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MNI Russia Consumer Report February 2015

Insight and data for better decisions

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Insight and data for better decisions

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

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

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

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MNI Russia Consumer Report - February 2015

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Phone Home

This February marks one year since Russia's "little green men" first placed boots on Ukrainian soil. It's time to call an end to the conflict which has claimed thousands of lives and shaved billions of dollars off the value of the Russian economy.

This February marks one year since Russia's "little green men" first placed boots on Ukrainian soil. It's time to call an end to the conflict which has claimed thousands of lives and shaved billions of dollars off the value of the Russian economy.

On 27 February 2014, Russian troops seized control of the Crimean regional parliament and earned themselves the moniker "little green men" in reference to the colour of their uniforms and lack of insignia to identify them by. At first, President Putin denied that these troops were Russian military and instead described them as local "self-defence groups" who were protecting citizens as they undertook a referendum on whether to be annexed by Russia in which a remarkable 95.6% of votes were cast in favour of leaving Ukraine, a figure fiercely disputed by international observers.

Putin has since acknowledged that the little green men were Russian military, although denies that the troops which have continued to push into eastern Ukraine are supported by the Russian government in spite of possessing state-of-the-art military equipment. While the Russia-backed rebels have secured a great deal of additional Ukrainian territory, it has come at a great cost. In addition to the immense loss of human life, the resulting effect on the economy from the imposition of Western sanctions and loss in investor confidence will likely take Russia years to regain.

There is, however, some method in Putin's madness. The Crimea peninsula is a strategically important region which houses Russia's Black Sea Fleet in the port of Sevastopol and possesses vast gas reserves within its territorial waters that are anticipated to yield trillions of dollars once explored. Nevertheless, should Russia continue its advance into the part of Ukraine which Putin calls Novorossiya ("New Russia"), he stands to lose a lot more than he stands to gain.

So, what does Putin have to lose? Aside from the additional Ukrainian and Russian lives that will undoubtedly be lost, such action is likely to yield fresh sanctions from the West that will deal further damage to Russia's economy which is already expected to enter a deep recession in 2015. Evidence from our business survey has shown that companies are

suffering from the current measures, particularly the capital restrictions as evidenced by the fall in the Availability of Credit Indicator to an all-time low in February. If the West is serious about bringing about a change in Putin's policy, it will widen the pool of Russian companies restricted from European capital markets and place a ban on the export of technology to the Russian gas industry following a similar ban against the oil sector.

Moreover, while the Crimean peninsula may have been of economic value the same cannot be said for the metallurgical and chemical enterprises in eastern Ukraine which have required tens of billions each year in subsidies due to a lack of competition, creaking machinery and a chronically unproductive workforce. Given the sorry state of Russia's finances, Putin can ill-afford to inherit this burden nor create additional competition for Russia's existing enterprises.

Putin's belief might be that by continuing its advance, the Russian government earns more leverage which it can use to force Ukraine's hand in moving further away from greater integration with the EU. Russia's aggression, however, may have the opposite effect and push Ukraine further towards the open arms of the EU. President Putin is probably better advised to stop any further incursions and for his army of little green men to phone "home".

George Brown

Junior Economist
MNI Indicators



Executive Summary

The MNI Russia Consumer Sentiment Indicator rose by 7.3% on the month to 72.5 in February from a series low of 67.5 in January.

Russian consumers were slightly less pessimistic in February, although record high inflation expectations and a bleaker outlook for long-term business conditions are likely to weigh on sentiment in the future.

The MNI Russia Consumer Sentiment Indicator rose by 7.3% on the month to 72.5 in February from a series low of 67.5 in January. Even so, consumer sentiment was down 23% on the year following a prolonged downturn which began even before the onset of the Ukraine crisis.

Four of the five components which make up the MNI Russia Consumer Sentiment Indicator improved in February, led by a sharp rise in Durable Buying Conditions to 89.8. There were also smaller increases in the personal finances measures as well as a significant gain in the outlook for Business Conditions in One Year to 67.2. Nevertheless, the latter remained sharply down on the year and was in contrast to a further deterioration in the Current Business Conditions Indicator to an all-time low of 69.5.

Expectations for Business Conditions in Five Years also deteriorated to a series low of 65.0 as an increasing proportion of respondents anticipated that the current downturn will have lasting repercussions on Russia's business environment.

With the downturn in the Russian economy gaining pace, consumers became more pessimistic than ever in their outlook for the job market. The Employment Outlook Indicator, which gauges opinion on the outlook for the employment market over the next 12 months, fell slightly to a fresh low of 68.7 in February from a previous low of 69.1 in January.

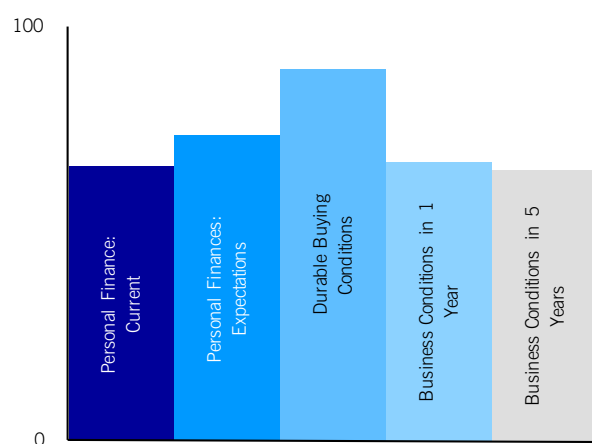
Inflation expectations increased to a record high of 171.5 in February and a record proportion of respondents thought that interest rates would increase further in spite of the January interest rate cut, as reflected by the rise in the Interest Rates Expectations Indicator to an all-time high of 169.3.

High expectations for the price of gasoline and a lack of purchasing power outweighed the attraction of a government scrappage scheme incentivising the purchases of new vehicles, prompting the majority of our panel to continue to consider it a poor time to buy a car. The Car Purchase Indicator improved to 69.5 in February from a record low of 67.2 in January.

With the majority of our panel expecting house prices to rise in February, fewer thought it was a good time to sell a house while a greater proportion thought it would be a sensible time to purchase one. The Real Estate Investment Indicator rose to 107.2 in February from 103.6 in January.

The Current Indicator, which measures consumers' assessment of current conditions, rose to 78.1 in February from a series low of 69.7 in January, while the Expectations Indicator, which is comprised of the three forward-looking components, improved to 68.7 from an all-time low of 66.0 in the previous month.

MNI Russia Consumer Indicator - Components



All Russia - Overview

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Consumer Indicator	79.8	67.5	72.5	Dec-14	-	73.3	5.0	7.3%
Current Indicator	80.6	69.7	78.1	Dec-14	-	76.1	8.4	12.0%
Expectations Indicator	79.2	66.0	68.7	Dec-14	-	71.3	2.7	4.1%
Personal Finance: Current	70.8	64.9	66.4	Dec-14	-	67.4	1.5	2.4%
Personal Finance: Expected	84.7	73.3	74.0	Dec-14	-	77.3	0.7	0.9%
Business Condition: 1 Year	69.6	58.6	67.2	Dec-14	-	65.1	8.6	14.7%
Business Condition: 5 Years	83.4	66.2	65.0	-	series low	71.5	-1.2	-1.9%
Durable Buying Conditions	90.4	74.6	89.8	Dec-14	-	84.9	15.2	20.4%
Current Business Conditions Indicator	83.2	71.0	69.5	-	series low	74.6	-1.5	-2.1%
Real Estate Investment Indicator	110.1	103.6	107.2	Dec-14	-	107.0	3.6	3.4%
Car Purchase Indicator	73.7	67.2	69.5	Dec-14	-	70.1	2.3	3.4%
Employment Outlook Indicator	81.8	69.1	68.7	-	series low	73.2	-0.4	-0.6%
Inflation Expectations Indicator	149.1	166.4	171.5	series high	-	162.3	5.1	3.0%
Current Prices Satisfaction Indicator	59.3	42.3	43.2	Dec-14	-	48.3	0.9	2.1%
Interest Rates Expectations Indicator	132.9	166.6	169.3	series high	-	156.3	2.7	1.6%

All Russia - Summary

	2014											2015	
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
MNI Russia Consumer Indicator	94.1	89.1	88.5	87.2	89.1	91.1	81.7	85.3	80.7	76.6	79.8	67.5	72.5
Current Indicator	98.6	89.4	90.2	87.3	91.1	97.1	81.6	88.2	85.4	72.5	80.6	69.7	78.1
Expectations Indicator	91.2	88.8	87.4	87.1	87.8	87.1	81.8	83.4	77.5	79.2	79.2	66.0	68.7
Personal Finance: Current	87.3	79.5	83.7	79.6	80.3	86.7	77.1	78.8	81.7	67.0	70.8	64.9	66.4
Personal Finance: Expected	96.3	96.3	93.4	95.0	91.5	90.8	86.2	86.2	80.4	88.2	84.7	73.3	74.0
Business Condition: 1 Year	87.8	79.4	77.8	77.7	80.7	81.1	70.5	73.5	71.0	62.3	69.6	58.6	67.2
Business Condition: 5 Years	89.4	90.7	91.1	88.6	91.2	89.5	88.6	90.4	81.2	87.2	83.4	66.2	65.0
Durable Buying Conditions	109.9	99.3	96.8	95.1	101.8	107.5	86.0	97.7	89.1	78.1	90.4	74.6	89.8
Current Business Conditions Indicator	97.5	99.2	95.7	85.5	91.0	93.6	85.5	89.2	84.2	85.4	83.2	71.0	69.5
Real Estate Investment Indicator	111.4	110.0	107.2	108.0	108.2	110.8	109.9	108.8	110.5	103.2	110.1	103.6	107.2
House Price Expectations	139.0	140.1	137.7	139.3	139.5	139.5	144.7	148.2	146.1	142.0	149.5	144.8	144.5
House Buying Sentiment	96.8	87.3	84.5	82.6	83.6	87.2	82.9	77.7	87.7	71.0	83.4	72.2	77.3
House Selling Sentiment	101.6	97.4	100.7	97.8	98.5	94.2	97.8	99.5	102.4	103.5	102.6	106.1	100.2
Car Purchase Indicator	88.3	85.1	82.2	79.3	79.8	78.4	77.7	75.8	78.5	71.3	73.7	67.2	69.5
Car Purchase Expectations	110.5	106.0	103.8	99.1	103.0	104.8	104.2	99.0	107.7	93.6	100.0	87.4	89.2
Price of Gasoline Expectations	133.8	135.8	139.4	140.5	143.4	148.0	148.9	147.3	150.6	151.1	152.6	152.9	150.2
Employment Outlook Indicator	86.5	92.9	90.9	87.8	87.5	87.6	87.4	80.9	81.4	86.4	81.8	69.1	68.7
Inflation Expectations Indicator	140.9	139.2	144.2	144.6	146.3	145.3	145.1	140.9	144.7	145.9	149.1	166.4	171.5
Current Prices Satisfaction Indicator	74.4	76.3	67.5	73.4	65.0	67.9	64.8	63.4	56.1	59.2	59.3	42.3	43.2
Interest Rates Expectations Indicator	122.6	119.2	122.3	126.0	126.8	121.9	123.0	124.2	126.6	121.7	132.9	166.6	169.3

All Russia - Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Consumer Indicator	67.5	99.9	90.1	92.6
Current Indicator	69.7	102.0	91.0	94.0
Expectations Indicator	66.0	100.3	89.4	90.0
Personal Finance: Current	64.9	103.2	86.1	87.0
Personal Finance: Expected	73.3	109.2	94.9	96.3
Business Condition: 1 Year	58.6	101.5	84.0	84.5
Business Condition: 5 Years	65.0	98.0	89.4	90.7
Durable Buying Conditions	74.6	109.9	95.8	96.7
Current Business Conditions Indicator	69.5	100.3	91.1	94.7
Real Estate Investment Indicator	103.2	113.0	108.4	108.1
House Price Expectations	117.9	149.5	134.6	138.4
House Buying Sentiment	71.0	109.8	90.5	89.9
House Selling Sentiment	94.2	106.1	100.0	99.6
Car Purchase Indicator	67.2	88.4	81.1	82.0
Car Purchase expectations	87.4	110.5	102.2	104.0
Price of Gasoline expectations	128.6	152.9	140.1	137.0
Employment Outlook Indicator	68.7	100.5	90.2	89.3
Inflation Expectations Indicator	130.7	171.5	142.7	140.3
Current Prices Satisfaction Indicator	42.3	86.0	70.0	72.6
Interest Rates Expectations Indicator	111.1	169.3	124.2	122.0

The MNI Russia Consumer Sentiment Indicator rose to 72.5 in February.

