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MNI Russia Business Report November 2015

Insight and data for better decisions

MNI Russia Business Report

Methodology

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange which has been available since March 2013. 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.

Written and researched by

Philip Uglow, Chief Economist
Shaily Mittal, Economist
George Brown, Economist

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MNI Indicators | Deutsche Börse Group

Westferry House
11 Westferry Circus
London
E14 4HE
Tel: +44 (0)20 7862 7444
Email: info@mni-indicators.com

www.mni-indicators.com

 [@MNIIndicators](https://twitter.com/MNIIndicators)

 [MNI Indicators](https://www.linkedin.com/company/mni-indicators)

MNI Russia Business Report - November 2015

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Executive Summary

The MNI Russia Business Sentiment Indicator tumbled 23.2% to 37.1 in November from 48.3 in October, the lowest since the survey began in March 2013.

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Demand and output collapsed in November with New Orders falling to a record low and Production down to the lowest since February, in spite of the approaching festival season. Given that the fall in headline sentiment was significantly greater than the actual drop in output and orders signals that other factors also hurt sentiment this month.

One of those factors was an increasingly negative assessment of the exchange rate, even though rouble weakness helped to keep export orders in the black. It is also possible that the downing of a Russian passenger plane in Egypt following Russia's involvement in the war in Syria may have had some impact on sentiment.

Of those surveyed, 30.8% of companies reported that the business environment had deteriorated on the month, considerably above the 7% who did so in October, while 64.1% reported that the business environment had not changed. Construction companies led this month's downturn in sentiment, while both manufacturing and service sector firms were also more dissatisfied with the current business environment.

In the wake of the slowdown, companies depleted inventories at the fastest pace for more than a year, indicating that they do not anticipate any respite in the near-term. Firms also considered the size of their workforce to be surplus to their requirements, suggesting higher unemployment could be on the horizon.

While fewer of our panel were hit with higher costs this month, more of them chose to hike their own prices after having previously being reluctant to pass them on given the fiercely competitive environment.

Our panel found that credit was more elusive in November as their profit margins were wiped out, though they found it slightly cheaper to service their existing debt.

After high hopes for the Russian holiday period helped to lift expectations in October, our panel were more downbeat than ever before as the additional demand that typically accompanies in the run-up to it failed to materialise. The Future Expectations Indicator slid 26.7% to 41.4 in November from 56.5 in October.

11 of the 15 current conditions indicators in the MNI Russia Business Survey declined in November and two saw no change, while nine of the 15 Future Expectations indicators fell on the month.

Overview

	Sep-15	Oct-15	Nov-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	53.0	48.3	37.1	-	series low	46.1	-11.2	-23.2%
Future Expectations	54.3	56.5	41.4	-	series low	50.7	-15.1	-26.7%
Production								
Current Conditions	50.3	53.0	45.3	-	Feb-15	49.5	-7.7	-14.5%
Future Expectations	48.2	49.2	45.3	-	series low	47.6	-3.9	-7.9%
New Orders								
Current Conditions	50.5	49.8	43.5	-	series low	47.9	-6.3	-12.7%
Future Expectations	49.2	49.0	45.9	-	Nov-13	48.0	-3.1	-6.3%
Export Orders								
Current Conditions	50.0	50.3	50.3	Oct-15	-	50.2	0.0	0.0%
Future Expectations	50.7	50.7	50.3	-	Aug-15	50.6	-0.4	-0.8%
Productive Capacity								
Current Conditions	50.0	50.0	50.0	Oct-15	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Oct-15	-	50.0	0.0	0.0%
Order Backlogs								
Current Conditions	50.3	49.8	48.8	-	Mar-15	49.6	-1.0	-2.0%
Future Expectations	49.0	49.5	49.5	Oct-15	-	49.3	0.0	0.0%
Employment								
Current Conditions	50.3	50.0	48.3	-	Nov-13	49.5	-1.7	-3.4%
Future Expectations	49.0	49.2	47.7	-	Dec-13	48.6	-1.5	-3.0%
Inventories								
Current Conditions	47.3	51.4	39.2	-	Apr-14	46.0	-12.2	-23.7%
Future Expectations	47.9	50.7	41.8	-	Apr-14	46.8	-8.9	-17.6%
Input Prices								
Current Conditions	51.3	52.8	51.8	-	Sep-15	52.0	-1.0	-1.9%
Future Expectations	54.3	53.0	55.5	Aug-13	-	54.3	2.5	4.7%
Prices Received								
Current Conditions	52.3	53.5	54.3	Apr-15	-	53.4	0.8	1.5%
Future Expectations	59.4	57.6	60.6	series high	-	59.2	3.0	5.2%
Financial Position								
Current Conditions	51.8	51.3	50.0	-	Mar-15	51.0	-1.3	-2.5%
Future Expectations	59.1	57.5	54.1	-	Mar-15	56.9	-3.4	-5.9%
Interest Rates Paid								
Current Conditions	50.0	50.0	49.5	-	series low	49.8	-0.5	-1.0%
Future Expectations	50.0	50.0	50.0	Oct-15	-	50.0	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	62.4	51.5	37.7	-	series low	50.5	-13.8	-26.8%
Future Expectations	54.8	59.9	47.7	-	series low	54.1	-12.2	-20.4%
Supplier Delivery Times								
Current Conditions	50.0	50.0	50.5	May-14	-	50.2	0.5	1.0%
Future Expectations	50.0	50.0	50.0	Oct-15	-	50.0	0.0	0.0%
Availability of Credit								
Current Conditions	56.8	49.0	41.4	-	Feb-15	49.1	-7.6	-15.5%
Future Expectations	49.4	49.1	48.5	-	series low	49.0	-0.6	-1.2%

Preliminary data showed that GDP declined 4.1% on the year in the third quarter of 2015...

...following a contraction of 4.6% in the second quarter.



Economic Landscape

While GDP data revealed the Russian economy had moderated in the third quarter, official data for October suggests that the economy may have taken a turn for the worst.

While GDP data revealed the Russian economy had moderated in the third quarter, official data for October suggests that the economy may have taken a turn for the worst. Unemployment rose sharply after remaining resilient for several months previously, pushing down further on real wages. Inflation continued to prove sticky, with consumer prices easing just a little and prices at the factory gate flaring up once again. Households suffered under the strain of lower incomes and the higher cost living, weighing on both retail sales and car purchases, with the former particularly suffering from the termination of the government scrappage scheme. Industrial production also suffered a setback in seasonally adjusted terms as only the mining and extraction sector saw a pick-up in activity.

Recognising continued inflation risks, the Central Bank of Russia chose to maintain the key interest rate at 11% at its meeting on October 30. This marked the second meeting in a row that the central bank has decided to hold the key rate after five consecutive cuts brought it down by a total of 600 basis points. Even so, the benchmark rate is still above the 10.5% it was in December last year, before it was hiked to 17% in a desperate effort to support the rouble.

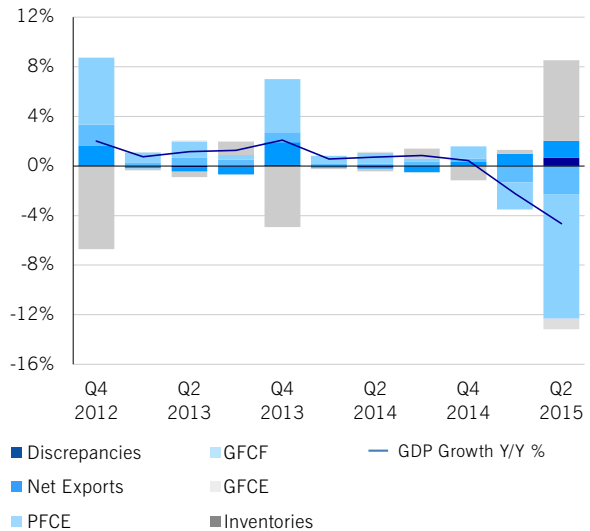
Russian GDP improves in Q3

Preliminary data released by the Federal Statistics Service (Rosstat) showed that GDP declined 4.1% on the year in the third quarter of 2015 following a contraction of 4.6% in the second quarter.

