Conditions

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Inventories	45.7	48.0	48.6	49.3	47.3	49.3	52.0
Supplier Deliveries	49.7	50.3	50.0	50.0	50.0	50.0	50.0



## Supplier Delivery Times



— Current Conditions  
— Future Expectations

companies remained unchanged at the 50 level for the fifth consecutive month while future expectations about delivery times also remained unchanged.

## 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

	Nov-13	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Inventories	42.6	46.5	47.3	48.6	47.3	48.6	49.3
Supplier Deliveries	49.2	49.7	50.0	50.0	50.0	50.0	50.0

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## Historical Summary

	2013		2014										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>MNI Russia Business Indicator</b>													
Current Conditions	51.5	45.5	57.9	60.0	52.5	55.6	49.2	50.5	54.6	51.5	47.5	46.7	46.8
Future Expectations	45.0	49.5	53.0	55.3	53.3	54.3	52.5	52.5	54.0	59.8	59.4	57.6	56.1
<b>Production</b>													
Current Conditions	53.5	48.3	58.2	59.3	52.5	57.3	55.3	55.5	51.5	52.5	52.0	54.3	50.8
Future Expectations	45.5	47.5	50.5	52.0	50.8	52.0	51.7	51.1	52.6	57.7	55.3	53.5	52.4
<b>New Orders</b>													
Current Conditions	53.5	48.8	57.6	62.5	57.5	58.8	54.8	56.0	56.8	54.3	53.3	52.8	48.3
Future Expectations	45.5	46.5	50.3	51.0	51.8	52.2	52.7	51.9	51.8	56.0	57.4	54.0	52.9
<b>Export Orders</b>													
Current Conditions	48.7	49.2	50.8	57.2	48.3	44.4	46.9	49.0	53.3	48.0	48.3	49.3	47.7
Future Expectations	42.1	41.7	46.3	47.1	43.0	43.5	43.0	44.3	50.4	52.6	52.6	51.1	52.5
<b>Productive Capacity</b>													
Current Conditions	50.8	50.5	50.3	50.3	50.3	50.0	51.5	50.5	50.5	50.3	51.3	50.0	50.5
Future Expectations	48.5	49.7	49.7	49.7	49.7	49.7	50.3	50.0	50.0	52.0	52.0	51.0	50.5
<b>Order Backlogs</b>													
Current Conditions	47.4	48.7	51.4	52.0	47.4	39.5	42.3	45.4	47.7	48.2	48.5	49.0	49.0
Future Expectations	40.9	41.5	42.7	43.3	43.0	42.5	43.3	44.4	45.4	45.9	46.2	47.0	47.5
<b>Employment</b>													
Current Conditions	47.7	49.0	48.3	50.0	50.0	50.8	52.8	50.5	50.3	50.3	51.3	50.0	50.0
Future Expectations	46.2	47.2	49.7	49.5	50.5	50.0	50.5	50.0	50.0	51.3	51.3	50.5	50.5
<b>Inventories</b>													
Current Conditions	45.7	46.5	38.2	44.4	40.4	32.2	39.2	48.0	48.6	49.3	47.3	49.3	52.0
Future Expectations	42.6	45.7	43.8	43.8	40.2	41.2	43.4	46.5	47.3	48.6	47.3	48.6	49.3
<b>Input Prices</b>													
Current Conditions	53.4	51.5	54.5	51.3	52.1	51.8	51.0	50.5	50.0	50.0	50.0	50.0	50.8
Future Expectations	51.0	50.5	50.0	50.0	52.1	50.3	50.0	50.0	50.0	50.0	50.0	50.0	50.0
<b>Prices Received</b>													
Current Conditions	53.5	52.8	57.7	53.8	53.1	50.5	50.0	51.3	49.7	50.0	50.8	50.8	51.0
Future Expectations	50.0	49.2	49.4	48.7	51.3	51.3	51.0	50.3	50.3	50.3	50.5	50.5	50.0
<b>Financial Position</b>													
Current Conditions	58.6	59.1	62.6	63.8	60.1	59.8	56.3	54.3	54.3	51.0	53.3	52.5	51.3
Future Expectations	56.2	57.8	56.9	58.4	55.6	54.4	53.6	52.7	53.9	56.8	57.8	58.1	58.4
<b>Interest Rates Paid</b>													
Current Conditions	50.5	52.4	52.6	54.3	50.0	49.7	49.7	49.7	50.0	50.0	50.0	49.5	49.5
Future Expectations	50.6	50.6	50.0	50.0	49.4	49.4	49.7	49.7	49.7	49.7	49.7	50.0	50.5
<b>Effect of Rouble Exchange Rate</b>													
Current Conditions	54.1	55.4	56.9	61.0	53.7	50.9	53.3	50.3	50.0	49.7	49.7	49.4	46.2
Future Expectations	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.7	49.7
<b>Supplier Delivery Times</b>													
Current Conditions	49.7	49.5	51.7	50.5	50.0	49.5	51.8	50.3	50.0	50.0	50.0	50.0	50.0
Future Expectations	49.2	49.5	49.7	49.7	49.7	49.7	49.7	49.7	50.0	50.0	50.0	50.0	50.0
<b>Availability of Credit</b>													
Current Conditions	58.0	57.9	55.0	51.9	53.0	53.9	59.9	57.7	54.5	41.3	40.3	47.8	41.5
Future Expectations	52.0	51.1	50.9	50.9	50.0	51.5	50.6	50.8	51.0	55.1	55.0	53.6	53.4

## Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
<b>MNI Russia Business Indicator</b>				
Current Conditions	45.5	62.9	53.8	52.5
Future Expectations	45.0	71.3	56.1	55.3
<b>Production</b>				
Current Conditions	48.3	61.1	55.0	54.4
Future Expectations	45.5	58.8	53.6	52.6
<b>New Orders</b>				
Current Conditions	48.3	73.8	57.3	56.8
Future Expectations	45.5	62.8	54.3	52.9
<b>Export Orders</b>				
Current Conditions	44.4	61.1	51.2	49.2
Future Expectations	41.6	66.0	49.6	50.4
<b>Productive Capacity</b>				
Current Conditions	50.0	57.7	51.7	50.5
Future Expectations	48.5	63.2	51.8	50.3
<b>Order Backlogs</b>				
Current Conditions	39.5	52.0	46.9	47.4
Future Expectations	37.7	50.0	44.7	44.4
<b>Employment</b>				
Current Conditions	47.7	56.5	51.3	50.8
Future Expectations	46.2	53.6	50.1	50.5
<b>Inventories</b>				
Current Conditions	32.2	52.0	46.7	48.7
Future Expectations	37.5	51.9	46.0	47.3
<b>Input Prices</b>				
Current Conditions	50.0	68.8	53.2	51.3
Future Expectations	50.0	67.9	53.2	50.5
<b>Prices Received</b>				
Current Conditions	46.3	67.3	53.4	51.3
Future Expectations	48.7	55.8	51.6	50.5
<b>Financial Position</b>				
Current Conditions	51.0	68.0	58.2	58.9
Future Expectations	52.7	68.5	58.0	57.7
<b>Interest Rates Paid</b>				
Current Conditions	49.5	57.4	51.8	50.8
Future Expectations	49.4	54.5	50.7	50.0
<b>Effect of Rouble Exchange Rate</b>				
Current Conditions	46.2	61.0	51.7	50.6
Future Expectations	48.2	50.7	49.8	50.0
<b>Supplier Delivery Times</b>				
Current Conditions	45.9	51.8	49.6	50.0
Future Expectations	49.1	50.8	49.7	49.7
<b>Availability of Credit</b>				
Current Conditions	40.3	59.9	51.8	53.0
Future Expectations	50.0	55.6	52.6	52.5

## Historical Records - Quarterly

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Quarterly Change	Quarterly % Change
<b>MNI Russia Business Indicator</b>							
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%
<b>Production</b>							
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%
<b>New Orders</b>							
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%
<b>Export Orders</b>							
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%
<b>Productive Capacity</b>							
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%
<b>Order Backlogs</b>							
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%
<b>Employment</b>							
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%
<b>Inventories</b>							
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%
<b>Input Prices</b>							
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%
<b>Prices Received</b>							
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%
<b>Financial Position</b>							
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%
<b>Interest Rates Paid</b>							
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%
<b>Effect of Rouble Exchange Rate</b>							
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%
<b>Supplier Delivery Times</b>							
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%
<b>Availability of Credit</b>							
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%

## About MNI Indicators

### Insight and data for better decisions

MNI Indicators offers unique macro-economic data and insight to businesses and the investment community. We produce data and intelligence that is unbiased, pertinent and responsive. Our data moves markets.

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.

MNI Indicators is part of MNI, a leading provider of news and intelligence. MNI is a wholly owned subsidiary of Deutsche Börse Group, one of the largest worldwide exchange organisations.



## Discovering trends in Emerging Markets

MNI's Emerging Markets Indicators explore attitudes, perspectives and confidence in Russia, India and China. Our data and monthly reports present an advance picture of the economic landscape as perceived by businesses and consumers.

Our indicators allow investors, economists, analysts and companies to identify economic trends and make informed investment and business decisions. Our data moves markets.

[www.mni-indicators.com](http://www.mni-indicators.com)

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**Published by**

MNI Indicators | Deutsche Börse Group

Westferry House

11 Westferry Circus

London

E14 4HE

[www.mni-indicators.com](http://www.mni-indicators.com)

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