Even so, consumer sentiment was down 23% on the year following a prolonged downturn which began even before the onset of the Ukraine crisis.



Economic Landscape

The Kremlin has raised the amount that it plans to draw from its emergency reserve fund for its budget 2015, as low oil prices and Western sanctions place strain on the government's finances.

The Kremlin has sharply raised the amount that it plans to draw from its emergency reserve fund for its budget in 2015 as low oil prices and Western sanctions continue to place considerable pressure on the government's finances. After having previously estimated in January that the price of oil would average \$60 per barrel this year, the finance ministry now assumes that it will average just \$50 per barrel. While only a minor revision, the implications for the Russian economy are huge given that around half of its revenues are derived from oil exports. Faced with being unable to borrow the amount required to cover the budget shortfall thanks to Western sanctions which have cut Russia off from international capital markets, the government has raised the amount that it plans to withdraw from the reserve fund from 500 billion roubles to 3.2 trillion roubles, or more than half of the fund's value.

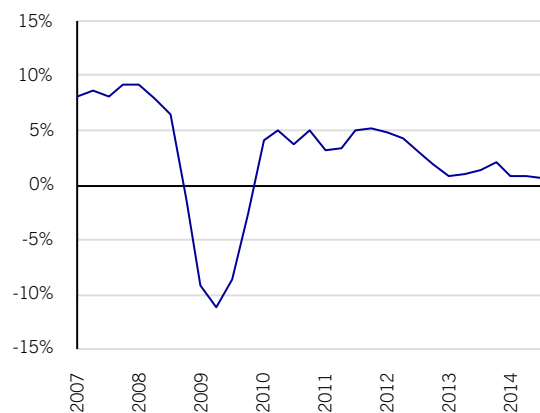
The risk of Russia rapidly depleting its reserves was one of the key reasons behind Moody's decision to cut the country's credit rating to junk, following a similar decision by Standard & Poor's just a few weeks previously. The rating agency stated that it had lowered Russia's score to 'Ba1', or "speculative", as it expects the economy to enter a deep recession this year as the decline in confidence constrains domestic demand and exacerbates already chronic underinvestment. Fitch is now alone among the three major three ratings agencies in not

assigning Russia a junk rating, although this disparity is unlikely to last long with a further negative impact for refinancing.

Following 16 hours of gruelling overnight negotiation, Russian President Vladimir Putin and his Ukrainian counterpart Petro Poroshenko agreed in Minsk on February 12 to reaffirm the terms of the original ceasefire and outlined which of the disputed regions would be occupied by each party. The new "Minsk 2.0" ceasefire appears to be largely holding after having gotten off to a shaky start as the Ukrainian military were forced to retreat from the strategically important road and rail hub of Debaltseve just days after the ceasefire was signed as the rebel forces continued their advance in a blatant violation of the ceasefire.

Latest economic data has shown more concrete signs that the downturn in the Russian economy has shifted up a gear. In January, real wages declined by the most since August 1999 when the economy was recovering from the financial crisis, as a rise in unemployment to an 11-month high further eroded the bargaining power of the Russian workforce who have accepted wage cuts as companies seek to scale back their operations. This has consequently diminished consumers' purchasing power, which had remained resilient in recent months in spite of the downturn, with retail sales falling by the most in five

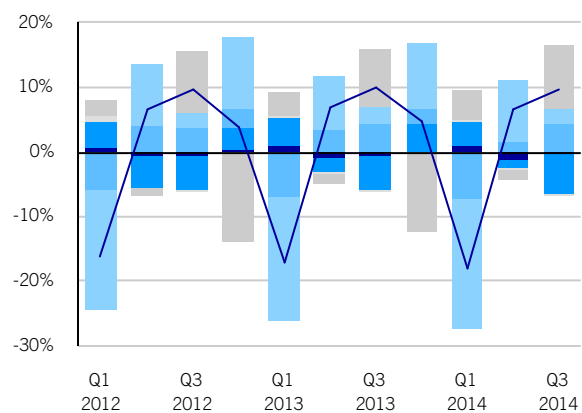
Economic Growth



— GDP Y/Y %

Source: Rosstat

Contribution to Economic Growth



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

Source: Rosstat

years in January and car sales experiencing a double-digit decline for the second consecutive month in February despite the government's car scrappage scheme. Consumers saw no relief from inflation in February either, with prices rising at the fastest pace since March 2002.

Economy ekes out some growth

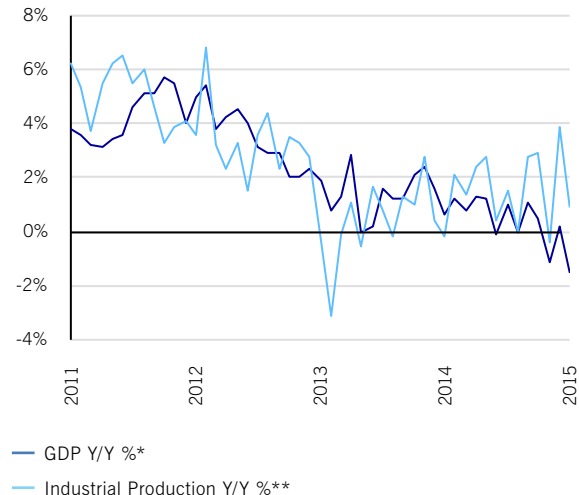
The latest GDP figures from the Economic Development Ministry revealed that the economy contracted by 1.5% in January following growth of 0.2% in December as the temporary effects of strong industrial production and retail sales sparked by panic buying dissipated and the negative impact of a sustained decline in the price of oil and the continuing currency crisis took their toll.

Third quarter GDP data released by the Federal Statistics Service (Rosstat) showed that the economy grew by 0.7%, down from 0.8% in the three months to June. The slowdown in growth was, however, much more muted than many had anticipated given the imposition of Western sanctions and the food ban on the economy. A more granular look at GDP over the quarter reveals that the resilience of the economy can be attributed to a good harvest and robust industrial production on the back of import substitution and the commencement of a gas pipeline project to China.

While fourth quarter GDP has yet to be released, economic growth in the three months to December is expected to have moderated further. Consensus expectations are that the economy will have contracted, although resilient industrial production and the monthly estimates from the Economic Development Industry over the period suggest the economy could exceed expectations and eke out low growth. Nevertheless, the dire economic situation and the weakness in both our business and consumer surveys indicate that the fall into recession will have only been delayed slightly.

The economy ministry has estimated that the economy will shrink by 4.5% in 2015 should the price of oil remain at or around \$45 a barrel. Scenarios based on prices of \$60 a barrel and \$80 a barrel suggest contractions of 3% and 0.8% respectively.

Industrial Production and GDP



Source: *Ministry of Economic Development, **Rosstat

Industrial production slows in January

Import substitution in the wake of the depreciation in the rouble and the ban on Western food imports have kept industrial production resilient in spite of the widespread weakness in the economy. However, industrial production slowed considerably in January as some of the previous temporary effects dissipated.

Industrial production fell by a seasonally-adjusted 1.8% on the month in January, wiping out the 1.9% increase in the previous month. This caused year-on-year growth to decline to 0.3% in January from 3.9% previously.

The deceleration in manufacturing output was the main driver of the weakening in industrial production, shrinking by 0.1% on the year in January following growth of 4.1% in the month before. Production of passenger cars contracted by 25.7% on the year in January as car sales fell by a remarkable 24.4% annual decline in the same month in spite of the government's car scrappage scheme. Previously, the manufacturing sector has remained resilient as the Russian ban on Western food imports provided a boost to domestic food manufacturers, with the sector growing by 3.6% on the year in January after declining by 2.1% in the previous month.

Mining and quarrying output, meanwhile, provided some support for industrial production in spite of slowing to 1.5% on the year in January from 3% in the previous

month. This was primarily due to a 9.5% annual decline in the extraction of natural gas, although the sector as a whole remained in growth as mining of coal continued to accelerate to 12.4% in January.

The deceleration in utilities output continued in January as growth slowed to 1.2% on the year after expanding by 3.4% on the year in December. In particular, electricity production moderated to 2.1% on the year from 3.3% in the previous month.

Over the course of 2014, industrial production grew by 1.7% compared with growth of just 0.4% in the same period a year ago. Ordinarily, this would suggest a similar acceleration in economic growth as the industrial sector comprises almost 40% of the Russian economy. Nevertheless, while the depreciation in the rouble and the ban on Western food imports may be helping to support industrial production, they are crippling other parts of the Russian economy. Therefore, the relationship between industrial production and economic growth that has been previously observed has diverged in 2014, with the latter slowing rather than picking up.

Monetary policy remains tight in spite of rate cut

At its meeting on January 30, the Central Bank of Russia cut the key interest rate by 200 basis points to 15%, having raised it by 650 basis points in December to support the currency. While pressure on the currency

has subsided since the December maelstrom, we had expected to see rates held at a higher level for a little longer. The timing of the move has caused some speculation that the CBR bowed to political pressure to cut rates, and although this cannot be ruled out we would see it more in terms of policy normalisation following the exaggerated move in December.

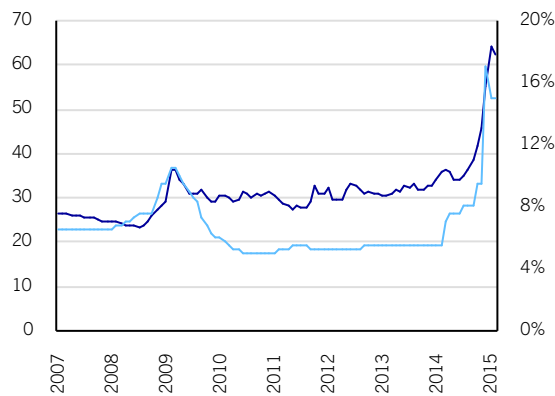
In a press release announcing the rationale behind the rate cut, the CBR said that it felt the current impact on inflation from the rouble would be transitory and pointed to cooling economic growth which would limit the increase in inflation.

The central bank is due to meet next on March 13 and economists are divided on whether it will choose to retain the current level of interest rates or cut them further as it seeks to further normalise policy. Cutting the rate may help to ease the cost of credit in Russia, although risks exacerbating the already-fast pace of accelerating inflation and further weakening the rouble.

Trade Surplus shrinks further

Russia's trade surplus has narrowed considerably over the past year as the low price of oil and economic sanctions have caused a continuing decline in exports that has outstripped a fall in imports. In January, Russia's trade surplus narrowed for the third consecutive month to \$15.9 billion from \$12.93 billion in December.

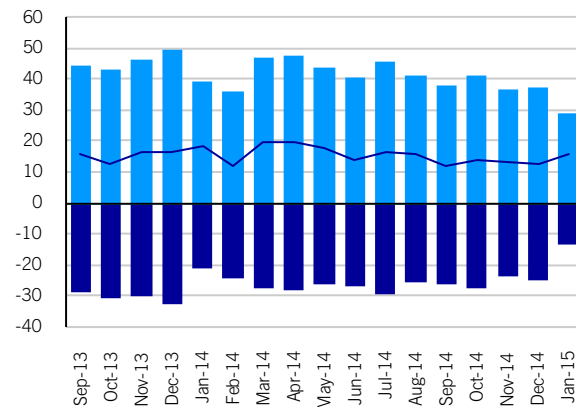
CBR Key Rate and Rouble



— Rouble versus US Dollar, End of Period*
 — 7-Day Repo Rate (RHS)**

Source: *Reuters, **Central Bank of Russia

Trade Balance



■ Imports (\$ Bn.)
 ■ Exports (\$ Bn.)
 — Trade Balance (\$ Bn.)

Source: Federal Customs Service

The narrowing was primarily due to exports declining by 26.5% on the year to \$29.1 billion in January from \$37.6 billion in December, the sharpest annual fall since January 2012. Much of the decline is the result of the sharp decline in the price of oil, Russia's key export commodity, which started falling in July. Therefore, it is likely that exports will continue to post annual declines until base effects begin to materialise.