While data has yet to be broken down on an expenditure basis, the improvement is likely to have been driven by the industrial sector which has moderated in recent months on the back of greater import substitution as well as growing exports, with both encouraged by the weakness of the rouble. Even so, consumer spending is likely to have remained subdued given the continued downward pressure on wages over the period, while a flare-up of inflationary pressures and the prohibitive cost of credit is likely to have further eroded purchasing power.

Latest monthly figures from the Economic Development Ministry suggest that GDP fell 3.6% on the year in October following a 3.8% decline in September. Given the slump in oil prices over the past few months, the economy ministry forecasts that GDP will shrink 3.3% in 2015 but believes that the downturn has bottomed out.

Economic Growth



Source: Rosstat

Output supported by mining sector

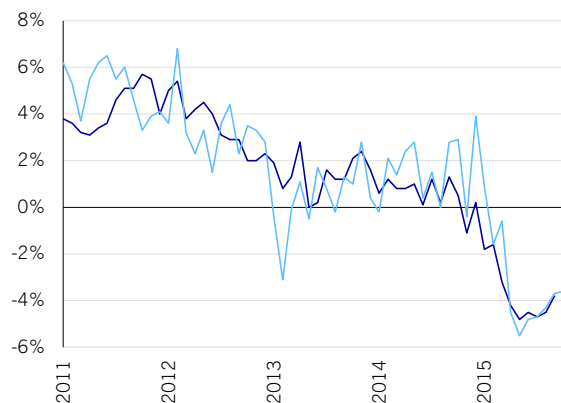
Industrial production contracted by a seasonally adjusted 0.1% on the month in October after expanding 0.6% in September, while year-on-year growth increased slightly to -3.6% from -3.7% in the previous month.

Manufacturing output was down 5.9% on the year following a 5.4% fall in the previous month. While there was robust growth of 9.2% in chemicals production, this was countered by declines in 13 of the 14 remaining manufacturing industries.

Mining and quarrying output was 1.4% above the same month a year earlier after growing 0.8% in the previous two months. Only extraction of crude oil and natural gas was down, shrinking by 0.3% in annual terms, while mining of unclassified materials exhibited the greatest improvement of 14.2% in October.

Year-on-year growth in utilities output fell 3.6% in October following a decline of 2.6% in the previous month. Thermal energy production and distribution was down 7.4% on the year in October after falling 7.3% in September, whereas electricity production suffered a 2.3% decline after contracting just 1.6% in the previous month.

Industrial Production and GDP



— GDP: Estimate Y/Y %*

— Industrial Production Y/Y %**

Source: *Ministry of Economic Development, **Rosstat

CBR holds rates steady for second consecutive meeting

Recognising continued inflation risks, the Central Bank of Russia chose to maintain the key interest rate at 11% at its meeting on October 30. This marked the second meeting in a row that the central bank has decided to hold the key rate after five consecutive cuts which have brought the key rate down by a total of 600 basis points. Even so, the benchmark rate is still above the 10.5% it was in December last year, before it was hiked to 17% in a desperate effort to support the rouble.

The CBR is caught between a rock and a hard place. On the one hand, the central bank knows that pressing on with its policy normalisation efforts will add to the downward pressure on the rouble which in-turn could jeopardise its inflation mandate. At the same time, the CBR recognises that it needs to cut rates to place the economy in a position from which it can emerge from recession should the external environment present an opportunity to do so.

The growing likelihood of the US Federal Reserve implementing “lift-off” in December complicates matters as it will likely trigger a volatile reaction in emerging markets. Inflation is also proving difficult to bring down, with the latest official CPI data continuing to suggest that it remains sticky, while the rouble remains on shaky ground in spite of a stabilisation in oil prices following the China-led equity and commodity rout in August. As such, our

assessment at this stage is that the CBR will find its hands tied at its next meeting on December 11, leaving it with little option but to hold rates steady.

Trade balance shows tentative signs of stabilising

Russia’s trade surplus has narrowed considerably over the past year as the low price of oil and economic sanctions have caused a continuous decline in exports that has outstripped the simultaneous fall in imports. In September, Russia’s trade surplus declined by 26.5% on the year to \$8.9 billion from \$8.7 billion in August.

Exports declined by 32.8% on the year to \$25.6 billion in September from \$25.3 billion in the previous month. Much of the decline was the result of the slide in the price of oil, Russia’s key export commodity, which started falling in July last year. It is likely that exports will continue to post sharp annual declines until base effects begin to kick-in towards the end of 2015.

Imports, in contrast, fell by 35.7% on the year to \$16.7 billion in September from \$16.6 billion in August. Since the rouble has weakened considerably over the past year, the cost of imports has risen sharply. Consequently, imports have reduced as companies have looked increasingly to domestic suppliers.

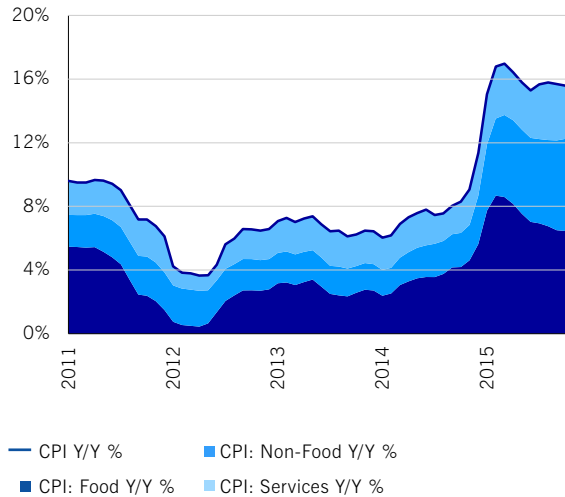
Inflation remains sticky

Annual growth in consumer price inflation fell to 15.6% in October from 15.7% in September, marking the second consecutive month that prices have eased.

The slowdown was mainly on the back of lower service sector inflation which eased to 13.1% in October from 13.8% previously. Food price inflation, which is the largest contributor to the CPI basket, dropped more moderately to 17.3% from 17.4% previously. In contrast, non-food inflation was pushed higher to 15.6% in October from 15.2% in September as the rouble depreciation continued to filter through. Stripping out food and fuel, which tend to be volatile, core inflation fell to 16.4% on the year in October from 16.6% in September.

Recent volatility has prompted the Central Bank of Russia to push back their inflation forecast. At its last meeting, the central bank signalled that it now expects annual CPI growth to fall to 7% by October next year after previously estimating that it would do so one month prior, but

Consumer Price Inflation



Source: Rosstat

maintained that inflation would still ease to its medium-term target of 4% in 2017.

Prices at the factory gate in Russia were up 14.2% on the year in October following a more moderate increase of 12.7% in September. Inflation in the manufacturing sector, which accounts for almost 70% of the index, rose slightly to 14.4% on the year after remaining unchanged at 14.3% in the previous month. Prices in the mining and quarrying sector accelerated the sharpest to 17.1% year-on-year in October after easing to 10.7% in September, while inflation in the utilities sector climbed to 8.9% after easing to 7.3% previously.

Remuneration falls as unemployment climbs

Following several months of easing, unemployment succumbed to the pressures of the recession in October, rising to 5.5% after falling to 5.2% in September. Previously, joblessness in Russia has remained relatively resilient in the face of the slowdown, with the labour market adjustment instead being transmitted through a combination of wage cuts and increased part-time employment.

