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MNI Russia Business Report December 2013

Insight and data for better decisions

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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Facing the truth

Plans to dig Russia out of its hole are thin on the ground, and the longer this stagflation sets in, the more difficult it will be to escape.

As we approach the festive season it would be nice to bear some good tidings at the end of what has been a dismal year for the Russian economy. Unfortunately our insights from some of Russia's largest companies reveal that confidence hit the lowest since our survey began in March, with production and new orders heading lower still.

In order to fix a problem then you first need to admit you have one, and while various ministers have acknowledged that the Russian economic model is broken, President Vladimir Putin has, until now, continued to blame the downturn on the global slowdown. Given the continued economic malaise, however, even Mr Putin has been forced to publicly change tack. "Of course we are experiencing the consequences of the global crisis, but we have to say openly: the main reasons for the economic slowdown are not external but internal," he said in the annual state-of-the-nation speech in Moscow.

Solving the problem won't be so easy, with Russia ending 2013 with growth at the lowest for four years and inflation at 6.5% in November – a kind of stagflation-light. And while Russia's leaders have recognised the issue, plans to actually dig Russia out of its hole are thin on the ground, and the longer this stagflation sets in, the more difficult it will be to escape.

The new head of the central bank, Elvira Nabiullina, has so far stuck to her guns, refusing to ease monetary policy in an effort to boost growth, given the continued high rate of inflation. A fall in food price inflation and at least some easing in inflation expectations could give the central bank room to cut interest rates early in the New Year. Monetary policy, though, is not the

answer to Russia's ills, which lie more on the supply side.

Low productivity, lack of investment, corruption, oil dependency, capital flight and poor demographics are just some of the issues the government needs to address in 2014 if it wants to stem the economic decline.

Philip Uglow
Chief Economist
MNI Indicators



Executive Summary

The MNI Russia Business Indicator declined for the third consecutive month to a new record low of 45.5 from 51.1 in November.

The MNI Russia Business Indicator hit a new record low in December, slipping below 50 for the first time since the series started in March, while expectations for the future bounced back from the low in November.

The Business Indicator fell into contraction to 45.5 in December, 11.7% down from 51.5 in the previous month.

The December low ends a dismal year for the Russian economy which saw GDP growth hit a near four year low of 1.2% in the second and third quarters while inflation accelerated sharply.

Businesses expectations for the next three months improved in December. The Expectations Indicator rose to 49.5 from a series low of 45 in November.

The Production Indicator fell to 48.3 in December from 53.5 in November, the lowest reading since the series started in March.

New Orders declined for the third consecutive month and slipped below 50 for the first time, to 48.8. In contrast, the Export Orders Indicator rose to 49.2 in December

Order Backlogs rose 2.7% on the month to 48.7 in December from 47.4 in November. Since the series started in March, Order Backlogs were above 50 only in October.

The situation in the labour market improved slightly, with the Employment Indicator rising to 49 in December from 47.7 previously.

Having fallen for three months in a row, Inventories of Finished Goods rose to 46.5 in December from 45.7 previously.

The Input Prices Indicator fell 3.6% in December to 51.5 from 53.4 previously.

The Prices Received Indicator decreased to 52.8 in December from 53.5 in November, likely reflecting

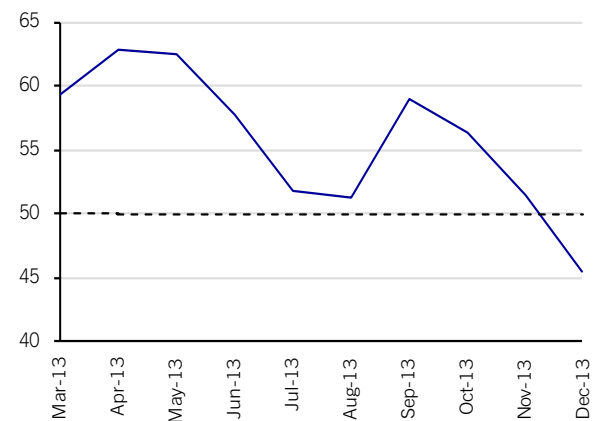
the recent decline in Input Prices.

The Financial Position Indicator remained firm at 59.1 in December, compared with 58.6 in November. Although it remains well above 50, it has deteriorated compared with the levels seen earlier in the year.

The Effect of the Rouble Exchange Rate Indicator rose to a new high of 55.4 in December, showing that more companies believe the exchange rate is helping business.

The Availability of Credit Indicator stood at 57.9 in December from 58 in November, a 0.2% fall on the month and remaining well above the 50 breakeven level for the second consecutive month.

MNI Russia Business Indicator



Overview

	Oct -13	Nov -13	Dec -13	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	56.3	51.5	45.5	-	series low	51.1	-6.0	-11.7%
Future Expectations	47.2	45.0	49.5	Sep-13	-	47.2	4.5	10.0%
Production								
Current Conditions	58.3	53.5	48.3	-	series low	53.4	-5.2	-9.7%
Future Expectations	48.3	45.5	47.5	Oct-13	-	47.1	2.0	4.4%
New Orders								
Current Conditions	59.5	53.5	48.8	-	series low	53.9	-4.7	-8.8%
Future Expectations	48.8	45.5	46.5	Oct-13	-	46.9	1.0	2.2%
Export Orders								
Current Conditions	52.1	48.7	49.2	Oct-13	-	50.0	0.5	1.0%
Future Expectations	41.6	42.1	41.7	-	Oct-13	41.8	-0.4	-1.0%
Productive Capacity								
Current Conditions	51.8	50.8	50.5	-	Aug-13	51.0	-0.3	-0.6%
Future Expectations	48.7	48.5	49.7	Aug-13	-	49.0	1.2	2.5%
Order Backlogs								
Current Conditions	50.3	47.4	48.7	Oct-13	-	48.8	1.3	2.7%
Future Expectations	40.4	40.9	41.5	Sep-13	-	40.9	0.6	1.5%
Employment								
Current Conditions	51.3	47.7	49.0	Oct-13	-	49.3	1.3	2.7%
Future Expectations	46.2	46.2	47.2	Sep-13	-	46.5	1.0	2.2%
Inventories								
Current Conditions	48.7	45.7	46.5	Oct-13	-	47.0	0.8	1.8%
Future Expectations	51.3	42.6	45.7	Oct-13	-	46.5	3.1	7.3%
Input Prices								
Current Conditions	54.2	53.4	51.5	-	Aug-13	53.0	-1.9	-3.6%
Future Expectations	51.3	51.0	50.5	-	series low	50.9	-0.5	-1.0%
Prices Received								
Current Conditions	58.5	53.5	52.8	-	Jul-13	54.9	-0.7	-1.3%
Future Expectations	50.3	50.0	49.2	-	series low	49.8	-0.8	-1.6%
Financial Position								
Current Conditions	61.9	58.6	59.1	Oct-13	-	59.9	0.5	0.9%
Future Expectations	59.7	56.2	57.8	Oct-13	-	57.9	1.6	2.8%
Interest Rates Paid								
Current Conditions	50.8	50.5	52.4	Aug-13	-	51.2	1.9	3.8%
Future Expectations	50.0	50.6	50.6	Nov-13	-	50.4	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	53.4	54.1	55.4	series high	-	54.3	1.3	2.4%
Future Expectations	50.7	50.0	50.0	Nov-13	-	50.2	0.0	0.0%
Supplier Delivery Times								
Current Conditions	50.3	49.7	49.5	-	Aug-13	49.8	-0.2	-0.4%
Future Expectations	49.5	49.2	49.5	Oct-13	-	49.4	0.3	0.6%
Availability of Credit								
Current Conditions	54.9	58.0	57.9	-	Oct-13	56.9	-0.1	-0.2%
Future Expectations	53.4	52.0	51.1	-	series low	52.2	-0.9	-1.7%

The MNI Russia Business Indicator ended the year at new record low amid falls in Production and New Orders.

The MNI Russia Business Indicator fell from 51.5 in November to 45.5 in December, a new series low and the first time below 50.