Imports, meanwhile, fell by 36.9% on the year to \$13.2 billion in January from \$24.7 billion in December, the greatest annual decline since June 2011. The rouble has weakened considerably over the past year, causing the cost of imports to increase to prohibitively high levels. Consequently, imports have reduced as companies have looked increasingly to domestic suppliers.

Historically, a strong trade surplus has been a supporting factor for the rouble and the recent deterioration in Russia's terms of trade has only added to the headwinds faced by the currency. The Rouble lost almost half of its value in 2014 and has weakened around 16% against the dollar since early December.

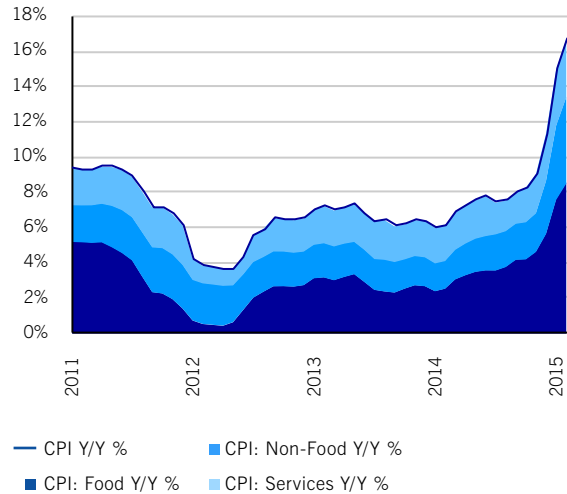
Upward spiral in inflation continues

Consumer prices continued to accelerate in February as the weakness in the rouble continued to feed through to prices and is likely to have caused wholesale prices to have done the same following a rise in January.

Consumer price inflation accelerated to 16.7% on the year in February from 15% in January, the highest since March 2002. A ban on Western food imports continued to push up food price inflation, which makes up more than a third of the basket, to 23.3% on the year in February following a rise of 20.7% in January. Even after stripping out the prices of food and fuel, core inflation has also surged as the significant weakening in the rouble has caused the price of many imported goods to rise. In February, it accelerated to 16.8% on the year from 14.7% in the previous month, the highest since the statistics office began measuring it in January 2003.

Under the central bank's most recent baseline scenario, inflation is forecast to remain above 10% throughout 2015 and is not anticipated to fall to the medium-term target of 4% until the end of 2017.

Consumer Price Inflation



Source: Rosstat

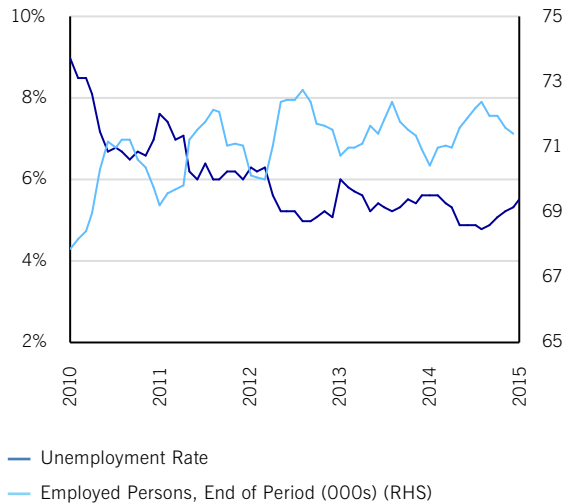
Producer price inflation, meanwhile, accelerated to 7.1% in January from 5.9% in December. Prices have previously been kept in check by weak demand and lower energy prices, although the effect of the latter disappeared in January as wholesale gasoline prices rose by 0.3% on the year following a decline of 16.3% in December. The acceleration in producer price inflation was anticipated given the significant rise in the MNI Input Prices Indicator in January's business survey, which is released prior to official wholesale inflation data. The subsequent rise in the indicator in February's business survey points to a further acceleration in producer price inflation.

Household finances deteriorate

Amid the tough economic background, unemployment has started to rise and wages have fallen which will adversely impact the spending power of Russian households.

Western sanctions and the fall in the price of oil have hurt the finances of many Russian companies, causing some to collapse and others to start scaling back their workforce given the uncertain future. This has resulted in unemployment rising to an 11-month high of 5.5% in January from 5.3% in December. The employment situation in Russia has on the whole remained resilient in the face of the slowdown, a reflection of the country's overstaffing and low levels of productivity, although the

Labour Market



Source: Rosstat

recent trend in rising unemployment is expected to continue throughout 2015 in line with the downturn in the economy.

Rising unemployment 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 8% on the year in January after declining by a revised 4% in December, the largest decline since August 1999 when the economy was recovering from the financial crisis. 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 for a rainy day. With wages likely to continue declining given rising unemployment, households could be ill-equipped to deal with the challenging conditions they are likely to have to endure in 2015.

Consumer spending falls sharply

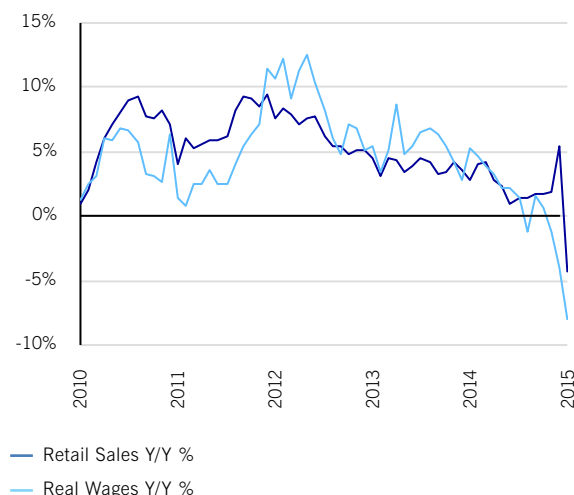
Retail sales fell by 4.4% in January from a year earlier, following growth of 5.3% in December, the first annual decline since December 2009. Previously, retail sales have been supported by the steep decline in the rouble which has eroded the value of Russian households' savings, with reports highlighting that consumers had been keen to purchase white goods or other household items rather than see their savings diminish. Nevertheless, such spending behaviour seems to have

faded in January as sales of non-food items declined 3.5% on the year following growth of 10.5% in December. Food sales, meanwhile, declined by 5.5% on the year in January after shrinking by 0.4% in the previous month.

Automobile sales declined by 39.7% on the year in February following a fall of 24.4% in January. Previously, the downturn in the car market had been mitigated by a government car scrappage and trade-in scheme introduced in September 2014 which provides a discount of at least 40,000 roubles off a new vehicle to consumers who trade in a car that is at least six years old. There were hopes that growth observed in December, although small, would mark the end of an 11-month decline in the car market but the significant fall in both January and February dispels any such notion. The sharp decline in car sales may be due to dealerships now pricing in the cost of the significantly weaker rouble, having previously keeping prices in check. While data on car prices has yet to be released for February, in the year to January there was a 19.4% annual rise in the price of a domestically manufactured car and a 15% hike in the price of those that are imported.

As we anticipated, consumer spending has failed to retain its momentum as consumer purchasing power has been eroded by the fall in household finances.

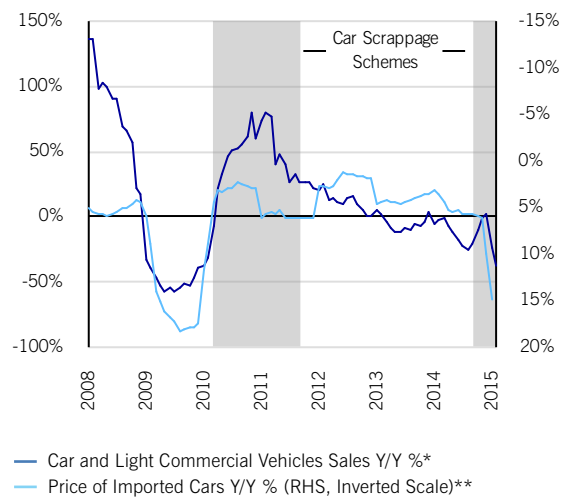
Retail Sales and Real Wages



Source: Rosstat

Indeed, this trend looks likely to continue throughout 2015 as purchasing conditions in the Russian economy are set to deteriorate further. Inflation is forecast to accelerate in the first quarter of 2015 before tapering off slightly but remaining uncomfortably high.

Car Sales



Source: *Association of European Businesses, **Rosstat

Key Monthly Economic Data

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
GDP Y/Y %*	0.0%	1.1%	0.5%	-1.1%	0.2%	-1.5%	-
Industrial Production Y/Y %**	0.0%	2.8%	2.9%	-0.4%	3.9%	0.9%	-
Consumer Price Index Y/Y %**	7.6%	8.0%	8.3%	9.1%	11.4%	15.0%	16.7%
Producer Price Index Y/Y %**	5.7%	3.5%	5.1%	6.1%	5.8%	7.1%	-
Unemployment Y/Y %**	4.8%	4.9%	5.1%	5.2%	5.3%	5.5%	-
Real Wages Y/Y %**	-1.2%	1.5%	0.6%	-1.2%	-4.0%	-8.0%	-
Retail Sales Y/Y %**	1.4%	1.7%	1.6%	1.8%	5.3%	-4.4%	-
Car Sales Y/Y %***	-25.8%	-20.1%	-9.9%	-1.1%	2.4%	-24.4%	-37.9%
Trade Balance \$ Bn.****	16.2	12.2	14.2	13.4	12.9	15.9	-
Exports \$ Bn.****	41.5	38.1	41.1	36.7	37.6	29.1	-
Imports \$ Bn.****	-25.3	-26.0	-26.9	-23.3	-24.7	-13.2	-
MNI Russia Business Sentiment Indicator	51.5	47.5	46.7	46.8	47.3	49.2	42.0
MNI Russia Consumer Sentiment Indicator	81.7	85.3	80.7	76.6	79.8	67.5	72.5

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

Consumer price inflation accelerated to 16.7% on the year in February...

...from 15% in January, the highest since March 2002.



Indicators

Russian consumers were slightly less pessimistic in February, although the trend in sentiment remains firmly downwards with respondents reporting record high inflation expectations and a further deterioration in the outlook for the jobs market.

MNI Russia Consumer Indicator Improves Moderately



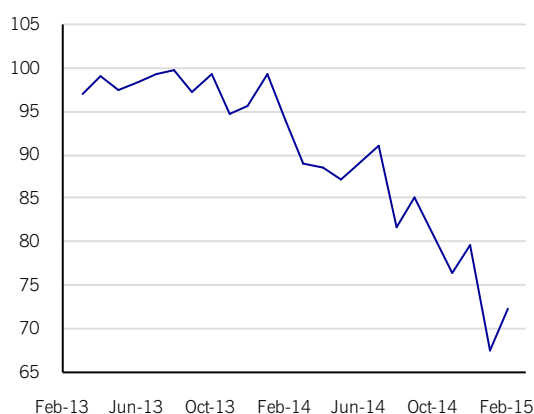
Russian consumers were slightly less pessimistic in February, although the trend in sentiment remains firmly downwards with respondents reporting record high inflation expectations and a further deterioration in the outlook for the jobs market.

The MNI Russia Consumer Sentiment Indicator rose by 7.3% on the month to 72.5 in February from a series low of 67.5 in January. Even so, consumer sentiment was down 23% on the year following a prolonged downturn which began even before the onset of the Ukraine crisis.

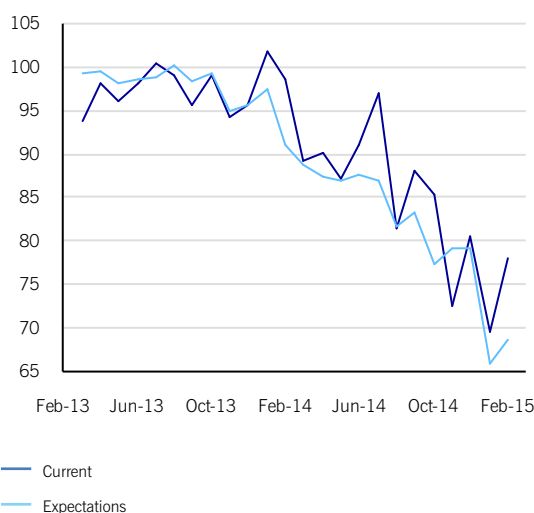
While four of the five components that make up the MNI Russia Consumer Sentiment Indicator improved in February, a potent cocktail of higher interest rates, plummeting oil prices, spiralling prices and the standoff with the West meant that our panel were more pessimistic than ever before in their long-term outlook for the business environment.