The poor job market has reduced the bargaining power of the Russian workforce and many have accepted wage cuts as companies seek to scale back their operations. Real wages fell by 10.9% on the year in October after declining by 10.4% in September (revised up from -9% previously).

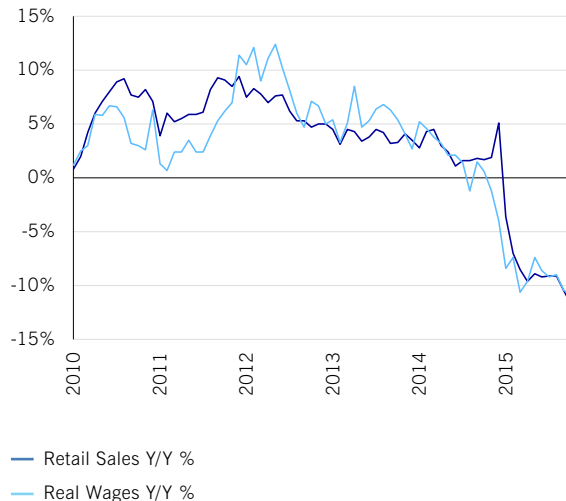
Evidence from our consumer survey shows that Russian households spend a significant proportion of their income on daily expenses; leaving them with very little, if any, to save or invest.

Households rein in spending

Combined with the prohibitively high rate of inflation, falling wages have left Russian consumers with very little purchasing power. This is reflected in retail sales which were 11.7% below the level seen a year earlier in October compared with a 10.4% fall in September, the sharpest decline since January 1999. Sales of non-food items were down 12.5% on the year in October following a contraction of 10.9% in September, whereas food sales declined by 10.9% on the year after shrinking 9.7% in the previous month.

Automobile sales were down 28.6% on the year in October following a fall of 28.6% in September. This was driven in part by the termination of a government car scrappage scheme, which provided a discount of at least 40,000 roubles off new vehicles to consumers who trade in a car that is at least six years old, while the prohibitive cost of credit, poor household finances and high dealership prices continued to take their toll. In October, the price of a domestically manufactured car was 26.2% above one produced a year previously and the price of an imported one was 19.6% higher on the year.

Retail Sales and Real Wages

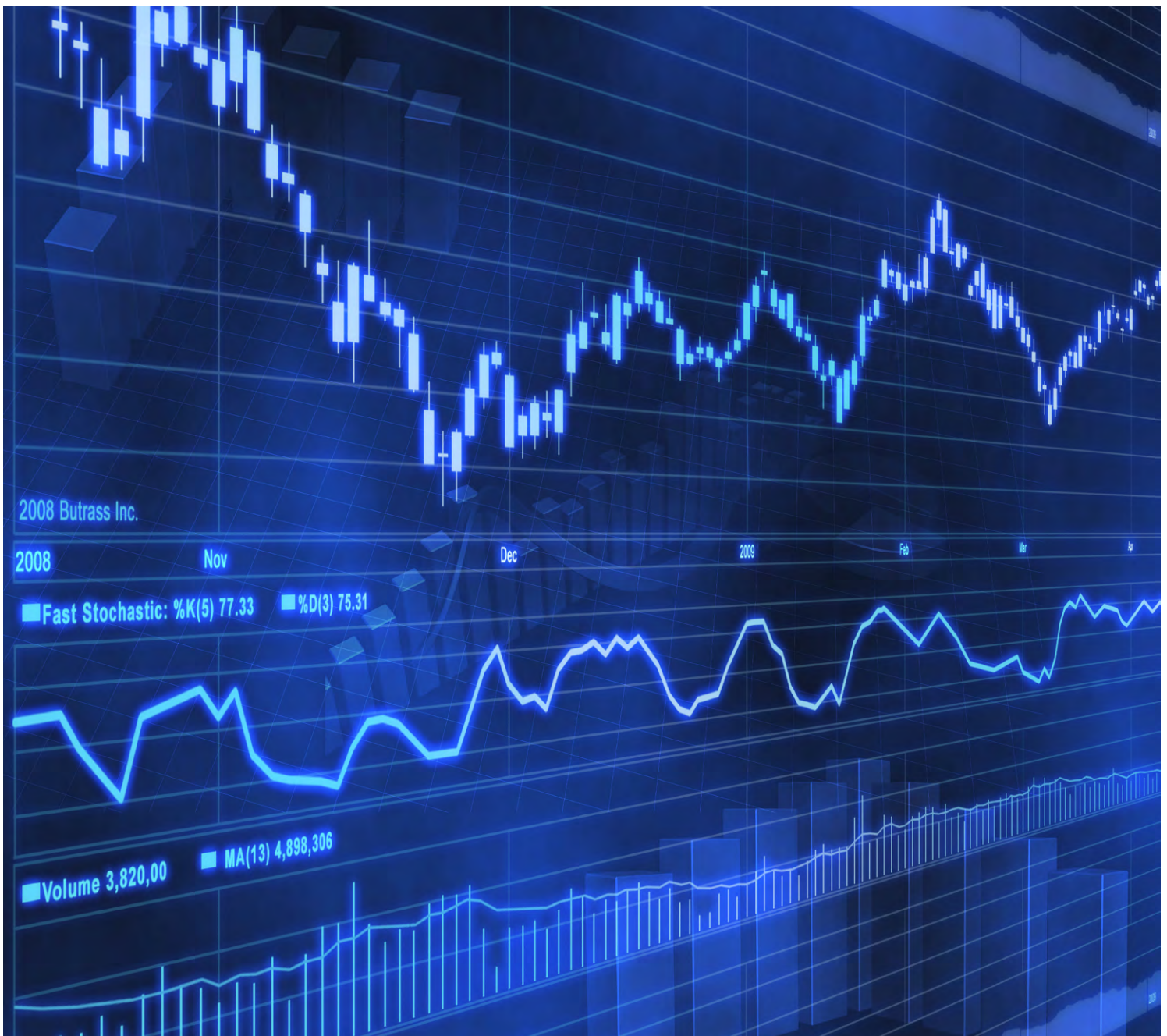


Source: Rosstat

Key Monthly Economic Data

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
GDP Y/Y %*	-4.8	-4.5	-4.7	-4.5	-3.8	-3.6	-
Industrial Production Y/Y %**	-5.5	-4.8	-4.7	-4.3	-3.7	-3.6	-
Consumer Price Index Y/Y %**	15.8	15.3	15.6	15.8	15.7	15.6	-
Producer Price Index Y/Y %**	13.4	13.1	13.1	13.7	12.7	14.2	-
Unemployment Y/Y %**	5.6	5.4	5.3	5.3	5.2	5.5	-
Real Wages Y/Y %**	-7.4	-8.6	-9.2	-9.0	-10.4	-10.9	-
Retail Sales Y/Y %**	-8.9	-9.2	-9.1	-9.1	-10.4	-11.7	-
Car Sales Y/Y %***	-37.6	-29.7	-27.5	-19.4	-28.6	-38.5	-
Trade Balance \$ Bn.****	15.1	13.6	10.7	8.7	9.6	-	-
Exports \$ Bn.****	30.6	30.0	27.7	25.3	26.4	-	-
Imports \$ Bn.****	15.5	16.4	17.0	16.6	16.8	-	-
MNI Russia Business Sentiment Indicator	51.3	51.8	51.3	52.3	53.0	48.3	37.1
MNI Russia Consumer Sentiment Indicator	72.8	76.4	70.8	72.5	70.0	69.5	-

Source: *Ministry of Economic Development, **Rosstat, ***Association of European Businesses, ****Federal Customs Service



Indicators

Executives at our panel of large Russian businesses were more downbeat than ever before as they witnessed demand drop at a record pace and as the exchange rate turned unfavourable to their business operations.