Economic Landscape

Lower growth estimates, falling industrial output, and an acceleration in inflation highlighted the weakness of Russia's economy and the difficulties that policymakers face to overcome stagnation.

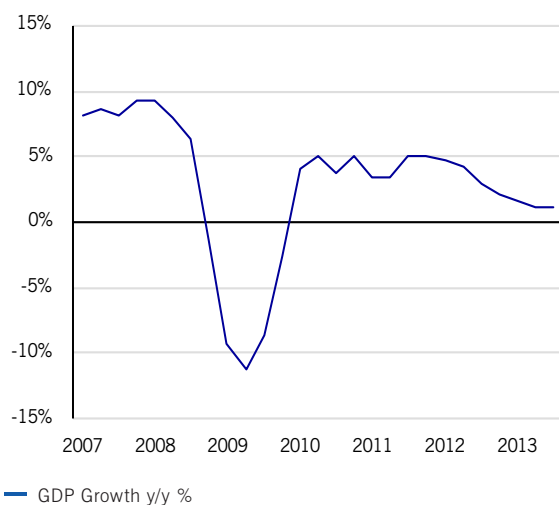
Lower growth estimates, falling industrial output, and an acceleration of inflation continued to highlight the weakness of Russia's economy and the difficulties that policymakers face to overcome stagnation, which the Economy Minister, Alexei Ulyukayev, expects to continue in 2014. He acknowledges that Russia's growth model, based on higher oil prices, has exhausted itself, but has so far failed to provide any clue of an alternative growth engine.

Following last month's cuts in the long-term growth forecasts, this month the Economy Ministry revised down the growth estimates for 2013-2015. The IMF and the World Bank also revised down their forecasts. 2013 will see the lowest GDP growth in four years.

GDP growth revised lower

Mr Ulyukayev said that GDP growth for the first 10 months of 2013 increased by 1.4% compared with the same period a year earlier, adding that he expects annual growth of just 1.5%. The ministry has revised down its 2013 forecast for GDP four times this year, given the weakness in the economy. Growth for 2014 was also cut to 2.5% from 3% previously and to 2.8% in 2015 from 3.1%, mainly due to weak investment.

Economic Growth at a Slower Pace



Source: Federal State Statistics Service of Russia

The IMF also revised down its 2013 and 2014 forecasts to 1.5% and 2% respectively, while the World Bank cut them to 1.3% for this year and 2.2% for next year. The economy remains weak and the latest data does not point to a revival in the short term. With the economy close to its potential, the IMF has warned that structural reforms to reduce oil revenue dependence, improve infrastructure, ease credit access and improve the business climate are urgently needed.

GDP rose 1.2% on the year in the third quarter, unchanged from the second quarter, partially due to disruption in the harvest in some areas. The Deputy Economy Minister, Andrei Klepach, said that the figures revealed disappointing signs of an economy that was losing momentum rather than gathering pace.

No respite from rising prices

Consumer price inflation rose to 6.5% in November from 6.3% in October, the highest rate in the past three months. Rising food prices have pushed inflation up this year, with egg prices up 39.2% on the year in November, the cost of fruit and vegetables up 8.9% from a year earlier and dairy products up 12.3%. The Central Bank of Russia said that the price increases seen in fruit and vegetables were unusual for this time of year.

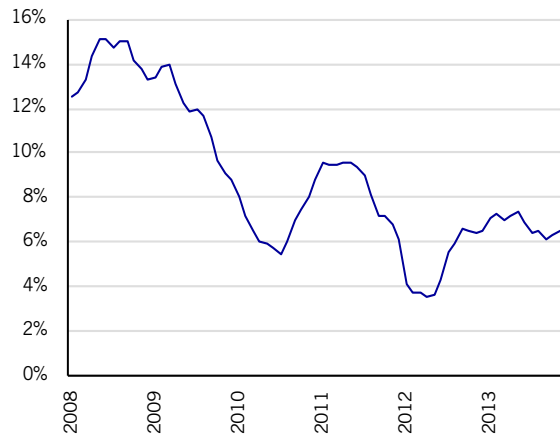
The Economy Ministry revised up its inflation forecast for 2013 to 6.2% from 6% after the Russian Central Bank's first deputy, Ksenia Yudaeva, said that inflation would miss its target range of 5%-6% due to higher food prices.

Monetary policy: interest rates unchanged

The central bank left its new key rate – the one-week repo rate at which it lends money to financial institutions – on hold at 5.5% after the policy meeting on December 13. It said that the pace of economic growth remains low and slightly below its potential, with production and investment subdued and business confidence indicators not improving.

The bank expects inflation to decline in the first half of

Inflation Accelerates in November



— CPI Growth y/y %

Source: Federal State Statistics Service of Russia

2014 and meet the target by the second half of the year. It added that a downward trend in inflation expectations, which have been raised this year by the recent high level of inflation, is needed in order to achieve the target.

The bank has been unwilling to cut official interest rates due to the continued high level of inflation, which rose to 6.5% in November. The monetary policy stance has remained unchanged since October 2012.

The next monetary policy meeting will be held in February, and analysts expect interest rates to be cut if inflation eases noticeably.

Less intervention in the FX market

The central bank took further measures towards a free float of the rouble, which is expected in 2015. This month the bank cut the cumulative volume of interventions in the currency market from \$400 million to \$350 million. This added to October's decision to halve the bank's daily intervention in the currency market to \$60 million from \$120 million.

The move towards a free float has been pushed by

the central bank governor, Elvira Nabiullina, in order to improve the effectiveness of monetary policy. It should also help the rouble to adjust lower and rebalance the economy.

Investment remains weak

Capital investment weakened further in October, contracting 1.9% on the year, following a 1.6% fall in September. The ministry has slashed its investment forecast for 2013 to 0.2% from 2.5%.

In recent months, the government has made several announcements about investment projects in various sectors, including communications and infrastructure. However they have not materialised yet, so any impact on growth will not be seen until the first quarter at the earliest.

Investment levels have declined in 2013, with fixed capital investment down 6.3% in the third quarter compared with the same quarter in 2012, although this was an improvement from a decline of 10.7% and 14% seen in the second and first quarters of 2013 respectively.

The low level of investment is seen by many as the reason behind Russia's current economic malaise.

Industrial production on a falling trend

After a modest decline of 0.2% in the 12 months to October, industrial production contracted further in November, falling 1% on the year. The fall was driven by a sharp contraction in the utilities industry. Manufacturing also contributed negatively, contracting for the seventh straight month.

Utilities output declined for the first time in three months, by 4.6% in November, down from a 1.9% rise in October. The manufacturing sector fell 0.9% on the year, compared with a 1.9% fall in October.

Mining and quarrying output expanded 1.1% in November compared with a year ago, down from 1.8% in October.

Industrial production has contracted in eight of the

past twelve months, prompting industry to call for a rate cut to boost growth. With inflation stubbornly high, the central bank has instead left its key interest rate unchanged for months.

Trade surplus shrinks

The trade surplus stood at \$13.4 billion in October from \$15.7 billion in September, down 7% from last year and 22.3% from the start of the year. The double

in September, while non-food retail trade decreased 3% on the year compared with a 4.7% fall in September.

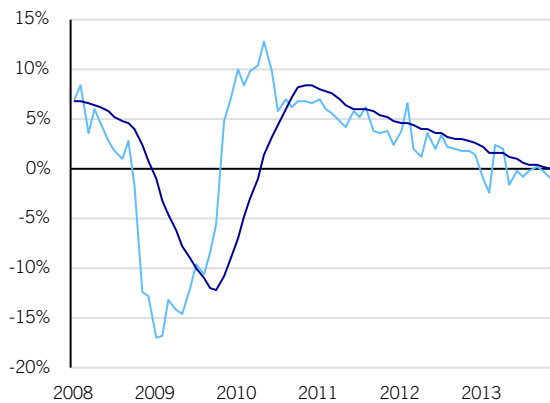
Lower car sales

It has been a bad year for the car industry. From January to November, sales of new cars fell by 6.4% compared with the same period in 2012.