The improvement in overall sentiment was led by a 20.4% rise in consumers' willingness to purchase a large household item. Movements in the Durable Buying Conditions Indicator have been very erratic over the past year, and this month's increase followed a 17.5% decline in January. There were also smaller increases in the personal finances measures as well as a significant gain in the outlook for business conditions in one year, although it remains sharply down on the year still. This was also in contrast to a further deterioration in the Current Business Conditions Indicator to the lowest on record.

MNI Russia Consumer Indicator



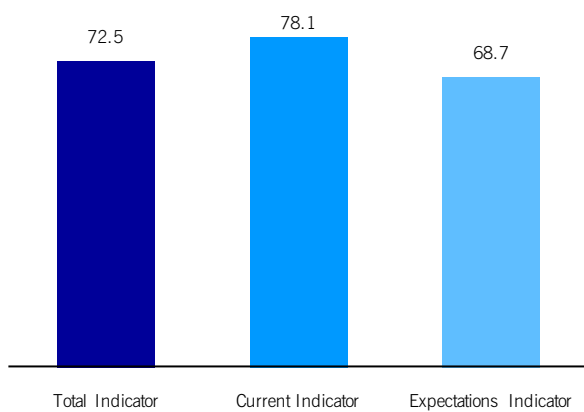
Current and Expectations Indicators



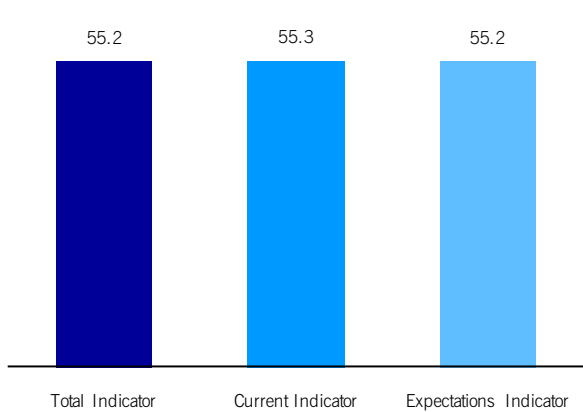
MNI Russia Consumer Indicator

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
MNI Russia Consumer Indicator	94.1	85.3	80.7	76.6	79.8	67.5	72.5
Current	98.6	88.2	85.4	72.5	80.6	69.7	78.1
Expectations	91.2	83.4	77.5	79.2	79.2	66.0	68.7

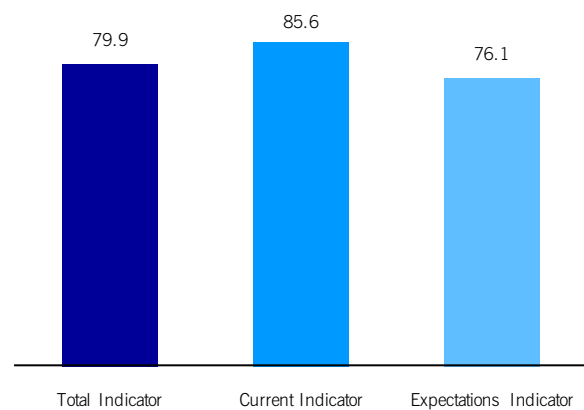
All Russia



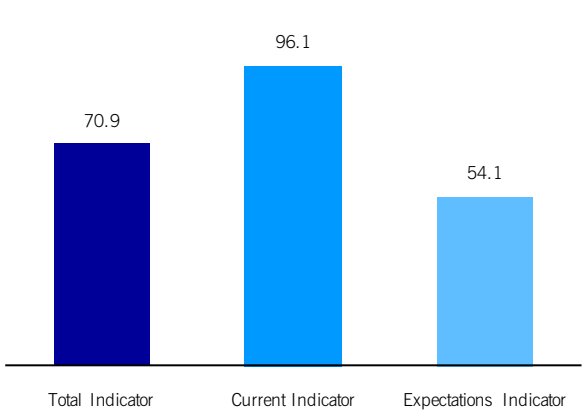
West Siberian



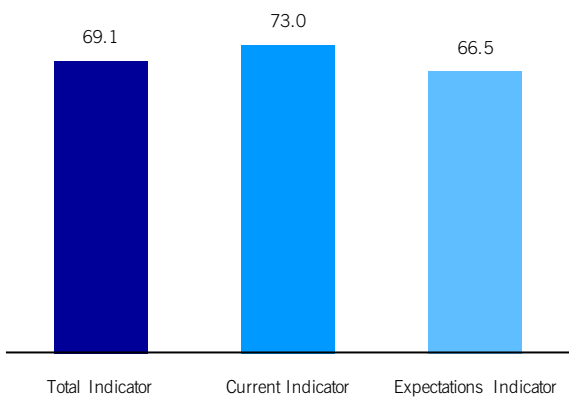
Central Russia



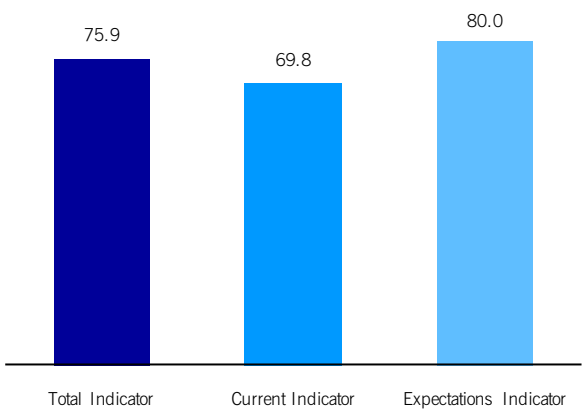
Volga



Urals



North Caucasus





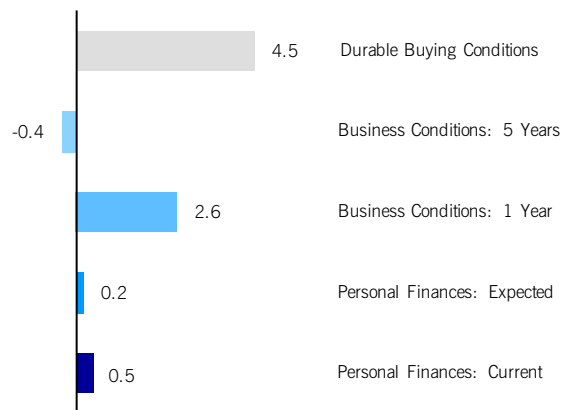
The only component to decline on the month was the measure of consumers' expectations for business conditions over the coming five years which deteriorated to the lowest on record as an increasing proportion of respondents anticipated that the current downturn will have lasting repercussions on Russia's business environment.

Inflation expectations increased to a record high in February and a record proportion of respondents thought that interest rates would rise further – this in spite of the cut in the key interest rate by 200 basis points to 15% on January 30. Economists are divided on whether the CBR will choose to retain the current level of interest rates or cut them further at its next meeting on March 13 as it seeks to further normalise policy. Cutting the rate may help to ease the cost of credit in Russia, although risks exacerbating the already-fast pace of accelerating inflation and further weakening the rouble.

The Current Indicator, which measures consumers' assessment of current conditions, rose to 78.1 in February from a series low of 69.7 in January, while the Expectations Indicator, which is comprised of the three forward-looking components, improved to 68.7 from an all-time low of 66.0 in the previous month.

Data from the Ministry of Economic Development revealed that the Russian economy grew by 0.2% on the year in December after contracting by a revised 1.1% in November owing to strength in industrial production and retail sales. Growth, though, is expected to have eased further in January as these temporary factors have since dissipated. While the Federal State Statistics Service has yet to release official data on economic growth for the three months to December, the weakness in the survey points to a slowdown from the 0.7% observed in Q3. The MNI Russia Consumer Indicator averaged 79.0 in the three months to December, the lowest level in the survey's history. More recent evidence from January

Consumer Indicator: Contribution to Monthly Change (% pt.)



and February's surveys, meanwhile, suggest that the downturn in the Russian economy is gathering pace.

Regions

Consumer sentiment improved in four of the five major regions in Russia in February.

Among the five regions surveyed, confidence was highest in the Central region where the Consumer Sentiment Indicator rose to 79.9 in February from a series low of 77.2 in the previous month. Residents of the region were less pessimistic about each of the five components, particularly their short-term expectations for business conditions and their perceptions of the conditions for purchasing a large household good.

Only inhabitants of the West Siberian region were more pessimistic in February, with the Consumer Sentiment Indicator easing slightly to a fresh series low of 55.2 from a previous low of 55.4 in January. Their current financial situation and short-term outlook for business conditions were at the lowest level on record, offsetting the moderate improvements



in their expectations for personal finances and the business environment in the longer term.

Age

Consumer confidence rose among all three age groups in February, with the youngest cohort leading the increase.

The Consumer Indicator for the 18-34 year old age range rose by 8.1% to 72.8 in February from an all-time low of 67.3 in January. Four out of the five components of the headline indicator improved from series lows, while consumers were more pessimistic than ever before in their outlook for their personal finances.

Sentiment among the 35-54 year old age range increased by 7.1% to 72.3 from a record low of 67.5 in the previous month. Respondents were more pessimistic than ever before in their long-term expectations for the business environment, although the remaining four components all increased.

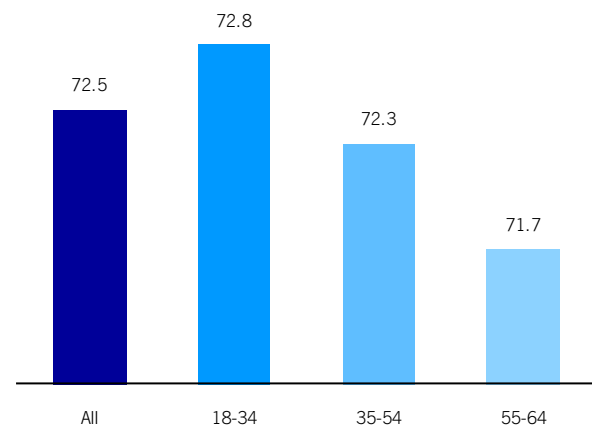
The Consumer Indicator for 55-65 year olds rose by 4.5% to 71.7 in February from 68.6 in January. Even so, three of the five components declined on the month including two which hit a series low, with a surge in the willingness to purchase big-ticket items accounting for the majority of the rise in the headline indicator.

Income

Both high and low income households reported that they were more confident in February although remained pessimistic overall.

Consumer confidence for households with an average annual income under RUB 480,000 rose to 68.8 in February from a series low 62.9 in January. Four out of the five components improved on the month, led by double-digit gains in both respondents' willingness to purchase a large household good and their short-term outlook for business conditions. The

Consumer Indicator: Age Groups



only component to decline on the month was expectations for personal finances, which fell to the lowest level on record.

For households with an average annual income above RUB 480,000, consumer confidence rose to 79.9 in February from a series low of 74.0 in January. While consumers were more pessimistic than ever before in their long-term expectations for the business environment, the remaining four components of the headline indicator all improved but remained below the 100 mark that separates expansion from contraction.

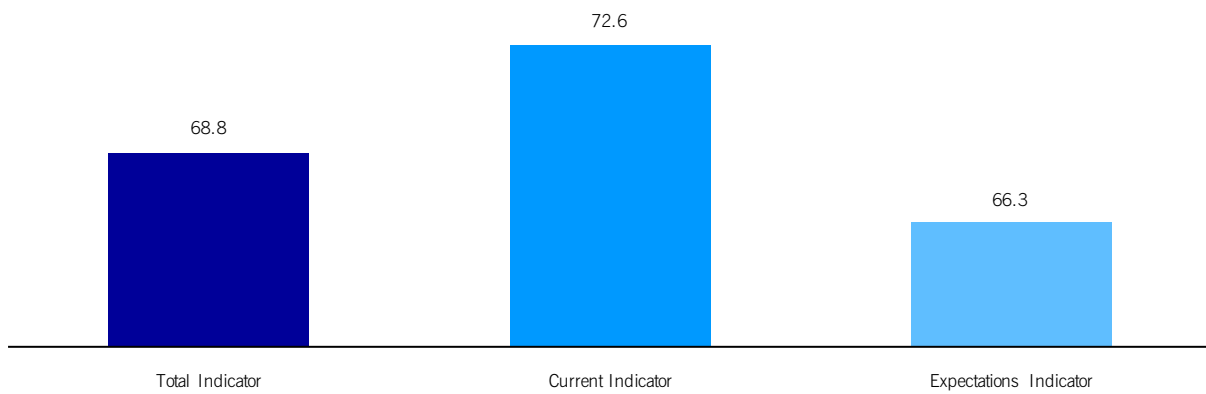
Compared with the previous year, confidence was 23.4% down among lower income households, while for higher income households it was 20.4% lower. On average, confidence remains greater for higher income households. Our survey has shown that lower income households have been hit harder by the current political and economic tensions.