MNI Russia Business Indicator

Plummets to All-Time Low



Executives at our panel of large Russian businesses were more downbeat than ever before as they witnessed demand drop at a record pace and as the exchange rate turned unfavourable to their business operations.

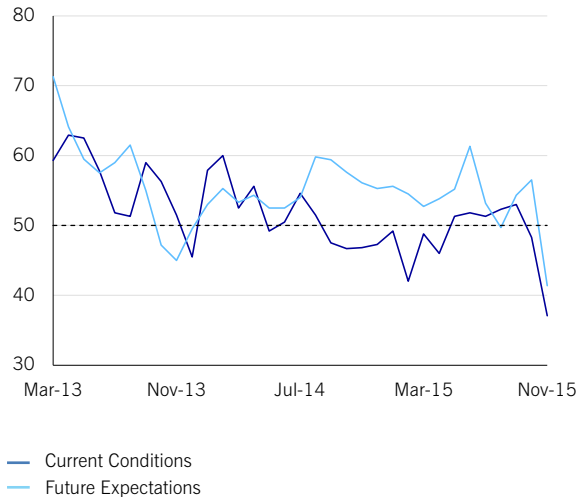
The MNI Russia Business Sentiment Indicator tumbled 23.2% to 37.1 in November from 48.3 in October, the lowest since the survey began in March 2013. Scratching beneath the surface, construction companies led this month's downturn in sentiment, though both manufacturing and service sector firms were also more dissatisfied with the current business environment.

Of those surveyed, 30.8% of companies reported that the business environment had deteriorated on the month, considerably above the 7% who did so in October, while 64.1% considered conditions to have remained the same, down from 89.5% previously. Meanwhile, the proportion of companies who thought that trading conditions had improved on the month rose to 5.1% in November from 3.5% in the previous month.

While the downturn in sentiment was broad-based, with 11 of the 15 survey metrics declining on the month, there were two standout drivers of the souring in sentiment. One was a reversal in firms' assessment of the exchange rate, which turned sour after previously being relatively sanguine. While the weak rouble did help to keep exports in positive territory, orders were sharply lower on the month as domestic demand faltered, made all the more worrying as it is ordinarily supported by seasonal effects at this time of year

Another possible factor at play could be the downing of a Russian passenger jet over Egypt's Sinai Peninsula, although the impact of this is difficult to gauge given the scope of this survey. While we find it difficult to ascertain any significant adverse implications from the tragedy, it

MNI Russia Business Sentiment Indicator



MNI Russia Business Indicator

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Current Conditions	46.8	51.8	51.3	52.3	53.0	48.3	37.1

cannot be ruled out as having some negative impact on general sentiment.

After high hopes for the Russian holiday period helped to lift expectations in October, our panel were more downbeat than ever before as the additional demand that typically accompanies in the run-up to it failed to materialise. The Future Expectations Indicator slid 26.7% to 41.4 in November from 56.5 in October, signifying that firms anticipate that business conditions will deteriorate over the coming three months.

All three sectors had lower expectations for the future as well, particularly those in the manufacturing and service sectors who struck a downbeat note after having previously had a relatively rosy outlook, whereas construction companies remained the most pessimistic of all.

Tensions with the West have thawed slightly in recent weeks, with dialogue opened up between the French and American governments with regards to closer cooperation in tackling Islamic State in Syria. According to media reports, however, the EU is set to extend its economic sanctions by a further six months past their January end-date due to the bloc's perception that the terms of the "Minsk 2.0" peace accord have set to be fully satisfied. If true, this would bring them into line with the current expiration of Russia's own "counter-sanctions" that ban the importation of certain foodstuffs and likely further denting businesses' already-dire outlook for the future.

Sectors - Overall Business Conditions

	Manufacturing	Services	Construction
Current Conditions	↓ < 50	↓ < 50	↓ < 50
Future Expectations	↓ < 50	↓ < 50	↓ < 50

MNI Russia Business Indicator

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Future Expectations	56.1	61.3	53.2	49.7	54.3	56.5	41.4

Orders

Domestic Demand Falters



In spite of overseas demand remaining broadly stable, the proportion of firms who reported that their orders had fallen on the month was higher than ever before.

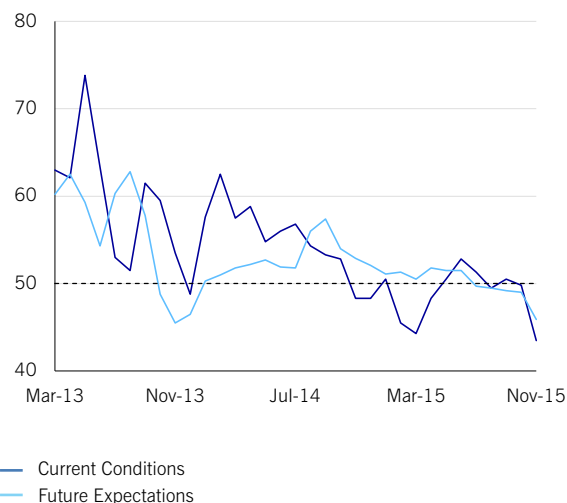
The New Orders Indicator declined to 43.5 in November after dipping into contraction to 49.8 in October, the lowest outturn in the survey's history. This seems to have been domestically-driven as exports were a little higher this month, tying into the narrative of the rest of this month's report that Russian companies are having a torrid time. All three sectors reported that demand had fallen in November, led by construction firms whose order books were shrinking at a record pace.

Fewer sales in the present weighed on firms' outlook for demand over the coming three months, with the Expectations Indicator easing to a two-year low of 45.9 in November after having remained broadly stable at 49.0 in October. None of the sectors anticipated that orders would grow in the short-term, particularly construction companies who were more pessimistic than ever before.

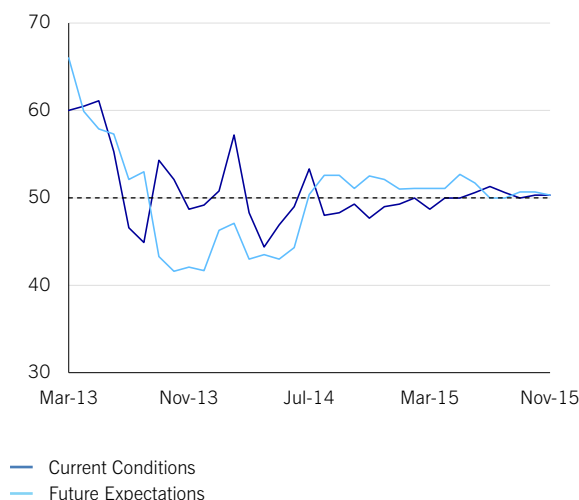
While the rouble has been on a rollercoaster ride over the past year, it still remains extremely weak which has afforded exporters with a cost advantage over their international rivals by lowering the cost of Russian goods and services to foreign companies. That being said, the benefits of the currency depreciation have been countered somewhat by sanctions which have prevented trade in certain goods and particular industries.

Export Orders were unchanged at 50.3 in November, but remained just above the 50 breakeven level which signifies growth. Companies were a little less optimistic in their outlook for exports over the coming three months,

New Orders



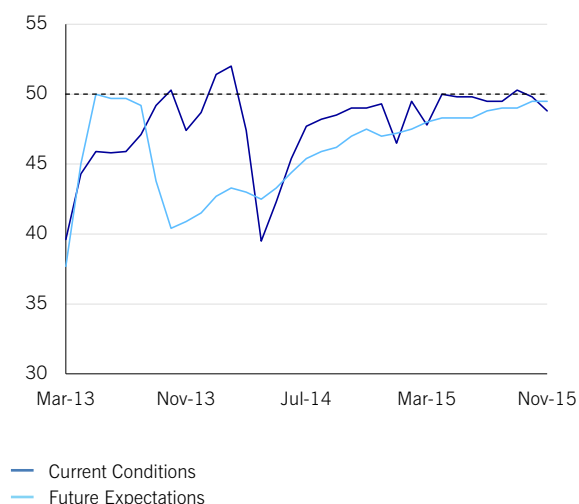
Export Orders



Orders - Current Conditions

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
New Orders	48.3	52.8	51.3	49.5	50.5	49.8	43.5
Export Orders	47.7	50.6	51.3	50.6	50.0	50.3	50.3
Order Backlogs	49.0	49.8	49.5	49.5	50.3	49.8	48.8

Order Backlogs



causing the Expectations Indicator to pull back to 50.3 after standing at 50.7 in October.