Car sales, though, contracted at a slower pace in November. In total, 231,982 car units were sold in November, 3.6% less than a year earlier. While this was the ninth consecutive annual fall it was up from the 7.7% fall in October.

Earlier in the year the government announced plans to allocate \$3.3 billion in indirect subsidies for the automotive industry, which might help it in 2014. These measures include subsidies, support for importing cars from the Far East, lower interest rates and compensation for banks' expenses on preferential car loans.

Industrial Production Falling



— Industrial Production Annual Average
 — Industrial Production y/y %
 Source: Federal State Statistics Service of Russia

digit growth in the trade surplus in July and August was mostly due to base effects.

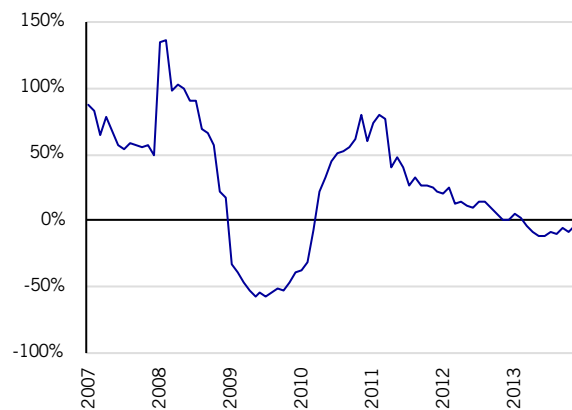
Exports fell 5.5% on the year in October to \$44 billion, while imports declined 4.8% to \$30.6 billion, following a 5.3% gain to \$28.8 billion recorded in September.

Retail Sales up slightly

Retail sales recovered slightly in October, increasing by 3.5% on the year compared with 3% in the previous month, but still below the 4% seen in August.

Retail trade volumes of non-food products rose marginally by 0.9% on the year in October from 0.8%

Retail Trade: Cars



— Retail Trade Turnover – Car and Light Commercial Vehicles
 Source: Federal State Statistics Service of Russia

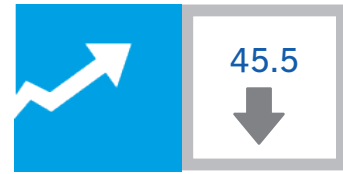


Indicators

The MNI Russia Business Indicator hit a record low in December slipping below 50 for the first time, while expectations for the future bounced back from a record low in November.

MNI Russia Business Indicator

At New Record Low



The MNI Russia Business Indicator hit a new record low in December, slipping below 50 for the first time since the series started in March, while expectations for the future bounced back from the low in November.

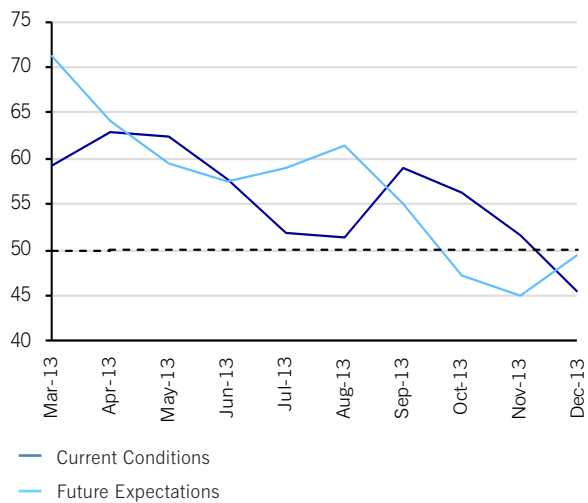
The Business Indicator fell for the third consecutive month to 45.5 in December, down 11.7% from 51.5 in November. Record low business confidence came amid falls in both the Production and New Orders indicators to below 50 in December and also the lowest since the series began in March. In total, eight out of 15 current conditions indicators fell on the month.

The December low ended a dismal year for the Russian economy which saw GDP growth hit a near four year low of 1.2% in the second and third quarters while inflation accelerated sharply. The fall in growth has meant that the Ministry of Economic Development has had to revise down its 2013 growth forecast four times this year. It was lowered to just 1.4% in December, with the Ministry admitting that stagnation would be deeper and last longer than expected.

Business sentiment worsened across all sectors, although manufacturing companies were the hardest hit, with the indicator falling below 50 for the first time in four months. Activity in the service sector remained just above the 50 mark. Business confidence remained below 50 among construction companies.

Business confidence has deteriorated significantly over the year, with the MNI Russia Business Indicator moving from an average of 61.1 in the second quarter to 54 in the third quarter and ending the year at 51.1 in the three months to December.

MNI Russia Business Indicator



In a tentative sign that we could be nearing the bottom of the downturn, business expectations for three months' time recovered in December with the Expectations Indicator rising to 49.5, from a series low of 45.0 in November. The rise was led by manufacturing and services companies, where the indicator rose back above 50.

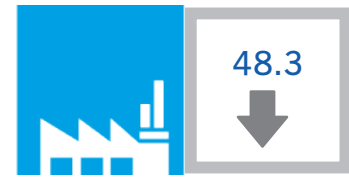
While in November 11 out of the 15 future expectations indicators fell and seven of them hit a record low, in December only four of them decreased, indicating a pick-up in optimism (or fall in pessimism) about future business activity.

MNI Russia Business Indicator

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	57.8	51.8	51.3	59.0	56.3	51.5	45.5
Future Expectations	57.5	59.0	61.5	55.0	47.2	45.0	49.5

Production

Lowest Since March



Production activity fell sharply for the second consecutive month in December to the lowest level since the series started in March, although a rise in expectations for output in three months' time tentatively suggests that the slide could be coming to an end.

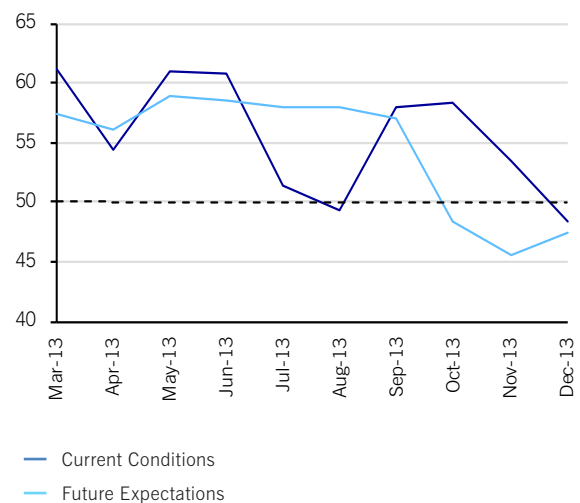
The Production Indicator fell to 48.3 in December from 53.5 in November, the lowest reading since the series started in March. Production had recovered since slipping below 50 during the summer, but has showed renewed weakness in the past two months.

The latest decline was led by a higher proportion of services and, to a lesser extent, manufacturing companies reporting that their production level was the same compared with a month ago rather than higher. For both sectors the indicator remained in expansion, while it fell further below 50 for construction companies.

The Future Expectations Indicator rose to 47.5 in December from 45.5 in the previous month, the first increase in four months. While it remained below 50 for the third consecutive month, between November and December a lower proportion of companies expected their production levels to decrease in three months' time.

Expectations about future production levels improved for construction and services companies, while they deteriorated slightly for manufacturing companies, with the indicator standing below 50 for the second month in a row.

Production



Production

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	60.8	51.3	49.3	58.0	58.3	53.5	48.3
Future Expectations	58.5	58.0	58.0	57.0	48.3	45.5	47.5

New Orders

Falls Below 50 for First Time



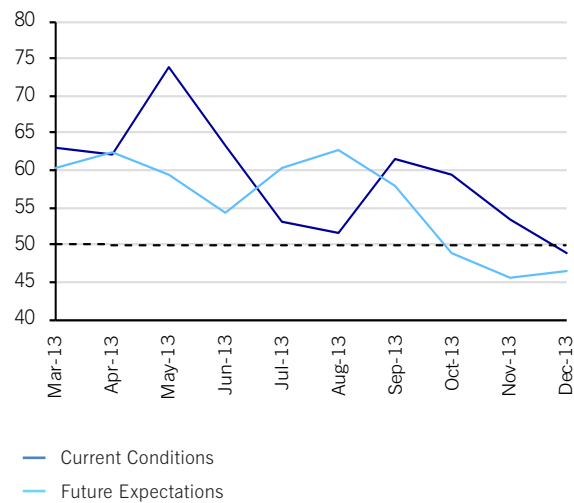
Following a strong rise in September, the New Orders Indicator has declined in each of the past three months, and fell to 48.8 in December from 53.5 in November, the first time it has stood below the breakeven 50 level since the series began in March.