MNI Russia Consumer Indicator

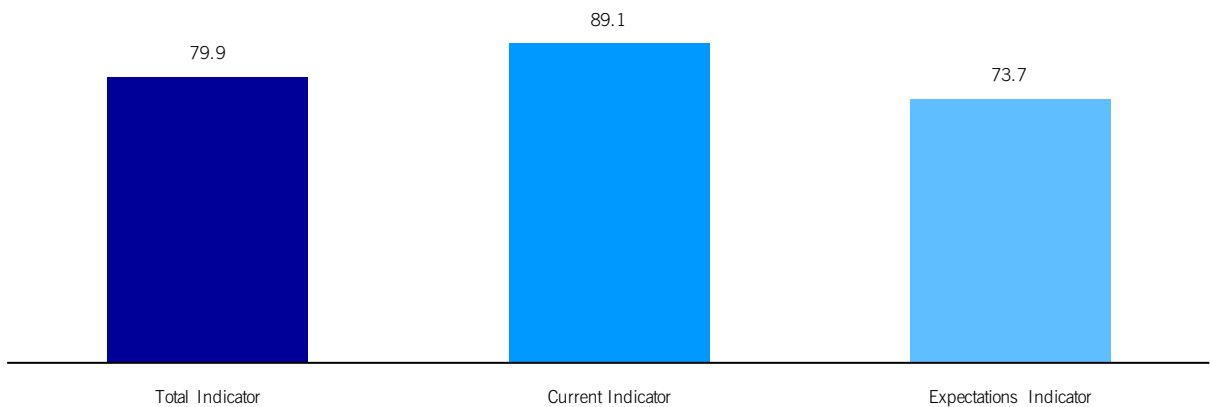
Income Groups



< RUB 480,000 Per Annum



> RUB 480,000 Per Annum



MNI Russia Consumer Indicator

Main Cities



Residents in six of the ten major cities in Russia were less pessimistic this month, although sentiment among the inhabitants of the remaining four fell to a series low.

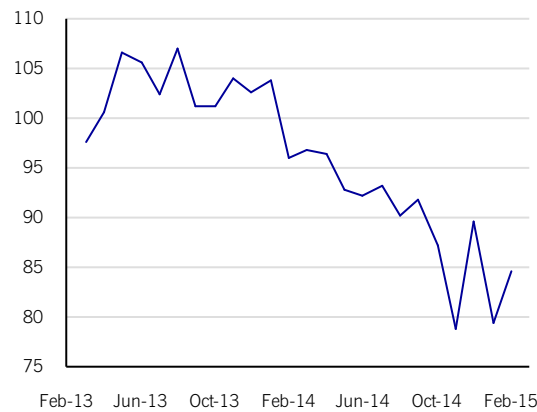
In the capital, Moscow, consumer sentiment improved to 84.6 in February from 79.4 in the previous month. Much of the improvement in overall sentiment was accounted for by less pessimistic short-term expectations for business conditions. Residents of the city were only more downbeat in their perception of the conditions for purchasing large household durables, with the component declining to the lowest level since November 2014.

In Saint Petersburg, the second largest city in Russia, consumer sentiment rose to 84.2 in February from an all-time low of 77.9 in January. Four out of the five components of the headline indicator improved from a series low, although consumers' long-term outlook for the business environment deteriorated to a record low.

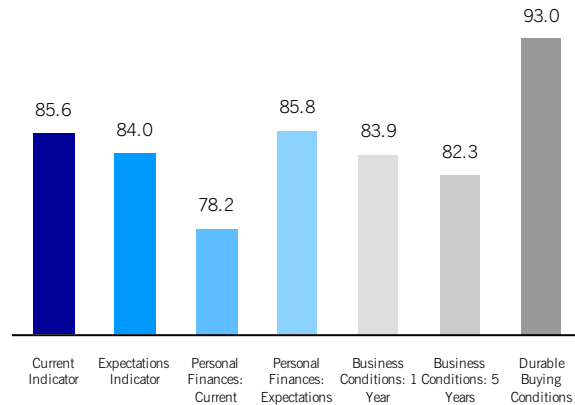
Consumer confidence in Novosibirsk, the third largest city by population in Russia, rose to 68.4 from a series low of 65.2 in January. While the city's inhabitants were less pessimistic about all five components, they remained downbeat overall as not a single one managed to break through the 100 mark into expansion.

Out of all ten major cities surveyed, consumer sentiment improved the most in Rostov-on-Don, a major Russian port in the Sea of Azov, where the Consumer Indicator rose to 74.8 from a record low of 68.8 in January. Far fewer residents reported that their financial situation had worsened in February compared with the previous month, although a record number expected that their finances would deteriorate in the future.

Consumer Indicator - Moscow

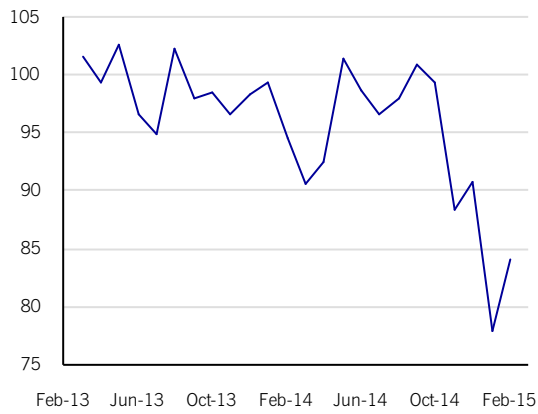


Consumer Indicator Components - Moscow

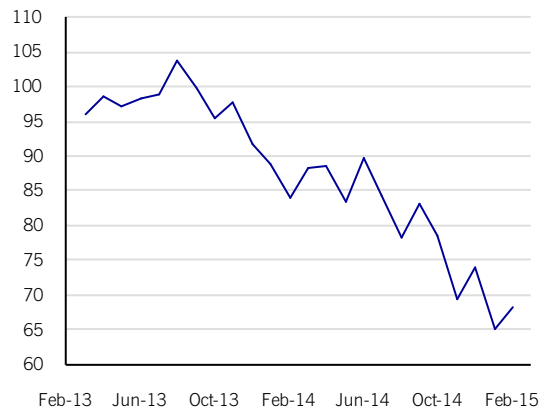




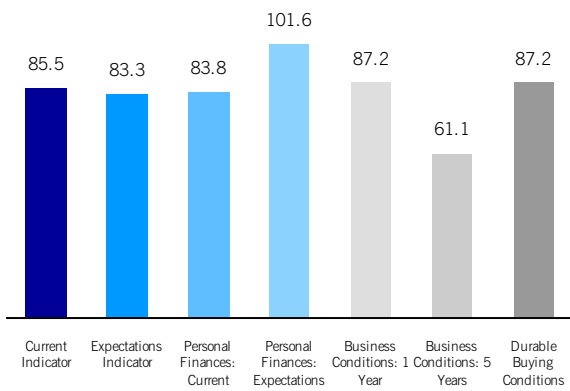
Consumer Indicator - Saint Petersburg



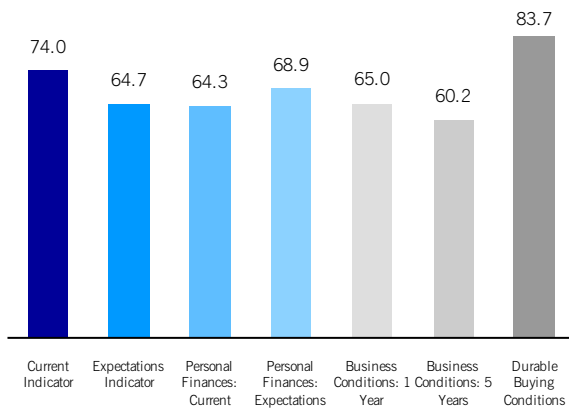
Consumer Indicator - Novosibirsk



Consumer Indicator Components - Saint Petersburg



Consumer Indicator Components - Novosibirsk



Personal Finances

Continue to Suffer Amid Crisis



Our panel continued to report that their finances were deteriorating in February, with the majority expecting them to worsen further over the coming 12 months.

Household finances have worsened significantly over the past year as rising unemployment has reduced the bargaining power of the Russian workforce, with many accepting wage cuts as companies seek to scale back their operations. This is reflected in the weakness of the Current Personal Finances Indicator, which measures whether households are better or worse off than a year ago, which was 23.9% below the level seen a year ago in spite of a small improvement to 66.4 in February from a record low of 64.9 in January.

Almost 80% of respondents reported that their Current Personal Finances worsened in February, the majority of whom cited higher household expenses as the main reason behind the deterioration of their financial situation.

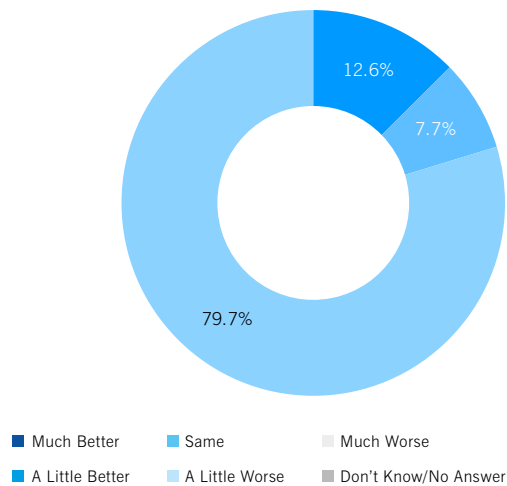
Disposable income has also been eroded by a combination of high inflation and a weak rouble, a trend which appears likely to continue in 2015. In February, all respondents spent more than 50% of their monthly household income on daily expenses and nearly 40% of our panel reported that they were not saving any of their monthly income, the highest in the history of the survey.

Consumers' did not expect to see any improvement to their difficult financial situation over the coming year, with Expectations for Personal Finances rising only slightly to 74.0 in February from 73.3 in January, significantly below the series average of 94.9.