Firms reported that they faced fewer unfilled orders in November, evidenced by the 2% decline in Order Backlogs to 48.8 from 49.8 in October. While shrinking demand left companies with some spare capacity, they instead opted to deplete their inventories while simultaneously scaling back their production in a dismal sign that they do not anticipate any improvement in orders in the near future. Our panel also remained pessimistic in their three-month outlook for backlogs, with the Expectations Indicator standing unchanged at 49.5 in November.

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-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
New Orders	52.9	51.5	49.7	49.5	49.2	49.0	45.9
Export Orders	52.5	51.7	50.0	50.0	50.7	50.7	50.3
Order Backlogs	47.5	48.3	48.8	49.0	49.0	49.5	49.5

Output and Employment

Companies Downsizing Amid Poor Demand Backdrop



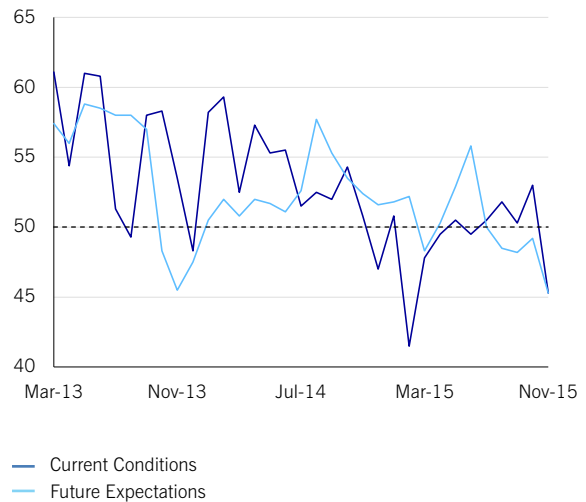
With orders sinking on the month and expectations for the future bleak, firms reported that they were overstaffed and were scaling back production in November.

The Production Indicator fell 14.5% to 45.3 this month from a one-year high of 53.0 in October, the lowest in nine months. Output is typically supported in the run-up to the festive period in January, making the drop in production this month particularly worrying. All three sectors scaled back in November, with construction firms cutting back at the quickest pace since the survey began.

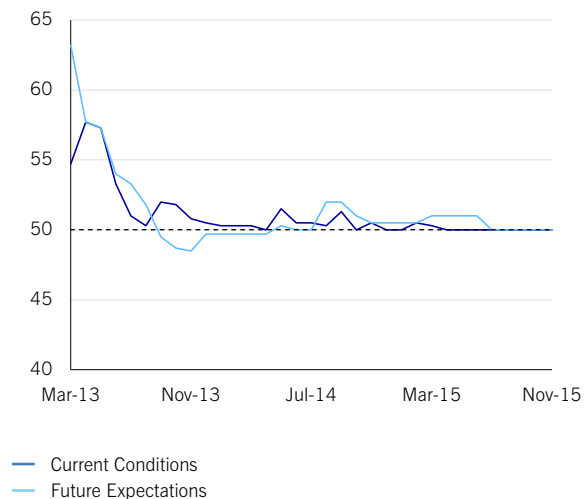
Our Production Indicator has a high correlation with official industrial production data which shrunk by a seasonally adjusted 0.1% on the month in October after expanding by 0.6% in the previous month. According to our panel, output looks set to fall more sharply over the coming three months. Expectations for Production slid to an all-time low of 45.3 in November from 49.2 in October. None of the industries surveyed planned to raise their output in the short-term, with both manufacturing and service sector companies anticipating that they would rein in their production after previously reporting that they would scale up and keep it stable respectively.

Firms considered the size of their workforce to be surplus to their requirements in November, prompting a fall in the Employment Indicator to a two-year low of 48.3 from 50.0 in October, placing it into contraction for the first time since August. More companies anticipated they would have too many employees in three months' time, with the Expectations Indicator declining to 47.7 in November after remaining stable at 49.2 in October.

Production



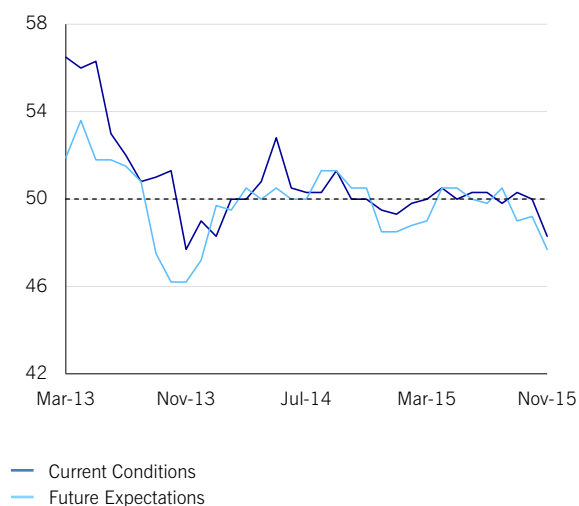
Productive Capacity



Output and Employment - Current Conditions

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Production	50.8	49.5	50.5	51.8	50.3	53.0	45.3
Productive Capacity	50.5	50.0	50.0	50.0	50.0	50.0	50.0
Employment	50.0	50.3	50.3	49.8	50.3	50.0	48.3

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

Firms reported that their Productive Capacity was unchanged for the eighth month in a row, with the indicator standing at 50.0 in November. While firms have not invested in capital equipment for some time, they haven't disinvested either, suggesting that they are well placed in the event that demand ultimately recovers. Moreover, companies anticipated that they would neither expand nor reduce their capacity in the future, with the Expectations Indicator remaining at 50.0 for the fifth consecutive month.

Output and Employment - Future Expectations

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Production	52.4	55.8	50.0	48.5	48.2	49.2	45.3
Productive Capacity	50.5	51.0	50.0	50.0	50.0	50.0	50.0
Employment	50.5	50.0	49.8	50.5	49.0	49.2	47.7

Prices

Assessment of Exchange Rate Sours



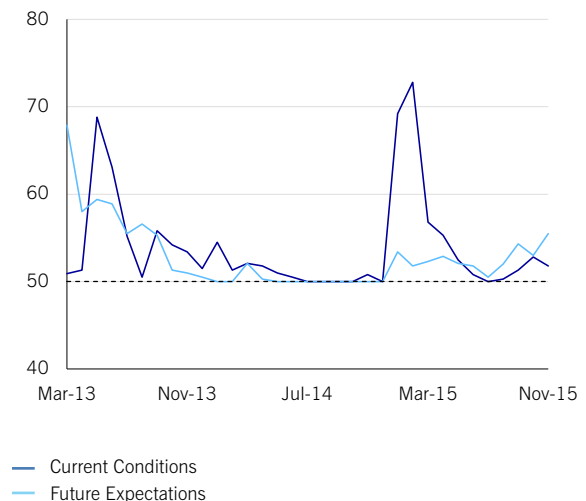
While fewer of our panel were hit with higher costs this month, more of them chose to hike their own prices after having been reluctant to pass them on in months gone by amid the competitive environment that has arose from the downturn.