The December fall took the New Orders indicator to its lowest level on record, as all sectors reported fewer companies with higher orders compared with a month ago. The indicator remained just above 50 for the manufacturing and services sector, with most of the companies surveyed reporting that the level of their new orders did not change between November and December.

Firms' Expectations for New Orders in three months' time improved slightly in December, to 46.5 from 45.5 in November, the first rise in four months, but below 50 for the third consecutive month. Expectations have worsened significantly, with the indicator falling sharply from an average of 60.3 in the third quarter to an average of 46.9 in the fourth quarter.

December's improvement was led by services companies, with the indicator rising to the 50 mark while manufacturing remained broadly stable. In each of the past two months, construction companies have been the least optimistic about current and expected New Orders.

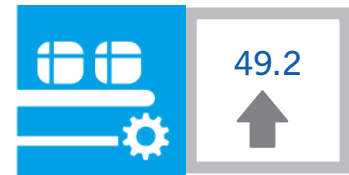
New Orders



New Orders

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	63.3	53.0	51.5	61.5	59.5	53.5	48.8
Future Expectations	54.3	60.3	62.8	57.8	48.8	45.5	46.5

Export Orders Remain Below 50



While the Export Orders Indicator increased 1% in December, having recorded the lowest reading since August in the previous month, expectations for the future decreased slightly. Both current and future expectations indicators remained below the 50 mark, reflecting continued weakness in external demand.

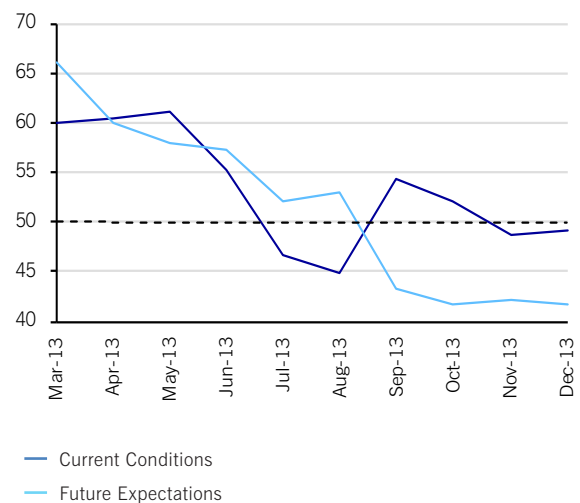
The Export Orders Indicator rose slightly in December to 49.2 from 48.7 previously, as most companies continued to report that their export orders were the same compared with a month earlier, while only a few reported an increase.

Conditions in the service sector improved marginally on the month and remained the strongest sector, while manufacturing remained broadly stable at around 50.

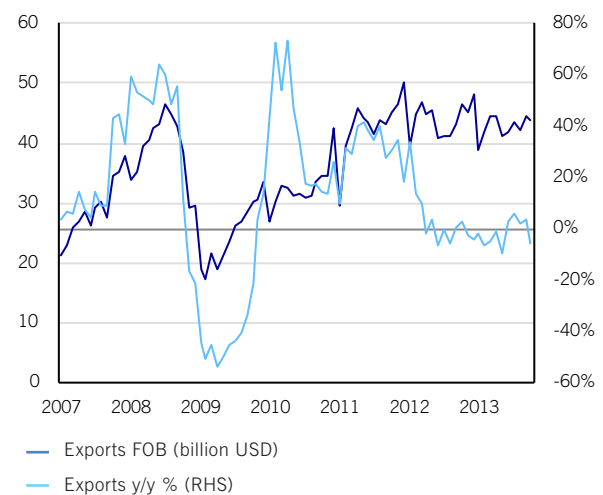
Export orders recovered slightly from 48.6 in the third quarter to 50 in the fourth quarter.

Future Expectations for Export Orders worsened slightly in December, with the indicator standing at 41.7 compared with 42.1 in November. Companies' expectations about future Export Orders weakened from 49.5 in the third quarter to 41.8 in the fourth quarter, as the economic outlook has deteriorated and that of its main trading partners has only improved marginally.

Export Orders



Exports



Source: Federal State Statistics Service of Russia

Export Orders

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	55.3	46.6	44.9	54.3	52.1	48.7	49.2
Future Expectations	57.3	52.1	53.0	43.3	41.6	42.1	41.7

Productive Capacity

Broadly Unchanged at the 50 Level



The Productive Capacity Indicator remained around the 50 breakeven level in December as almost all companies continued to report that their productive capacity was unchanged compared with the previous month.

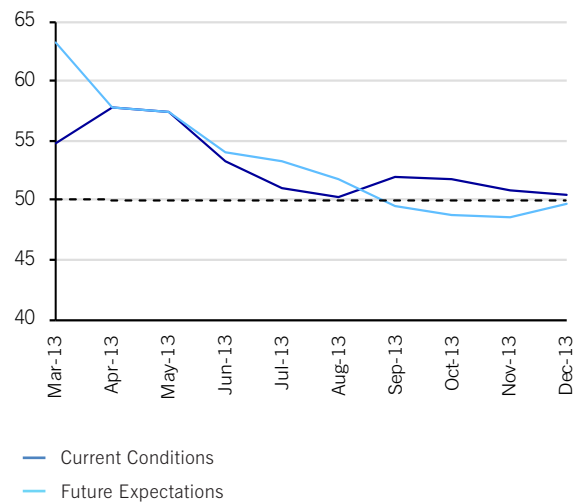
The Productive Capacity Indicator stood at 50.5 in December, compared with 50.8 in November, just below the three-month average of 51. A slight increase in the indicator for services companies was offset by a lower reading for the manufacturing sector.

Productive Capacity has eased throughout most of this year given the slowdown in the economy, falling in seven of the past nine months and remaining around the 51 level since June. Companies have not shown any intention to increase their capacity and, given current economic conditions, this seems unlikely to change.

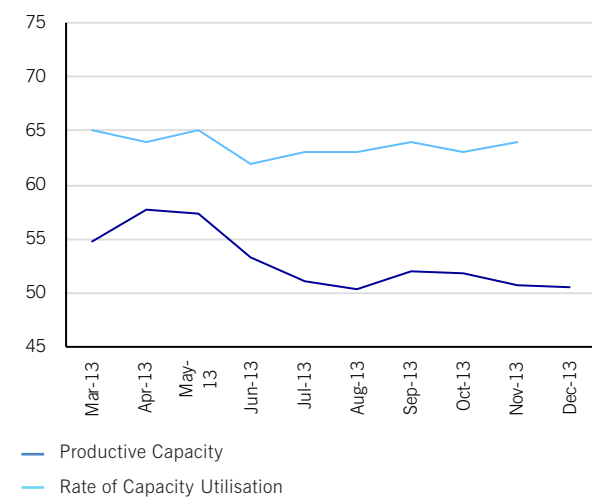
While the Expectations Indicator increased for the first time in nine months to 49.7 in December from 48.5 previously, it was a marginal rise and it is too early to conclude that it reflects a shift in the trend.

The Future Expectations Indicator has been trending downwards since the series started in March, and has been in contraction since September.

Productive Capacity



Productive Capacity and Rate of Capacity Utilisation



Source: Federal State Statistics Service of Russia

Productive Capacity

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	53.3	51.0	50.3	52.0	51.8	50.8	50.5
Future Expectations	54.0	53.3	51.8	49.5	48.7	48.5	49.7

Order Backlogs

Highest Since October



Order Backlogs rose 2.7% on the month to 48.7 in December, after falling back into contraction in November to 47.4.