Personal Finances



Current Financial Situation Compared with 1 Year Ago (% of Households)



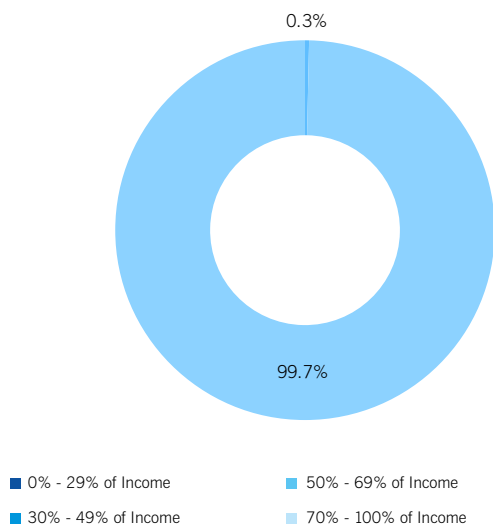
Personal Finances

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Current	87.3	78.8	81.7	67.0	70.8	64.9	66.4
Expectations	96.3	86.2	80.4	88.2	84.7	73.3	74.0

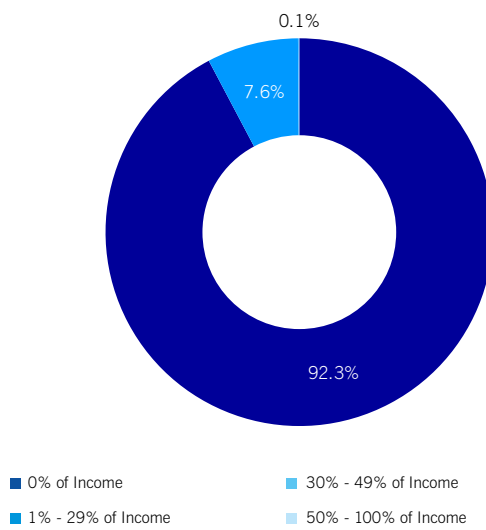
How Households Spend their Money



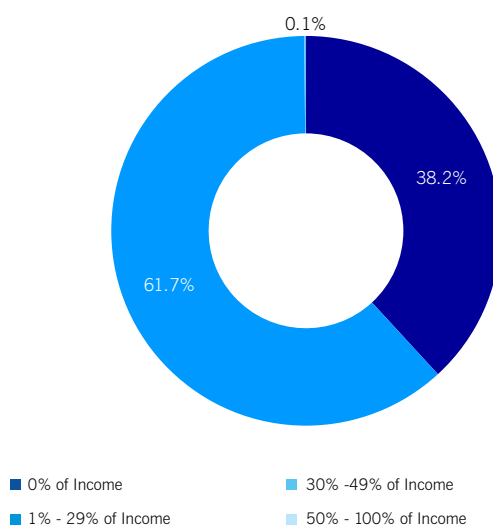
Daily Expenses
(% of Households)



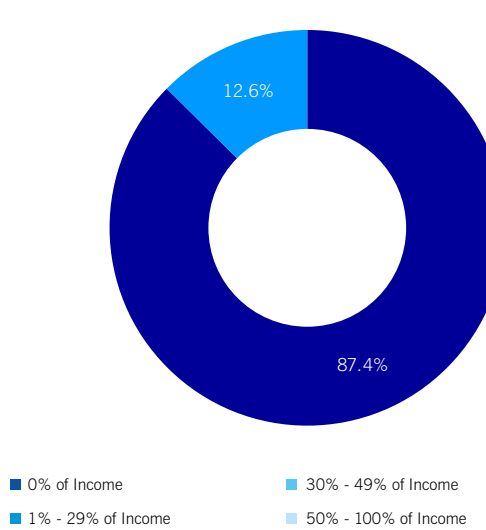
Monthly Household Income Used for Large Loan Repayment
(% of Households)



Monthly Household Income Used for Savings
(% of Households)



Monthly Household Income Used for Investments
(% of Households)



Business Conditions Outlook for Long-Term at Bleakest on Record



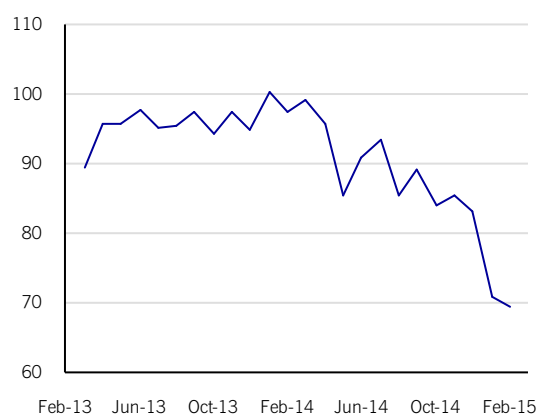
Consumers reported that the current business environment was the worst on record as the continuation of economic sanctions combined with the persistent weakness of the rouble weighed on sentiment.

The Current Business Conditions Indicator, which measures respondents' views on the state of business compared with a year earlier, fell to a record low of 69.5 in February from a previous low of 71.0 in January. Almost 60% of respondents thought that business conditions were poor, while a third of our panel thought that conditions were fair.

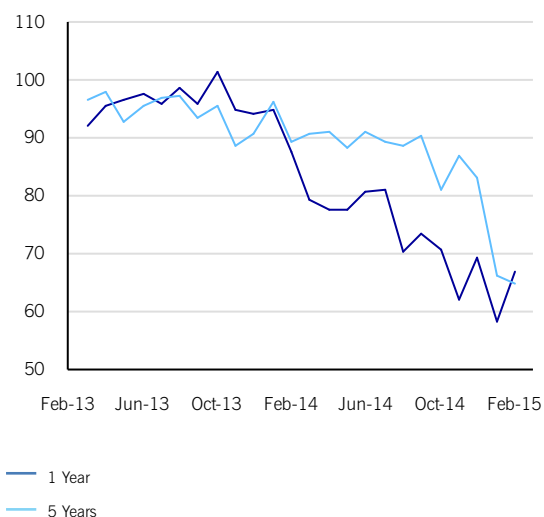
Following the annexation of Crimea and the conflict in eastern Ukraine, Western nations implemented economic sanctions against Russia's finance, energy and weapons industries. In retaliation, Russia introduced a ban on certain food imports from the West. Relations between Russia and the West remain tense, making the likelihood of a reversal in policy by either party very slim in the medium-term, while a worsening in the conflict in Ukraine has prompted Western nations to consider additional sanctions.

Consumers' expectations for Business Conditions in One Year rose to 67.1 in February from an all-time low of 58.6 in January. Regardless of the improvement, our panel's short-term expectations for business conditions were 23.5% below the level seen a year earlier after having started trending down since January 2014.

Current Business Conditions Indicator



Expected Business Conditions



Business Conditions

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Current	97.5	89.2	84.2	85.4	83.2	71.0	69.5
In 1 Year	87.8	73.5	71.0	62.3	69.6	58.6	67.2
In 5 Years	89.4	90.4	81.2	87.2	83.4	66.2	65.0

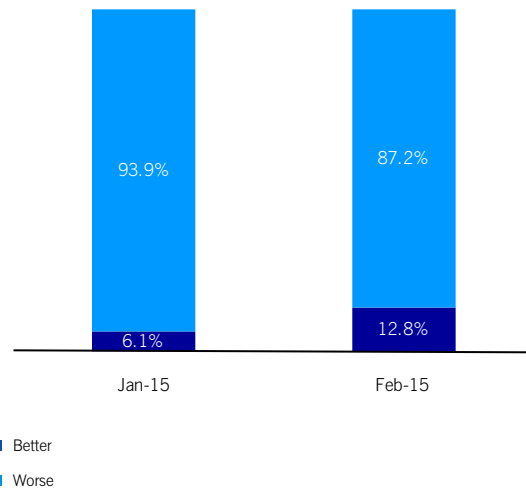
Business Conditions in 1 Year



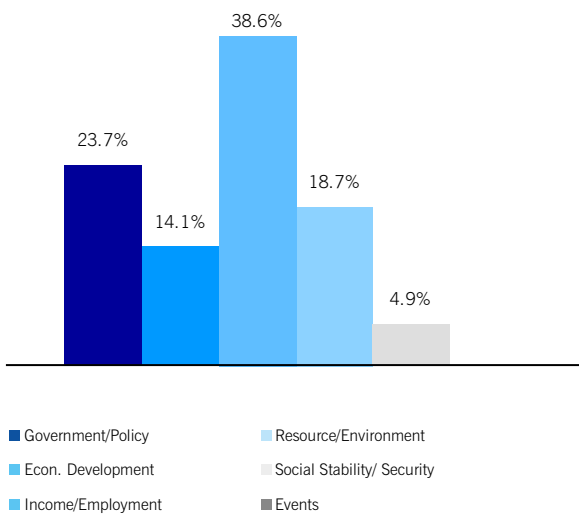
In contrast, consumers were increasingly pessimistic in their outlook for long-term business conditions, likely because the majority of consumers anticipated that the current downturn will have lasting repercussions on Russia’s business environment. The Expectations for Business Conditions in Five Years Indicator fell to a new series low of 65.0 in February from a previous low of 66.2 in January.

A new ceasefire was agreed in Minsk between Russia and Ukraine following 16 hours of gruelling overnight negotiation towards the close of our survey period on February 12. While there were initial doubts that the truce would last, there has since been encouraging signs that it is largely holding which may have some upside impact on our consumers’ perception of business conditions in the coming months as the threat of further sanctions eases slightly.

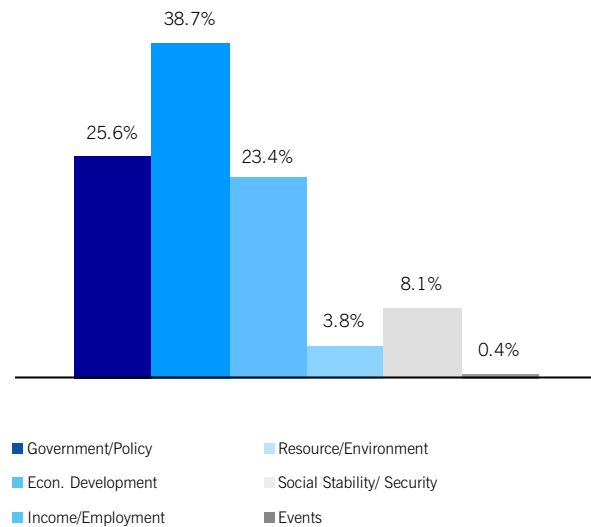
All Russia



All Russia, Reasons for Better



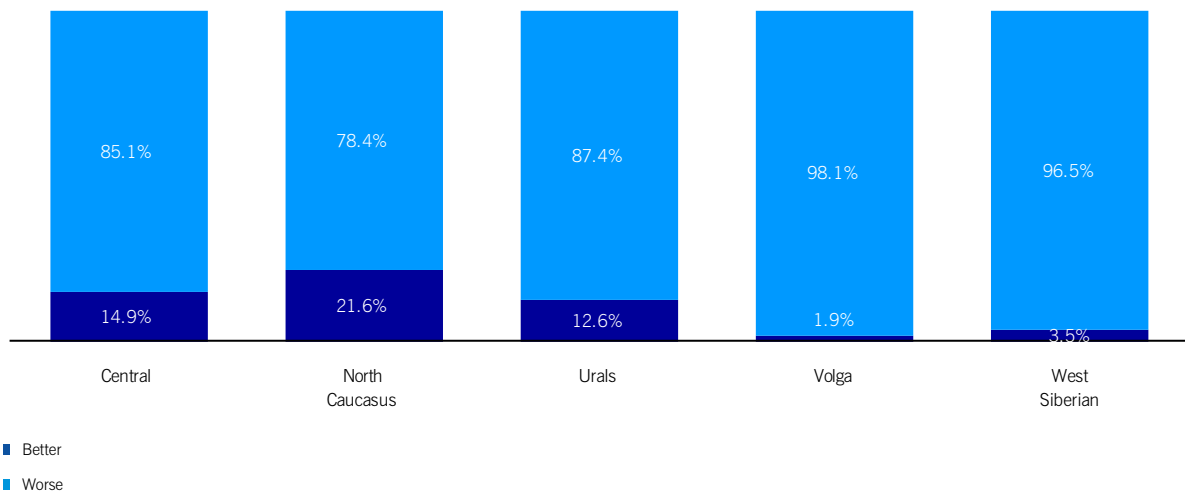
All Russia, Reasons for Worse



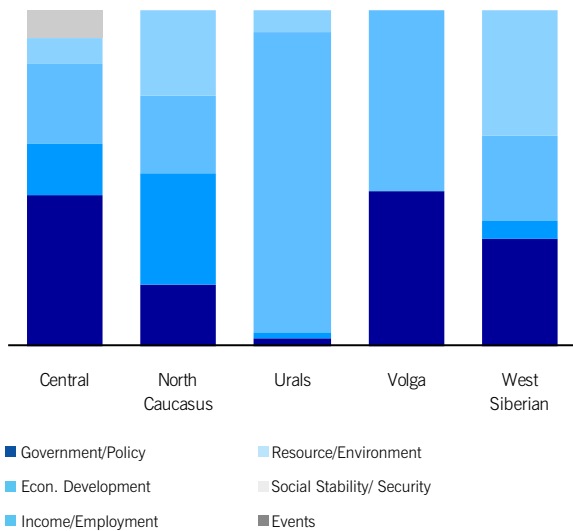


Business Conditions in 1 Year Regions

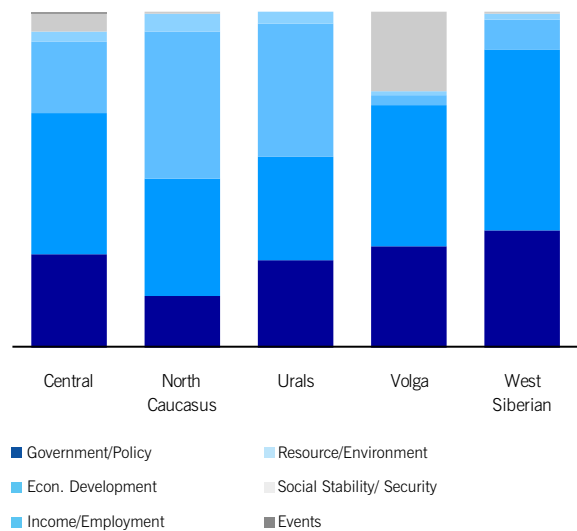
Business Expectations: Worse or Better?
(% of Respondents)



Reasons for Better
(% of Respondents)



Reasons for Worse
(% of Respondents)



Durable Buying Conditions Exhibits Signs of Levelling Off



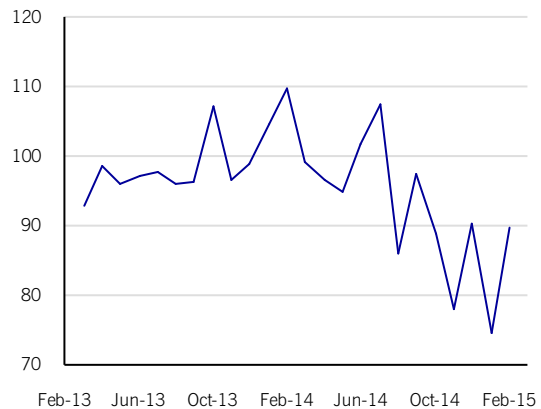
Having trended downwards over the past year, consumers' willingness to purchase big-ticket items showed a tentative sign that it was levelling off a little in February, although recent data has been very erratic.