As last month's survey indicated, the easing in wholesale inflation proved to be short-lived. Official figures showed that PPI accelerated to 14.2% on the year in October from 12.7% in September. Inflation in the manufacturing sector, which accounts for almost 70% of the index, rose slightly to 14.4% on the year after remaining unchanged at 14.3% in the previous month. Prices in the mining and quarrying sector accelerated the sharpest to 17.1% year-on-year in October after easing to 10.7% in September, while inflation in the utilities sector climbed to 8.9% after easing to 7.3% previously.

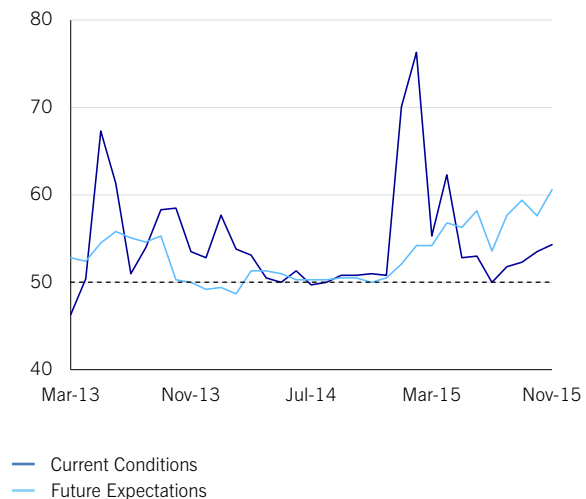
Some of the inflationary pressure appears to have subsided in November, however, with the Input Prices Indicator easing a full point to 51.8 from 52.8 in the previous month. That being said, the Expectations Indicator was pushed up to 55.5 after having been pared back to 53.0, placing it at the highest level since August 2013.

Faced with rising costs, firms chose to pass on the higher burden to their customers. This was reflected by the increase in the Prices Received Indicator to a seven-month high of 54.3 in November from 53.5 in October. Furthermore, companies raised their projections for the prices they would charge over the coming three months, lifting the Expectations Indicator to a record high of 60.6 in November from 57.6 in October.

Input Prices



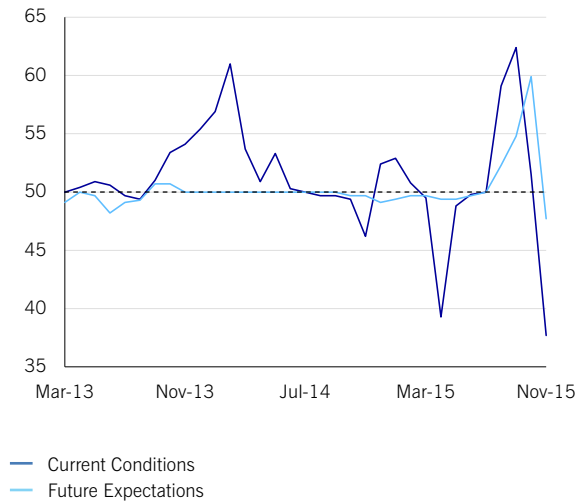
Prices Received



Prices - Current Conditions

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Input Prices	50.8	50.8	50.0	50.3	51.3	52.8	51.8
Prices Received	51.0	53.0	50.0	51.8	52.3	53.5	54.3
Exchange Rate	46.2	49.8	50.0	59.1	62.4	51.5	37.7

Effect of Rouble Exchange Rate



After having been relatively sanguine about the impact of the exchange rate on their business operations in previous months, companies suddenly soured in their attitude toward it. The Effect of the Rouble Exchange Rate Indicator plummeted to an all-time low of 37.7 in November from 51.5 in October. A value above 50 shows that more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting.

Companies also expected that the exchange rate would be detrimental to their operations over the coming months, having previously anticipating that it would be beneficial to them, resulting in the Expectations Indicator falling to a record low of 47.7 in November from a series high of 59.9 in October.

Sectors - Current Conditions

	Input Prices	Prices Received	Effect of Rouble Exchange Rate
Manufacturing	↓ > 50	↓ > 50	↓ < 50
Services	↑ > 50	↑ > 50	↓ < 50
Construction	↔ = 50	↑ > 50	↓ < 50

Sectors - Future Expectations

	Input Prices	Prices Received	Effect of Rouble Exchange Rate
Manufacturing	↑ > 50	↑ > 50	↓ < 50
Services	↑ > 50	↑ > 50	↓ > 50
Construction	↔ = 50	↑ > 50	↓ < 50

Prices - Future Expectations

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Input Prices	50.0	51.8	50.5	52.0	54.3	53.0	55.5
Prices Received	50.0	58.2	53.6	57.7	59.4	57.6	60.6
Exchange Rate	49.7	49.7	50.0	52.3	54.8	59.9	47.7

Money and Credit

Lending Squeezed



Our panel found that credit was more elusive in November as their profit margins were wiped out, though they found it slightly cheaper to service their existing debt.

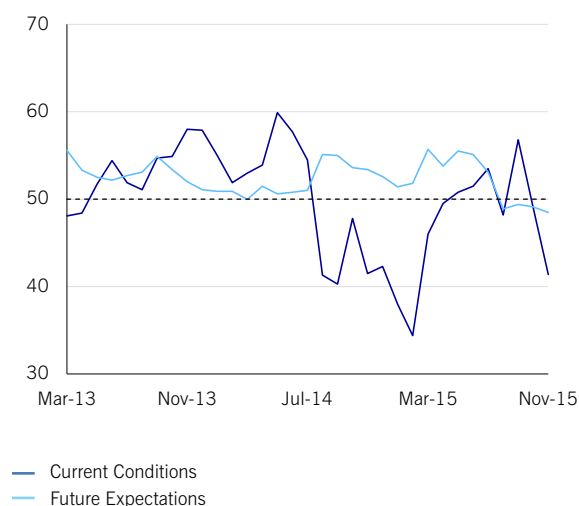
Loans to Russian companies have dried up following the imposition of capital restrictions by Western nations in response to the annexation of Crimea. While the number of firms reporting that they had found new streams of lending steadily grew since the start of the year, this trend has been thrown into reverse in more recent months as their finances fell back into the red.

Panellists reported that their balance sheets had neither improved nor deteriorated in November, reflected by the fall in the Financial Position Indicator to 50.0 from 51.3 in October. Firms were also less optimistic in their outlook for their finances over the following three months, with the Expectations Indicator ticking down to 54.1 in November from 57.5 in October.

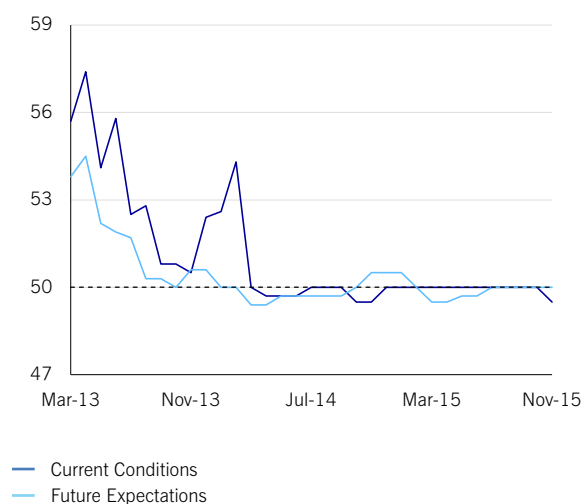
With companies on a shakier financial footing, institutions were less willing to extend loans to them. The Availability of Credit Indicator fell to 41.4 in November from 49.0 last month, the lowest since February. Firms were more doubtful on their prospects for securing credit in the future as well, dragging down the Expectations Indicator to an all-time low of 48.5 from 49.1 in October.