Almost no companies reported their backlogs were higher. Since the series started in March, the indicator measuring the amount of unfilled orders was above the 50 mark only in October, reflecting the weak demand and excess capacity faced by Russian companies.

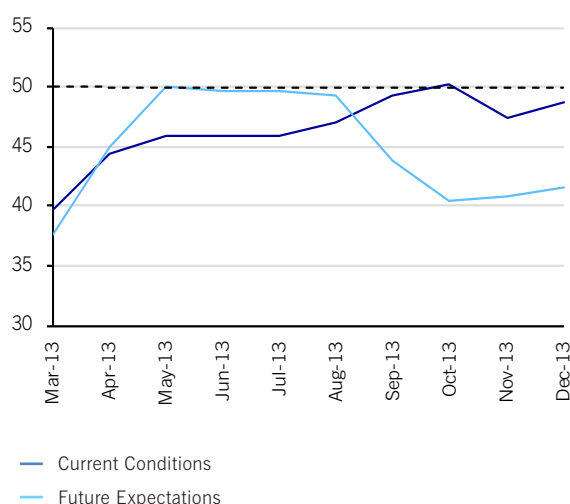
December's rise was led by manufacturing and construction companies. The indicator, though, remained below 50 for both sectors as most companies continued to report that the level of their backlogs was the same compared with a month earlier. The indicator for the services sector remained around 50.

Although Order Backlogs have remained below 50 for most of the year, they have recovered slightly from 45.3 in the second quarter to 47.4 in the third quarter, ending the year with an average of 48.8 in the three months to December.

Companies were less pessimistic than a month earlier about their backlogs in three months' time, with the Future Expectations Indicator rising to 41.5 in December compared with 40.9 in November, the highest level in three months.

Expectations have been very low during the course of 2013. Except for May, when the Future Expectations Indicator reached exactly 50, expectations for Order Backlogs have been in contraction.

Order Backlogs



The rise in the expectations indicators for Production, New Orders and Order Backlogs seen in December, however, tentatively suggests that companies are seeing an end to the downturn.

Order Backlogs

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	45.8	45.9	47.1	49.2	50.3	47.4	48.7
Future Expectations	49.7	49.7	49.2	43.8	40.4	40.9	41.5

Employment Improves in December



The situation in the labour market improved slightly from November to December, as marginally more companies reported that their number of employees was “just right” rather than “too many”. In spite of the modest pick-up, though, both the current and future expectations indicators ended the year below the 50 mark.

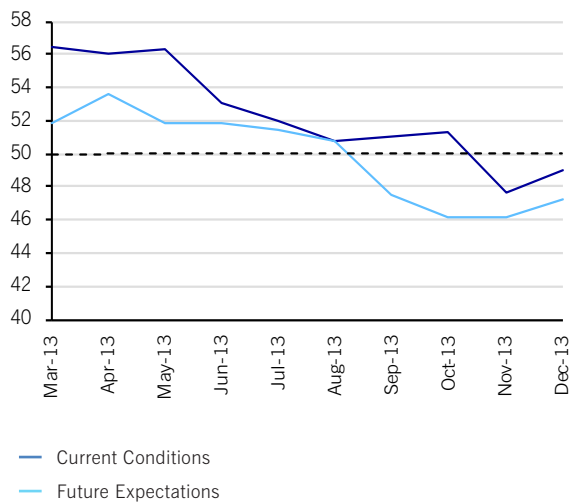
The Employment Indicator rose 2.7% on the month to 49.0 in December, having fallen into contraction in November for the first time since the series started in March. During the fourth quarter as a whole, the indicator fell to 49.3 from 51.3 in the third quarter.

The majority of firms have not changed and have no intention to change the size of their workforce. Both the current and expectations indicators have trended down since the series started in March.

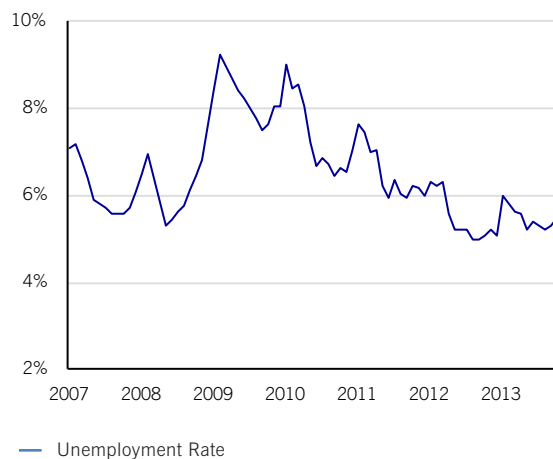
The Future Expectations Indicator rose to 47.2 in December from a series low of 46.2 in both October and November, having fallen in the previous four months. In spite of December’s rise, the indicator remained in contraction for the fourth consecutive month.

Official data shows that the unemployment rate had trended lower throughout most of 2013, but data for October showed a rise to 5.5% from 5.3% in September, as the economic downturn has taken its toll. It subsequently fell back to 5.4% in November.

Employment



Unemployment



Source: Federal State Statistics Service of Russia

Employment

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	53.0	52.0	50.8	51.0	51.3	47.7	49.0
Future Expectations	51.8	51.5	50.8	47.5	46.2	46.2	47.2

Inventories

Remain in Contraction



Having fallen for three months in a row, the indicator measuring the level of Inventories of Finished Goods rose 1.8% on the month to 46.5 in December from 45.7 previously, led by a marginal increase in the manufacturing sector. Almost all the companies surveyed continued to report that their level of finished goods inventories was the same as a month ago.

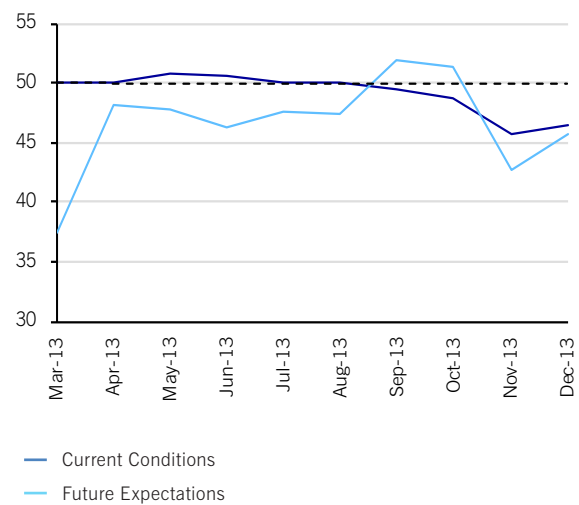
Having remained broadly stable at around the 50 level until August, Inventories fell into contraction in September and subsequently hit a record low of 42.6 in November.

With demand weak and given that the growth outlook has been disappointing, companies have been destocking more aggressively in recent months.

The indicator fell from an average of 50.5 in the second quarter to 49.8 in the three months to September, and ended the year at 47.0 in the fourth quarter.

The expectations indicator for finished goods inventories in three months' time improved 7.3% on the month to 45.7 in December, remaining below 50 for the second consecutive month.

Inventories



Inventories

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	50.6	50.0	50.0	49.4	48.7	45.7	46.5
Future Expectations	46.3	47.5	47.4	51.9	51.3	42.6	45.7

Input Prices

Expectations Hit a New Record Low



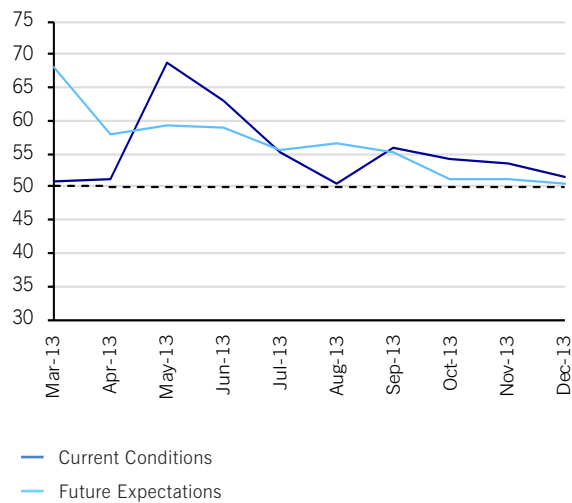
Input Prices eased for the third consecutive month in December, while expectations for the future fell to the lowest level since the series began in March.