The Durable Buying Conditions Indicator rose to 89.8 in February from a record low of 74.6 in January. Several of our panel who believed that it was a good time to purchase large household items reasoned that they expected the price of such goods to rise sharply over the coming months, making it attractive to buy now whilst prices were lower.

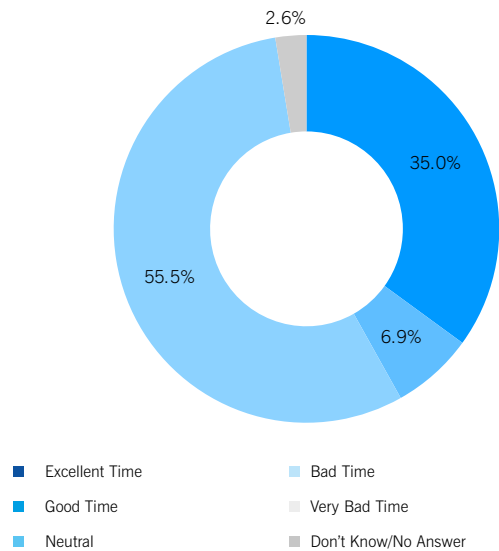
Some of these respondents remarked that they did not currently have the funds needed to make such a purchase in spite of being willing to do so. A third group, meanwhile, considered it a good time to buy as they anticipated the already-high cost of credit to increase further over the coming year.

Respondents are asked whether they believe it is a good or bad time to purchase a large consumer durable, and a result below 100 means that a higher percentage of respondents view it as a bad time. While just over a third of our panel thought that it was a good time to purchase a household good, more than half of those polled considered the conditions to do so were poor. Consequently, the indicator remained below the 100 level in February for the seventh consecutive month and was around 18.4% below the level seen a year ago.

Durable Buying Conditions



Is It a Good or Bad Time to Buy Large Household Goods? (% of Households)



Durable Buying Conditions

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Durable Buying Conditions	109.9	97.7	89.1	78.1	90.4	74.6	89.8

Employment Outlook

Pessimism at All-Time High



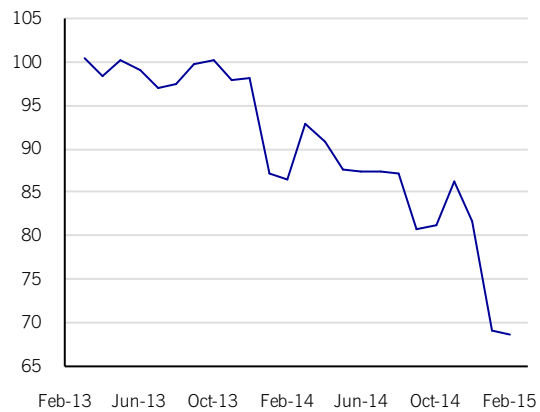
With the downturn in the Russian economy gaining pace, consumers became more pessimistic than ever before in their outlook for the job market.

The Employment Outlook Indicator, which gauges opinion on the outlook for the employment market over the next 12 months, fell slightly to a fresh low of 68.7 in February from a previous low of 69.1 in January. 56.9% of respondents thought that the employment market would worsen over the next 12 months, while more than a third thought that it would remain the same.

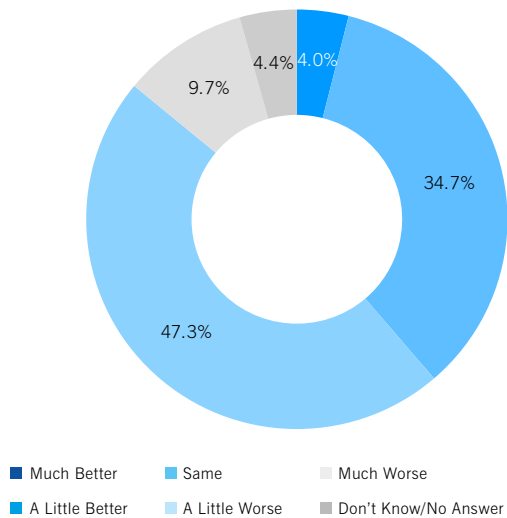
Views on the labour market have deteriorated significantly since the onset of the Ukraine crisis, with expectations for the job market in February 23.9% below the series average.

Official statistics showed that the unemployment rate rose to an 11-month high of 5.5% in January from 5.3% in December. The employment situation in Russia has on the whole remained resilient in the face of the slowdown, a reflection of the country's overstaffing and low levels of productivity, although the recent trend in rising unemployment is expected to continue throughout 2015. The February edition of our sister survey on large Russian companies revealed that they were continuing to reduce the size of their workforce, albeit at a slower pace than in the previous month.

Employment Outlook Indicator



Employment Outlook for the Next 12 Months (% of Households)



Employment Outlook

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Employment Outlook	86.5	80.9	81.4	86.4	81.8	69.1	68.7

Prices Sentiment

Record High Inflation Expectations



With official data showing that inflation is in double-digits, it came as no surprise that our panel continued to be extremely dissatisfied with the current cost of living and had higher inflationary expectations than ever before for the next 12 months.

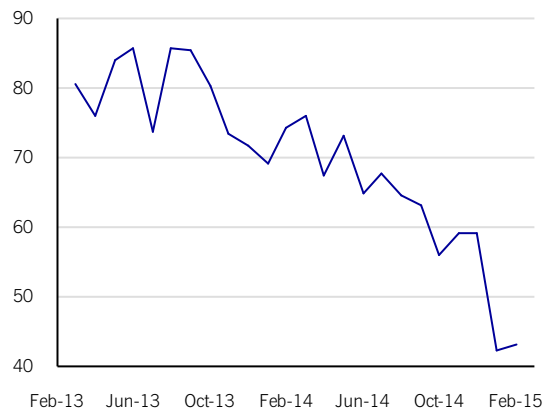
The Current Prices Satisfaction Indicator stood at 43.2 in February compared with an all-time low of 42.3 in January. A figure below 100 indicates wider dissatisfaction with the current level of prices. The further below 100, the greater the dissatisfaction. The indicator has remained below 100 since the survey started, and in February it was 38.3% below the series average, with more than 80% of respondents dissatisfied with the current level of prices.

Official data showed that consumer price inflation accelerated to 16.7% on the year in February from 15% in January, the highest since March 2002. A ban on food imports from Western nations, in retaliation to sanctions placed upon Russia, continued to push up food price inflation to 23.3% on the year in February which makes up more than a third of the basket.

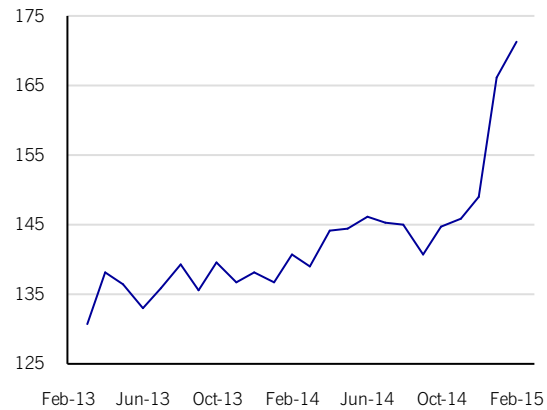
More consumers than ever before anticipated prices to rise over the next 12 months as shown by the Inflation Expectations Indicator rising to a record high of 171.5 in February from a previous high of 166.4 in January. Inflation expectations have trended upwards since the start of the survey in March 2013 and were substantially above the series average of 142.7 in February.

Since the onset of the Ukraine crisis in February 2014, the Central Bank of Russia has raised the official interest rate by a total of 950 basis points to 15% in a

Satisfaction with Current Prices Indicator



Inflation Expectations Indicator



Prices Sentiment

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Satisfaction with Current Prices	74.4	63.4	56.1	59.2	59.3	42.3	43.2
Inflation Expectations	140.9	140.9	144.7	145.9	149.1	166.4	171.5

Prices Sentiment Regions



bid to control inflation and stabilise the rouble. Under the CBR's most recent baseline scenario, full-year inflation is forecast to be 12% in 2015 and is not anticipated to fall to the bank's medium-term target of 4% until the end of 2017.

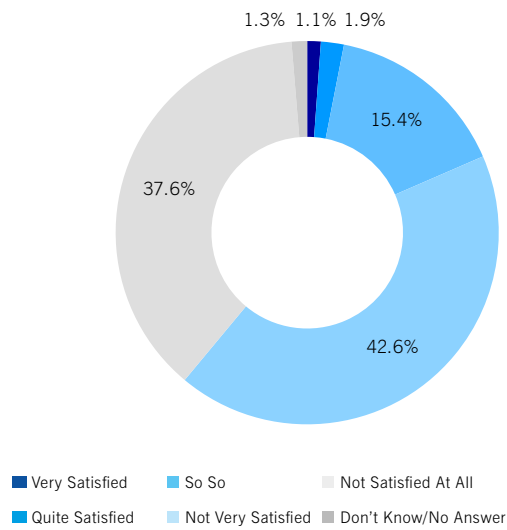
Our panel's inflationary expectations have closely matched the trend in consumer price inflation, providing a useful gauge in determining the likely level of prices. In February, a record 36.1% of respondents thought that prices would rise by 25% or more over the next year, suggesting that the trend in accelerating inflation is unlikely to subside in the near-term.

Regions

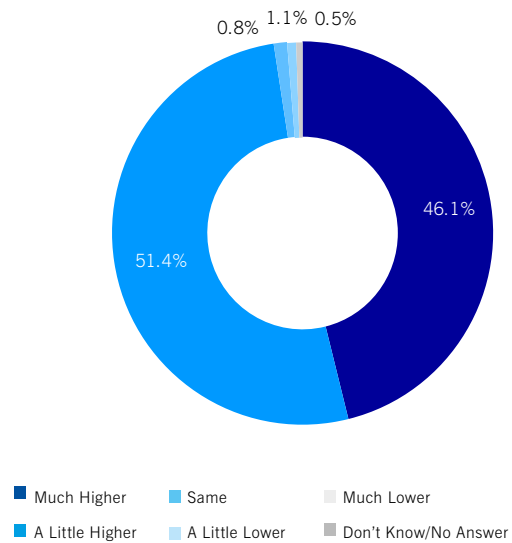
Satisfaction with Current Prices fell in three of the five regions surveyed this month and hit an all-time low in two of them. Price sentiment was lowest among residents of the West Siberian region, of whom 93.6% were discontent with the current level of prices.

Inflationary expectations, meanwhile, hit a record high for all regions apart from the West Siberian area. Nearly all inhabitants of the Volga region expected prices to rise over the next 12 months, pushing the indicator to the highest level of the regions, and 94.3% of whom expected inflation to be greater than 25% over the next year.