The Central Bank of Russia was able to cut the key rate by a total of 600 basis points on the back of an easing in inflation and the recovery in the rouble during the first half of this year, though this has been hampered by the resurgence of pressure on the currency.

Availability of Credit



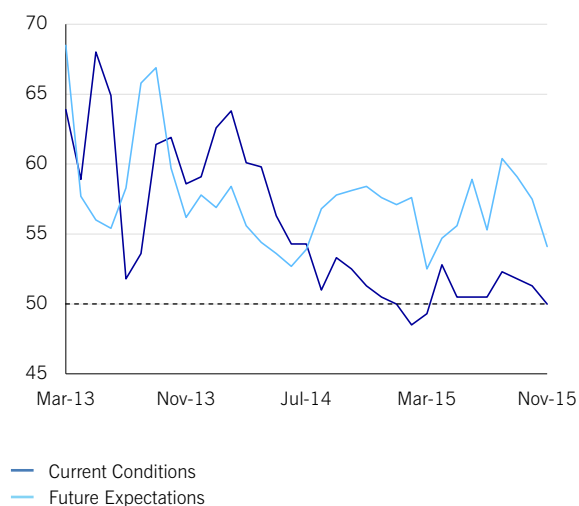
Interest Rates Paid



Money and Credit - Current Conditions

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Availability of Credit	41.5	51.5	53.5	48.2	56.8	49.0	41.4
Interest Rates Paid	49.5	50.0	50.0	50.0	50.0	50.0	49.5
Financial Position	51.3	50.5	50.5	52.3	51.8	51.3	50.0

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

With the central bank's inflation mandate remaining under threat, the CBR decided to hold the key rate steady for the second meeting in a row in October and any further rate cuts this year are now much less certain given the growing likelihood of the US Federal Reserve achieving "lift-off" before year-end.

The Interest Rates Paid Indicator eased to 49.5 in November after remaining at 50.0 in October, marking the first time in a year it has dipped below the 50 breakeven level. Even so, firms expected little change over the coming three months with the Expectations Indicator standing unchanged at 50.0 this month.

Money and Credit - Future Expectations

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Availability of Credit	53.4	55.1	53.1	48.9	49.4	49.1	48.5
Interest Rates Paid	50.5	49.7	50.0	50.0	50.0	50.0	50.0
Financial Position	58.4	58.9	55.3	60.4	59.1	57.5	54.1

Logistics

Firms Quickly Destock



Faced with a sharp drop in orders, a record number of companies opted to drawdown their inventories even as they reined in production, suggesting that they are doubtful that demand will recover anytime soon.

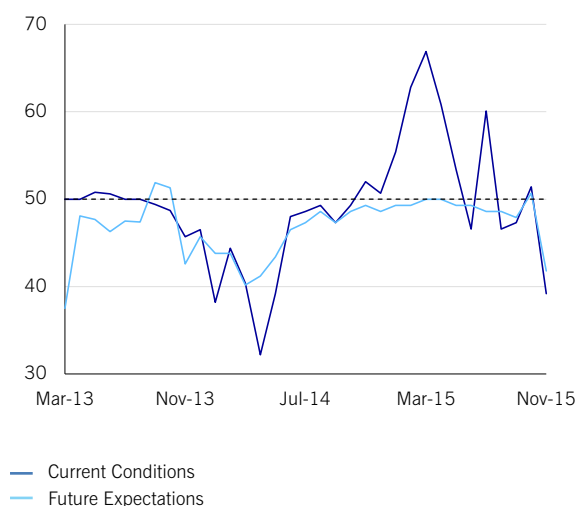
The Inventories Indicator tumbled to 39.2 in November after climbing to 51.4 in October, the lowest since April 2014. Companies ordinarily build-up their stock levels in the lead-up to the January festive period, this month's clearing of inventories could be an indication that companies have overestimated the number of orders that they would receive.

Both construction and manufacturing companies reported that their inventories had fallen on the month, with stock levels amongst the latter being depleted at a record pace. According to our panel, destocking is set to continue with the Expectations Indicator for future inventory levels falling to 41.8 in November after rising to 50.7 in October, the lowest level since April 2014.

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 reported that supplier delivery times were shorter compared with a month ago.

Supplier delivery times was one of the few metrics of the survey to improve this month, lengthening for the first time in 10 months to 50.5 after remaining unchanged at 50.0 in October. While this could point to improvements at companies outside of our panel, the magnitude is minimal and given the broad-based decline in the survey this month, it is likely to be due to difficulties sourcing

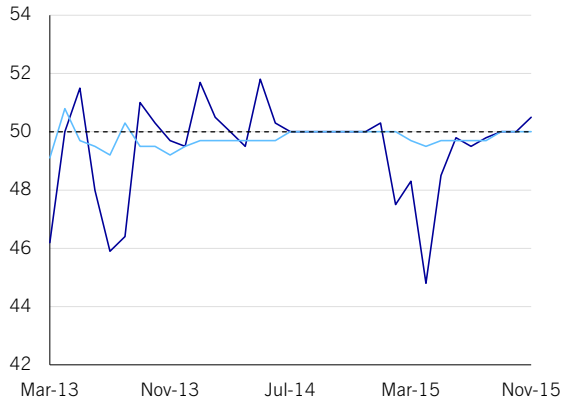
Inventories



Logistics - Current Conditions

	Nov-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Inventories	52.0	46.6	60.1	46.6	47.3	51.4	39.2
Supplier Deliveries	50.0	49.8	49.5	49.8	50.0	50.0	50.5

Supplier Delivery Times



— Current Conditions
 — Future Expectations

raw materials rather than seasonal demand. This assertion is supported by companies' expectations for their suppliers' delivery times over the coming months, which remained unchanged at 50.0 in November.

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-14	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Inventories	49.3	49.3	48.6	48.6	47.9	50.7	41.8
Supplier Deliveries	50.0	49.7	49.7	49.7	50.0	50.0	50.0