The Input Prices Indicator declined 3.6% in December to 51.5 from 53.4 in the previous month, the lowest since August, when the indicator stood at 50.5. The fall was mainly led by services companies, for which input prices eased after remaining stable for the past two months. For manufacturing and construction firms the indicator remained broadly stable around the 50 mark.

In spite of the pick-up in oil prices towards the end of August, input prices have remained relatively subdued, falling to 53 in the fourth quarter, down from 61.1 in the second quarter.

Expectations for three months' time have been on a declining trend since the series began in March and they hit a new record low in December, falling to 50.5, compared with 51 in November. Most companies expected input prices to remain at the same level in three months' time.

Input Prices



Input Prices

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	63.1	55.2	50.5	55.8	54.2	53.4	51.5
Future Expectations	58.9	55.5	56.6	55.3	51.3	51.0	50.5

Prices Received Expectations Dip Below 50



The December data offered further evidence that core consumer price inflation may have peaked, as expectations for Prices Received fell into contraction for the first time on record.

The Prices Received Indicator, which measures prices compared with a month earlier, decreased to 52.8 in December from 53.5 in November, the lowest since July, likely reflecting the recent decline in Input Prices.

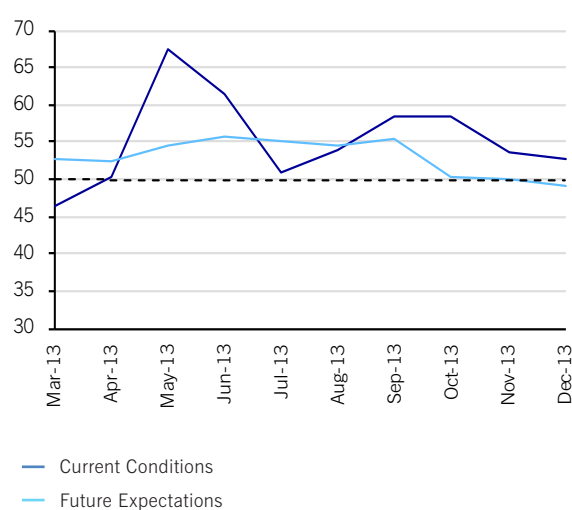
The latest fall was led by services companies, while the indicator for manufacturing and construction companies remained stable at around 50.

Expectations for Prices Received in three months' time fell below 50 to a new record low of 49.2 in December compared with 50.0 in November, as a higher proportion of manufacturing companies expected to charge the same prices in three months' time rather than higher prices.

Consumer price inflation accelerated to 6.5% in November, up from 6.3% in October and the highest rate in the past three months. Core inflation, which excludes food, energy, tariffs and tobacco, rose to 5.6% in November from 5.5% in October.

The Economy Ministry recently raised its forecast for 2013 inflation to 6.2% after the Central Bank's first deputy, Ksenia Yudaeva, said inflation would miss its target range of 5%-6% this year due to higher food prices.

Prices Received



Prices Received

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	61.3	51.0	54.0	58.3	58.5	53.5	52.8
Future Expectations	55.8	55.1	54.6	55.3	50.3	50.0	49.2

Financial Position Expectations Improve

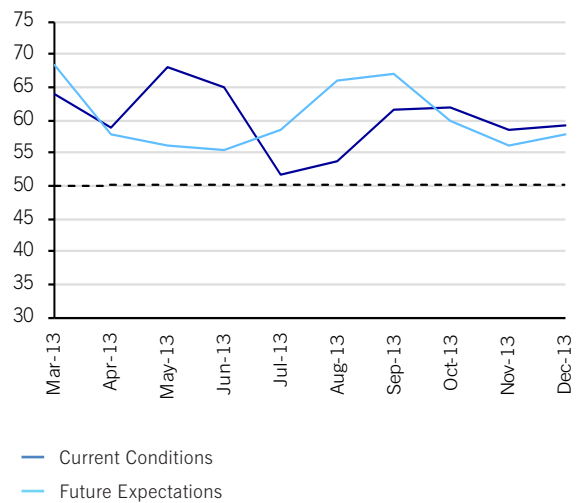


In spite of the economic downturn, the indicator measuring the Financial Position of firms has remained well above 50 this year.

The Financial Position Indicator increased to 59.1 from 58.6 in November. On a quarterly basis, the indicator fell from an average of 63.9 in the second quarter to 55.6 in the third quarter, but bounced back to 59.9 in the fourth, led by an improvement among manufacturing firms.

Expectations for three months' time rose 2.8% on the month to 57.8 in December from 56.2 in November, the first rise in three months. The increase was led by service sector companies, while expectations for manufacturing and construction companies remained unchanged.

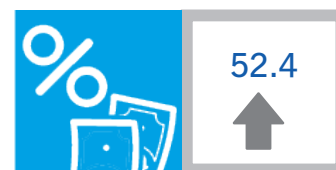
Financial Position



Financial Position

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	64.9	51.8	53.6	61.4	61.9	58.6	59.1
Future Expectations	55.4	58.3	65.8	66.9	59.7	56.2	57.8

Interest Rates Paid Highest Since August



Interest Rates Paid rose to 52.4 in December, having fallen to 50.5 in November, but remained well below the level seen at the start of 2013.

Russia's central bank has maintained its unchanged policy stance since October 2012, with the policy rate standing at 5.5%, in the face of high consumer prices inflation, which accelerated to 6.5% in November.

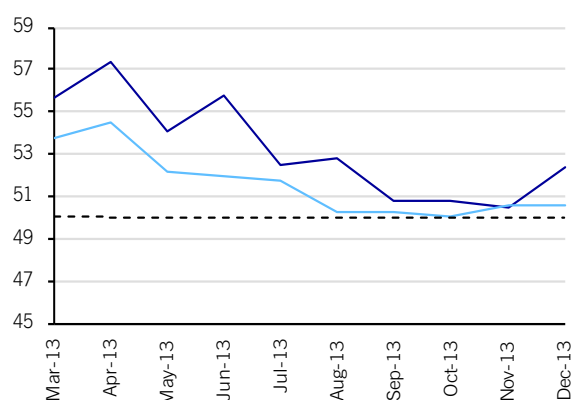
The latest increase in Interest Rates Paid was led by the services sector, where a higher proportion of companies reported they paid higher interest rates in December compared with November, while there was no change for manufacturing and construction companies.

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

The yield on the Russian 10-year government bond stood at 7.72% on December 16, up from 7.54% on November 17 and 6.71% a year earlier, while the three-month interbank rate remained broadly unchanged at 6.8% between November and December.

For the next three months, companies did not expect their borrowing costs to change. Expectations for the next three months remained at 50.6 in December, below the series average of 51.6 and the highest since July.

Interest Rates Paid



— Current Conditions
- - - Future Expectations

Interest Rates Paid

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	55.8	52.5	52.8	50.8	50.8	50.5	52.4
Future Expectations	51.9	51.7	50.3	50.3	50.0	50.6	50.6

Effect of Rouble Exchange Rate Continued to Help Businesses



The Effect of the Rouble Exchange Rate Indicator rose to a new high of 55.4 in December from 54.1 in November, showing that more companies believe the exchange rate is helping businesses.

The rise was led by services and construction companies.

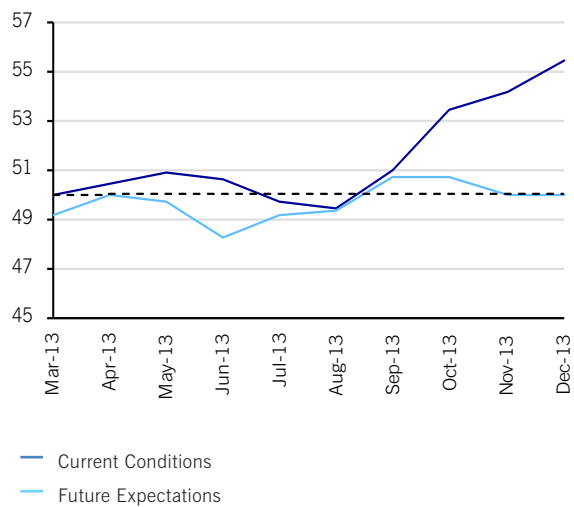
Businesses are asked whether the exchange rate is helping or hurting their company and a value above 50 shows that more firms reported that it was helping, while a reading below 50 shows that the exchange rate was hurting business.