Data tables

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Historical Summary

	2014		2015										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
MNI Russia Business Indicator													
Current Conditions	46.8	47.3	49.2	42.0	48.8	46.0	51.3	51.8	51.3	52.3	53.0	48.3	37.1
Future Expectations	56.1	55.3	55.6	54.5	52.7	53.8	55.2	61.3	53.2	49.7	54.3	56.5	41.4
Production													
Current Conditions	50.8	47.0	50.8	41.5	47.8	49.5	50.5	49.5	50.5	51.8	50.3	53.0	45.3
Future Expectations	52.4	51.6	51.8	52.2	48.3	50.3	52.9	55.8	50.0	48.5	48.2	49.2	45.3
New Orders													
Current Conditions	48.3	48.3	50.5	45.5	44.3	48.3	50.5	52.8	51.3	49.5	50.5	49.8	43.5
Future Expectations	52.9	52.1	51.1	51.3	50.5	51.8	51.5	51.5	49.7	49.5	49.2	49.0	45.9
Export Orders													
Current Conditions	47.7	49.0	49.3	50.0	48.7	50.0	50.0	50.6	51.3	50.6	50.0	50.3	50.3
Future Expectations	52.5	52.1	51.0	51.1	51.1	51.1	52.7	51.7	50.0	50.0	50.7	50.7	50.3
Productive Capacity													
Current Conditions	50.5	50.0	50.0	50.5	50.3	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	50.5	50.5	50.5	50.5	51.0	51.0	51.0	51.0	50.0	50.0	50.0	50.0	50.0
Order Backlogs													
Current Conditions	49.0	49.3	46.5	49.5	47.8	50.0	49.8	49.8	49.5	49.5	50.3	49.8	48.8
Future Expectations	47.5	47.0	47.2	47.5	48.0	48.3	48.3	48.3	48.8	49.0	49.0	49.5	49.5
Employment													
Current Conditions	50.0	49.5	49.3	49.8	50.0	50.5	50.0	50.3	50.3	49.8	50.3	50.0	48.3
Future Expectations	50.5	48.5	48.5	48.8	49.0	50.5	50.5	50.0	49.8	50.5	49.0	49.2	47.7
Inventories													
Current Conditions	52.0	50.7	55.4	62.8	66.9	60.8	53.4	46.6	60.1	46.6	47.3	51.4	39.2
Future Expectations	49.3	48.6	49.3	49.3	50.0	50.0	49.3	49.3	48.6	48.6	47.9	50.7	41.8
Input Prices													
Current Conditions	50.8	50.0	69.2	72.8	56.8	55.3	52.5	50.8	50.0	50.3	51.3	52.8	51.8
Future Expectations	50.0	50.0	53.4	51.8	52.3	52.9	52.1	51.8	50.5	52.0	54.3	53.0	55.5
Prices Received													
Current Conditions	51.0	50.8	70.1	76.3	55.3	62.3	52.8	53.0	50.0	51.8	52.3	53.5	54.3
Future Expectations	50.0	50.5	52.1	54.2	54.2	56.8	56.3	58.2	53.6	57.7	59.4	57.6	60.6
Financial Position													
Current Conditions	51.3	50.5	50.0	48.5	49.3	52.8	50.5	50.5	50.5	52.3	51.8	51.3	50.0
Future Expectations	58.4	57.6	57.1	57.6	52.5	54.7	55.6	58.9	55.3	60.4	59.1	57.5	54.1
Interest Rates Paid													
Current Conditions	49.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.5
Future Expectations	50.5	50.5	50.5	50.0	49.5	49.5	49.7	49.7	50.0	50.0	50.0	50.0	50.0
Effect of Rouble Exchange Rate													
Current Conditions	46.2	52.4	52.9	50.8	49.5	39.3	48.8	49.8	50.0	59.1	62.4	51.5	37.7
Future Expectations	49.7	49.1	49.4	49.7	49.7	49.4	49.4	49.7	50.0	52.3	54.8	59.9	47.7
Supplier Delivery Times													
Current Conditions	50.0	50.0	50.3	47.5	48.3	44.8	48.5	49.8	49.5	49.8	50.0	50.0	50.5
Future Expectations	50.0	50.0	50.0	50.0	49.7	49.5	49.7	49.7	49.7	49.7	50.0	50.0	50.0
Availability of Credit													
Current Conditions	41.5	42.3	38.0	34.4	46.0	49.5	50.8	51.5	53.5	48.2	56.8	49.0	41.4
Future Expectations	53.4	52.6	51.4	51.8	55.7	53.8	55.5	55.1	53.1	48.9	49.4	49.1	48.5

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	37.1	62.9	51.8	51.5
Future Expectations	41.4	71.3	55.2	55.0
Production				
Current Conditions	41.5	61.1	52.8	52.0
Future Expectations	45.3	58.8	52.4	52.0
New Orders				
Current Conditions	43.5	73.8	54.2	53.0
Future Expectations	45.5	62.8	52.8	51.8
Export Orders				
Current Conditions	44.4	61.1	50.8	50.0
Future Expectations	41.6	66.0	50.1	51.0
Productive Capacity				
Current Conditions	50.0	57.7	51.1	50.3
Future Expectations	48.5	63.2	51.3	50.5
Order Backlogs				
Current Conditions	39.5	52.0	47.7	48.7
Future Expectations	37.7	50.0	46.0	47.0
Employment				
Current Conditions	47.7	56.5	50.8	50.3
Future Expectations	46.2	53.6	49.8	50.0
Inventories				
Current Conditions	32.2	66.9	49.1	49.3
Future Expectations	37.5	51.9	47.0	47.9
Input Prices				
Current Conditions	50.0	72.8	53.9	51.5
Future Expectations	50.0	67.9	52.9	51.8
Prices Received				
Current Conditions	46.3	76.3	54.7	52.8
Future Expectations	48.7	60.6	53.2	52.4
Financial Position				
Current Conditions	48.5	68.0	55.4	53.3
Future Expectations	52.5	68.5	57.6	57.5
Interest Rates Paid				
Current Conditions	49.5	57.4	51.1	50.0
Future Expectations	49.4	54.5	50.4	50.0
Effect of Rouble Exchange Rate				
Current Conditions	37.7	62.4	51.2	50.6
Future Expectations	47.7	59.9	50.2	50.0
Supplier Delivery Times				
Current Conditions	44.8	51.8	49.4	50.0
Future Expectations	49.1	50.8	49.8	49.7
Availability of Credit				
Current Conditions	34.4	59.9	50.0	51.5
Future Expectations	48.5	55.7	52.4	52.5

Historical Records - Quarterly

	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator							
Current Conditions	51.2	46.9	46.7	49.7	52.2	2.5	5.0%
Future Expectations	57.7	56.3	54.3	56.8	52.4	-4.4	-7.7%
Production							
Current Conditions	52.0	50.7	46.7	49.8	50.9	1.1	2.2%
Future Expectations	55.2	52.5	50.8	53.0	48.9	-4.1	-7.7%
New Orders							
Current Conditions	54.8	49.8	46.8	50.5	50.4	-0.1	-0.2%
Future Expectations	55.1	53.0	51.0	51.6	49.5	-2.1	-4.1%
Export Orders							
Current Conditions	49.9	48.7	49.3	50.2	50.6	0.4	0.8%
Future Expectations	51.9	51.9	51.1	51.8	50.2	-1.6	-3.1%
Productive Capacity							
Current Conditions	50.7	50.2	50.3	50.0	50.0	0.0	0.0%
Future Expectations	51.3	50.7	50.7	51.0	50.0	-1.0	-2.0%
Order Backlogs							
Current Conditions	48.1	49.1	47.9	49.9	49.8	-0.1	-0.2%
Future Expectations	45.8	47.2	47.6	48.3	48.9	0.6	1.2%
Employment							
Current Conditions	50.6	49.8	49.7	50.3	50.1	-0.2	-0.4%
Future Expectations	50.9	49.8	48.8	50.3	49.8	-0.5	-1.0%
Inventories							
Current Conditions	48.4	50.7	61.7	53.6	51.3	-2.3	-4.3%
Future Expectations	47.7	48.8	49.5	49.5	48.4	-1.1	-2.2%
Input Prices							
Current Conditions	50.0	50.3	66.3	52.9	50.5	-2.4	-4.5%
Future Expectations	50.0	50.0	52.5	52.3	52.3	0.0	0.0%
Prices Received							
Current Conditions	50.2	50.9	67.2	56.0	51.4	-4.6	-8.2%
Future Expectations	50.4	50.3	53.5	57.1	56.9	-0.2	-0.4%
Financial Position							
Current Conditions	52.9	51.4	49.3	51.3	51.5	0.2	0.4%
Future Expectations	56.2	58.0	55.7	56.4	58.3	1.9	3.4%
Interest Rates Paid							
Current Conditions	50.0	49.7	50.0	50.0	50.0	0.0	0.0%
Future Expectations	49.7	50.3	50.0	49.6	50.0	0.4	0.8%
Effect of Rouble Exchange Rate							
Current Conditions	49.8	49.3	51.1	46.0	57.2	11.2	24.3%
Future Expectations	50.0	49.5	49.6	49.5	52.4	2.9	5.9%
Supplier Delivery Times							
Current Conditions	50.0	50.0	48.7	47.7	49.8	2.1	4.4%
Future Expectations	50.0	50.0	49.9	49.6	49.8	0.2	0.4%
Availability of Credit							
Current Conditions	45.4	43.9	39.5	50.6	52.8	2.2	4.3%
Future Expectations	53.7	53.2	53.0	54.8	50.5	-4.3	-7.8%

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.

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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.

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