Over the past year, the rouble has fallen by around 7% against the US dollar and would have likely fallen by more had the US Federal Reserve not decided to postpone tapering quantitative easing.

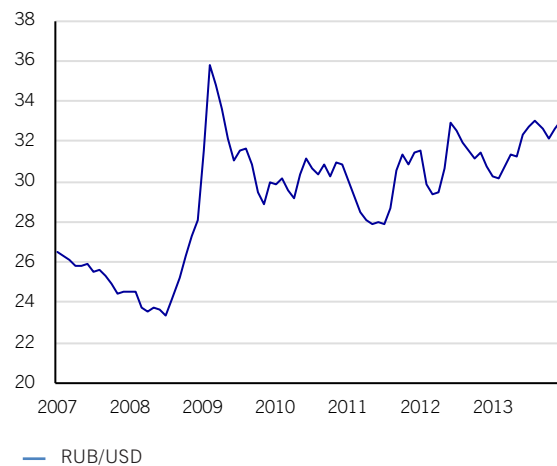
The indicator increased from an average of 50.0 in the third quarter to 54.3 in the fourth quarter, as more companies benefited from the lower level of the currency.

Expectations for three months' time remained at the 50 level for the second consecutive month, having stood at 50.7 in September and October. The expectations indicator has been stable around 50 over the past year.

Effect of Rouble Exchange Rate



Rouble Depreciates



Source: The Central Bank of the Russian Federation

Effect of Rouble Exchange Rate

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	50.6	49.7	49.4	51.0	53.4	54.1	55.4
Future Expectations	48.2	49.1	49.3	50.7	50.7	50.0	50.0

Supplier Delivery Times Broadly Stable Below 50



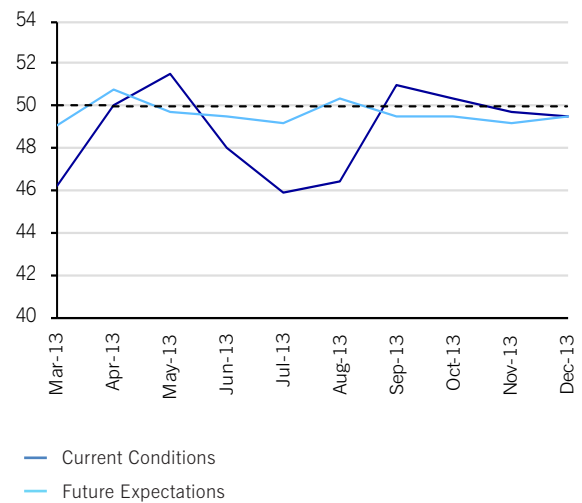
The time taken to deliver supplies to companies remained broadly stable for the third consecutive month, with the indicator standing at 49.5 in December compared with 49.7 in November. Supplier Delivery Times for manufacturing and services companies remained at the same level, with the latter at the 50 mark, while delivery times decreased in the construction sector.

In the three months to December the indicator stood at 49.8, up 4.2% from 47.8 in the third quarter.

Expectations for Supplier Delivery Times in three months' time remained virtually unchanged at 49.5, compared with 49.2 in November.

The expectations indicator has remained broadly stable since March, with the series averaging 49.6, and only rising above the breakeven level of 50 twice since then.

Supplier Delivery Times



Supplier Delivery Times

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

Availability of Credit Stable at High Level



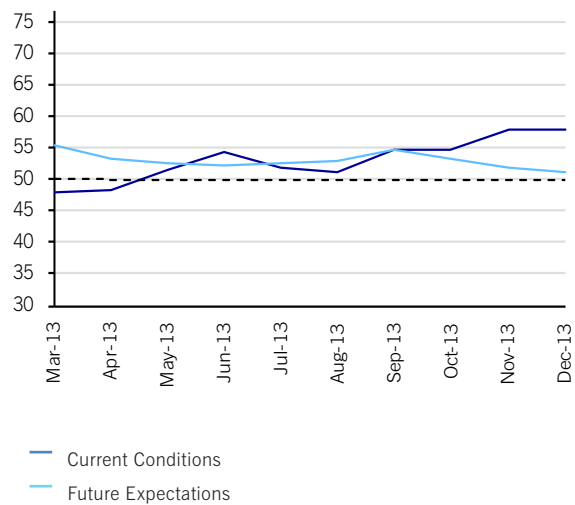
Credit conditions for firms remained broadly stable from November to December, having hit a record high in the previous month.

The Availability of Credit Indicator stood at 57.9 in December compared with 58.0 in November, a 0.2% fall on the month and remaining well above the 50 breakeven level for the second consecutive month.

Companies in the construction sector reported that credit availability improved from November to December. However, this was outpaced by a lower availability of credit for services companies. Almost 20% of manufacturing companies continued to report that credit availability was higher compared with a month earlier, though most of them said it had not changed.

The availability of credit improved during the course of the year. The indicator increased from 51.5 in the second quarter to 52.6 in the third quarter and ended the year at 56.9 in the fourth quarter.

The Future Expectations Indicator declined by 1.7% on the month to 51.1 in December from 52.0 in November, below the series average of 53.1.



Availability of Credit

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Current Conditions	54.4	51.9	51.1	54.7	54.9	58.0	57.9
Future Expectations	52.2	52.7	53.1	54.9	53.4	52.0	51.1



Data Tables

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Historical Summary

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
MNI Russia Business Indicator										
Current Conditions	59.3	62.9	62.5	57.8	51.8	51.3	59.0	56.3	51.5	45.5
Future Expectations	71.3	64.1	59.5	57.5	59.0	61.5	55.0	47.2	45.0	49.5
Production	118.5	110.4	119.8	119.3	109.3	107.3	115.0	106.6	99.0	95.8
Current Conditions	61.1	54.4	61.0	60.8	51.3	49.3	58.0	58.3	53.5	48.3
Future Expectations	57.4	56.0	58.8	58.5	58.0	58.0	57.0	48.3	45.5	47.5
New Orders	123.2	124.6	133.1	117.6	113.3	114.3	119.3	108.3	99.0	95.3
Current Conditions	63.0	62.1	73.8	63.3	53.0	51.5	61.5	59.5	53.5	48.8
Future Expectations	60.2	62.5	59.3	54.3	60.3	62.8	57.8	48.8	45.5	46.5
Export Orders	126.0	120.4	119.0	112.6	98.7	97.9	97.6	93.7	90.8	90.9
Current Conditions	60.0	60.5	61.1	55.3	46.6	44.9	54.3	52.1	48.7	49.2
Future Expectations	66.0	59.9	57.9	57.3	52.1	53.0	43.3	41.6	42.1	41.7
Productive Capacity	117.9	115.4	114.6	107.3	104.3	102.1	101.5	100.5	99.3	100.2
Current Conditions	54.7	57.7	57.3	53.3	51.0	50.3	52.0	51.8	50.8	50.5
Future Expectations	63.2	57.7	57.3	54.0	53.3	51.8	49.5	48.7	48.5	49.7
Order Backlogs	77.3	89.3	95.9	95.5	95.6	96.3	93.0	90.7	88.3	90.2
Current Conditions	39.6	44.3	45.9	45.8	45.9	47.1	49.2	50.3	47.4	48.7
Future Expectations	37.7	45.0	50.0	49.7	49.7	49.2	43.8	40.4	40.9	41.5
Employment	108.4	109.6	108.1	104.8	103.5	101.6	98.5	97.5	93.9	96.2
Current Conditions	56.5	56.0	56.3	53.0	52.0	50.8	51.0	51.3	47.7	49.0
Future Expectations	51.9	53.6	51.8	51.8	51.5	50.8	47.5	46.2	46.2	47.2
Inventories	87.5	98.1	98.5	96.9	97.5	97.4	101.3	100.0	88.3	92.2
Current Conditions	50.0	50.0	50.8	50.6	50.0	50.0	49.4	48.7	45.7	46.5
Future Expectations	37.5	48.1	47.7	46.3	47.5	47.4	51.9	51.3	42.6	45.7
Input Prices	118.8	109.3	128.2	122.0	110.7	107.1	111.1	105.5	104.4	102.0
Current Conditions	50.9	51.3	68.8	63.1	55.2	50.5	55.8	54.2	53.4	51.5
Future Expectations	67.9	58.0	59.4	58.9	55.5	56.6	55.3	51.3	51.0	50.5
Prices Received	99.1	102.8	121.8	117.1	106.1	108.6	113.6	108.8	103.5	102.0
Current Conditions	46.3	50.4	67.3	61.3	51.0	54.0	58.3	58.5	53.5	52.8
Future Expectations	52.8	52.4	54.5	55.8	55.1	54.6	55.3	50.3	50.0	49.2
Financial Position	132.4	116.6	124.0	120.3	110.1	119.4	128.3	121.6	114.8	116.9
Current Conditions	63.9	58.9	68.0	64.9	51.8	53.6	61.4	61.9	58.6	59.1
Future Expectations	68.5	57.7	56.0	55.4	58.3	65.8	66.9	59.7	56.2	57.8
Interest Rates Paid	109.5	111.9	106.3	107.7	104.2	103.1	101.1	100.8	101.1	103.0
Current Conditions	55.7	57.4	54.1	55.8	52.5	52.8	50.8	50.8	50.5	52.4
Future Expectations	53.8	54.5	52.2	51.9	51.7	50.3	50.3	50.0	50.6	50.6
Effect of Rouble Exchange Rate	99.1	100.4	100.6	98.8	98.8	98.7	101.7	104.1	104.1	105.4
Current Conditions	50.0	50.4	50.9	50.6	49.7	49.4	51.0	53.4	54.1	55.4
Future Expectations	49.1	50.0	49.7	48.2	49.1	49.3	50.7	50.7	50.0	50.0
Supplier Delivery Time	95.3	100.8	101.2	97.5	95.1	96.7	100.5	99.8	98.9	99.0
Current Conditions	46.2	50.0	51.5	48.0	45.9	46.4	51.0	50.3	49.7	49.5
Future Expectations	49.1	50.8	49.7	49.5	49.2	50.3	49.5	49.5	49.2	49.5
Availability of Credit	103.7	101.7	104.2	106.6	104.6	104.2	109.6	108.3	110.0	109.0
Current Conditions	48.1	48.4	51.7	54.4	51.9	51.1	54.7	54.9	58.0	57.9
Future Expectations	55.6	53.3	52.5	52.2	52.7	53.1	54.9	53.4	52.0	51.1

Historical Records

	Minimum	Maximum	Median	Mean
MNI Russia Business Indicator				
Current Conditions	45.5	62.9	55.8	57.1
Future Expectations	45.0	71.3	57.0	58.3
Production	93.8	119.9	110.1	113.4
Current Conditions	48.3	61.1	55.6	56.2
Future Expectations	45.5	58.8	54.5	57.2
New Orders	94.3	136.6	114.8	119.1
Current Conditions	48.8	73.8	59.0	60.5
Future Expectations	45.5	62.8	55.8	58.6
Export Orders	86.5	127.1	104.8	105.8
Current Conditions	44.9	61.1	53.3	53.2
Future Expectations	41.6	66.0	51.5	52.6
Productive Capacity	98.8	120.9	106.3	104.5
Current Conditions	50.3	57.7	52.9	51.9
Future Expectations	48.5	63.2	53.4	52.6
Order Backlogs	77.3	100.3	91.2	90.9
Current Conditions	39.6	50.3	46.4	46.5
Future Expectations	37.7	50.0	44.8	44.4
Employment	93.9	110.1	102.2	102.8
Current Conditions	47.7	56.5	52.4	51.7
Future Expectations	46.2	53.6	49.9	51.2
Inventories	83.2	102.7	95.8	97.5
Current Conditions	45.7	50.8	49.2	50.0
Future Expectations	37.5	51.9	46.6	47.5
Input Prices	101.0	136.7	111.9	109.9
Current Conditions	50.5	68.8	55.5	53.8
Future Expectations	50.5	67.9	56.4	56.1
Prices Received	95.5	123.1	108.3	107.4
Current Conditions	46.3	67.3	55.3	53.8
Future Expectations	49.2	55.8	53.0	53.7
Financial Position	107.2	136.5	120.4	118.3
Current Conditions	51.8	68.0	60.2	60.3
Future Expectations	55.4	68.5	60.2	58.1
Interest Rates Paid	100.5	111.9	104.9	103.8
Current Conditions	50.5	57.4	53.3	52.7
Future Expectations	50.0	54.5	51.6	51.2
Effect of Rouble Exchange Rate	97.6	106.1	101.2	100.6
Current Conditions	49.4	55.4	51.5	50.8
Future Expectations	48.2	50.7	49.7	49.9
Supplier Delivery Time	95.0	102.3	98.5	99.1
Current Conditions	45.9	51.5	48.9	49.6
Future Expectations	49.1	50.8	49.6	49.5
Availability of Credit	99.2	113.6	106.2	106.1
Current Conditions	48.1	58.0	53.1	53.2
Future Expectations	51.1	55.6	53.1	52.9

Historical Records - Quarterly

	Q2 13	Q3 13	Q4 13	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator					
Current Conditions	61.1	54.0	51.1	-2.9	-5.4%
Future Expectations	60.4	58.5	47.2	-11.3	-19.3%
Production					
Current Conditions	58.7	52.9	53.4	0.5	0.9%
Future Expectations	57.8	57.7	47.1	-10.6	-18.4%
New Orders					
Current Conditions	66.4	55.3	53.9	-1.4	-2.5%
Future Expectations	58.7	60.3	46.9	-13.4	-22.2%
Export Orders					
Current Conditions	59.0	48.6	50.0	1.4	2.9%
Future Expectations	58.4	49.5	41.8	-7.7	-15.6%
Productive Capacity					
Current Conditions	56.1	51.1	51.0	-0.1	-0.2%
Future Expectations	56.3	51.5	49.0	-2.5	-4.9%
Order Backlogs					
Current Conditions	45.3	47.4	48.8	1.4	3.0%
Future Expectations	48.2	47.6	40.9	-6.7	-14.1%
Employment					
Current Conditions	55.1	51.3	49.3	-2.0	-3.9%
Future Expectations	52.4	49.9	46.5	-3.4	-6.8%
Inventories					
Current Conditions	50.5	49.8	47.0	-2.8	-5.6%
Future Expectations	47.4	48.9	46.5	-2.4	-4.9%
Input Prices					
Current Conditions	61.1	53.8	53.0	-0.8	-1.5%
Future Expectations	58.8	55.8	50.9	-4.9	-8.8%
Prices Received					
Current Conditions	59.7	54.4	54.9	0.5	0.9%
Future Expectations	54.2	55.0	49.8	-5.2	-9.5%
Financial Position					
Current Conditions	63.9	55.6	59.9	4.3	7.7%
Future Expectations	56.4	63.7	57.9	-5.8	-9.1%
Interest Rates Paid					
Current Conditions	55.8	52.0	51.2	-0.8	-1.5%
Future Expectations	52.9	50.8	50.4	-0.4	-0.8%
Effect of Rouble Exchange					
Current Conditions	50.6	50.0	54.3	4.3	8.6%
Future Expectations	49.3	49.7	50.2	0.5	1.0%
Supplier Delivery Time					
Current Conditions	49.8	47.8	49.8	2.0	4.2%
Future Expectations	50.0	49.7	49.4	-0.3	-0.6%
Availability of Credit					
Current Conditions	51.5	52.6	56.9	4.3	8.2%
Future Expectations	52.7	53.6	52.2	-1.4	-2.6%

Methodology

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

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

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

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



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