Satisfaction with Current Prices
(% of Households)

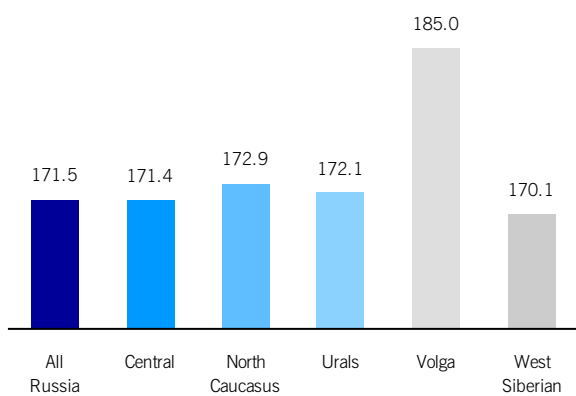


Inflation Expectations in 12 Months
(% of Households)

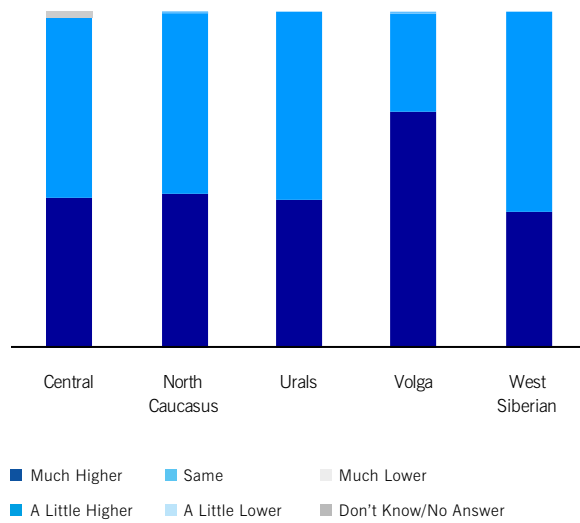




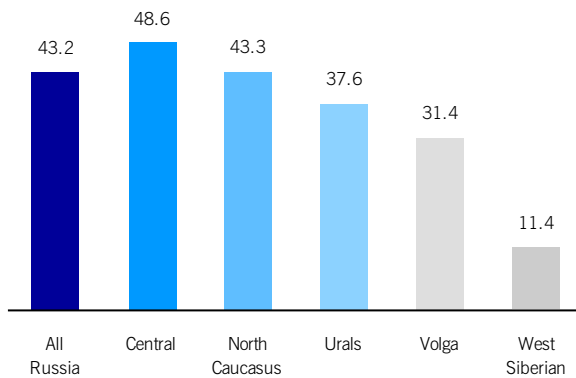
Inflation Expectations Indicator



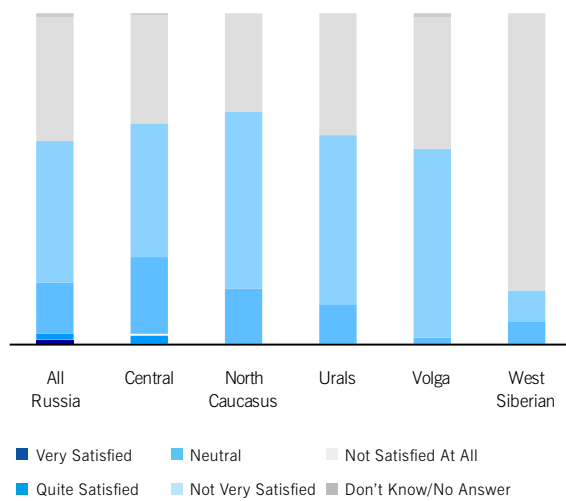
Expected Change in Prices in 1 Year (% of Households)



Current Prices Satisfaction Indicator



Satisfaction with Current Prices (% of Households)



Interest Rate Expectations

Consumers Dismiss Rate Cut



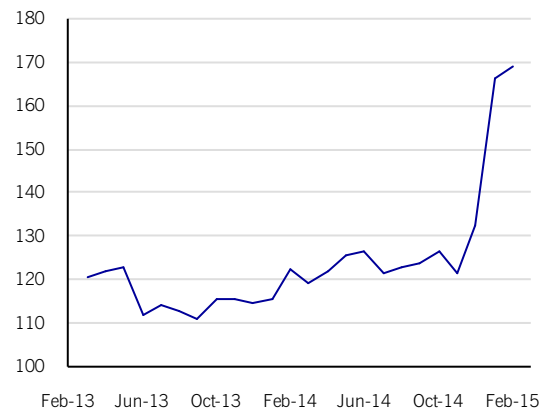
Consumers' expectations for interest rates continued to rise in spite of January's rate cut by the Central Bank of Russia as the effect of the central bank's previous policy tightening continued to filter through.

Since the onset of the Ukraine crisis in February 2014, the Central Bank of Russia has raised the benchmark interest rate by a total of 950 basis points. Most recently, the CBR cut the key interest rate by 200 basis points to 15% at its meeting on January 30, little over a month after surprising markets with a hike of 650 basis points on December 16.

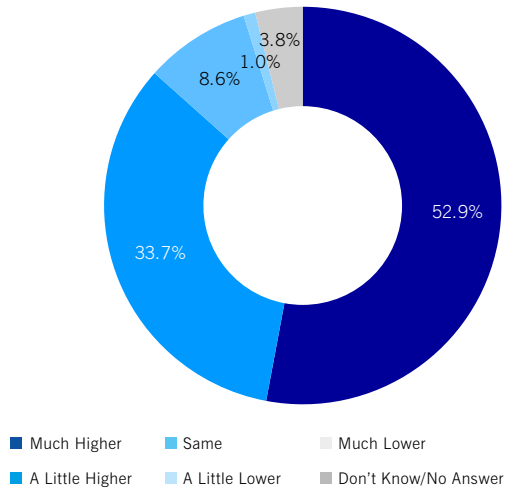
Such aggressive policy tightening has caused the cost of credit in Russia to rise considerably and our panel did not see this changing over the next 12 months despite the recent rate cut. The Interest Rate Expectations Indicator rose to a series high of 169.3 in February from a previous high of 166.6 in January and was 38.1% higher than the level recorded a year earlier. Of those polled, 86.6% expected interest rates on home and car loans in a year's time to be higher, considerably above the 50% who did just two months ago, while only 8.6% of respondents expected interest rates to remain the same.

The central bank is due to meet next on March 13 and economists are divided on whether it will choose to retain the current level of interest rates or cut them further as it seeks to further normalise policy. Cutting the rate may help to ease the cost of credit in Russia, although risks exacerbating the already-fast pace of accelerating inflation and further weakening the rouble.

Interest Rate Expectations Indicator



Expected Change in Interest Rate in 1 year (% of Households)



Interest Rate Expectations

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Interest Rate Expectations	122.6	124.2	126.6	121.7	132.9	166.6	169.3

Real Estate Investment

Poor Finances Deter House Purchases



With the majority of our panel expecting house prices to rise in February, fewer thought it was a good time to sell a house while a greater proportion thought it would be a sensible time to purchase one.

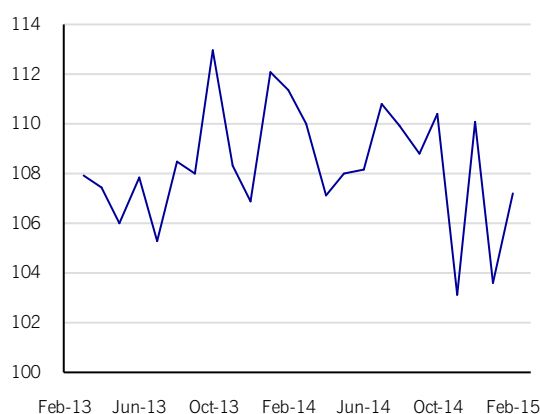
The Real Estate Investment Indicator, which is made up of three components (House Price Expectations, House Buying Sentiment and House Selling Sentiment) rose to 107.2 in February from 103.6 in January.

The improvement in overall sentiment for the real estate market was primarily the result of more consumers considering it a good time to buy a house in the next six months. This was reflected by the rise in House Buying Sentiment to 77.3 in February from 72.2 in January, although it was still far below the 100 mark that separates expansion from contraction as high interest rates and a poor outlook for household finances continued to deter the majority of Russian consumers from making a house purchase.

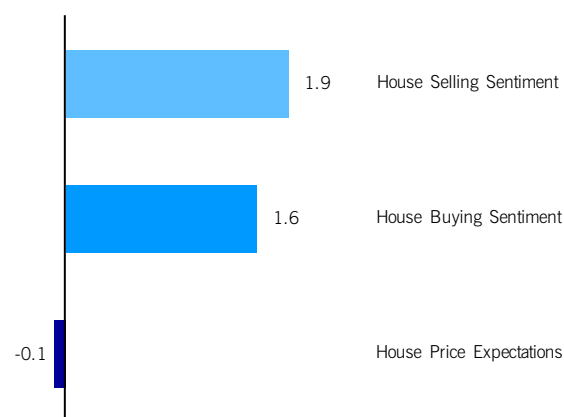
Indeed, of the 67.9% of consumers who considered it to be a bad time to purchase a house, 29.6% cited insufficient income and purchasing power while 13.9% were put off by unfavourable interest rates.

The vast majority of our panel continued to expect that house prices would rise over the coming six months. The House Price Expectations component stood at 144.5 in February compared with 144.8 in January. More than one-fifth of those polled thought that house prices would rise dramatically in the next six months, while just under half of our panel expected that they would rise more moderately.

Real Estate Investment Indicator



Real Estate Investment Indicator: Contribution to Monthly Change (% pt.)



Real Estate Investment Sentiment

	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Real Estate Investment Sentiment	111.4	108.8	110.5	103.2	110.1	103.6	107.2
Price Expectations	139.0	148.2	146.1	142.0	149.5	144.8	144.5
House Buying	96.8	77.7	87.7	71.0	83.4	72.2	77.3
House Selling	101.6	99.5	102.4	103.5	102.6	106.1	100.2



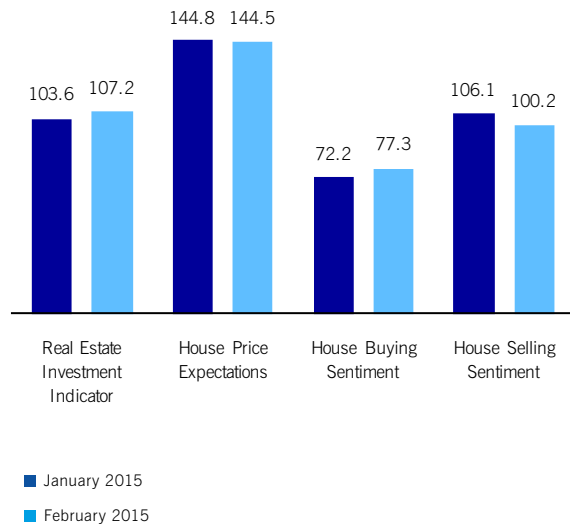
Real Estate Investment Components and Balances

Even so, fewer consumers considered it to be a good time to sell a house in the next six months. House Selling Sentiment, which has a negative impact on the overall House Price Indicator, eased to 100.2 in February from an all-time high of 106.1 in January. This could be due to expectations that interest rates will continue to rise to prohibitively high levels, raising the cost of mortgages and therefore making houses more difficult to sell in the future.

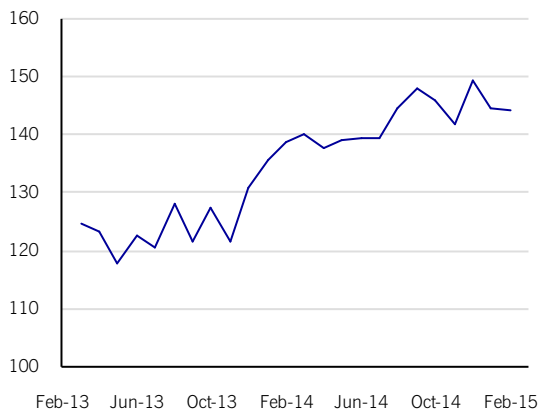
Regions

The Real Estate Investment Indicator improved across all five regions in February. The improvement was led a double-digit rise in sentiment among residents of the Volga region, placing the indicator at the highest of the regions, as a greater proportion considered it a good time to invest in real estate amid heightened expectations for house prices.

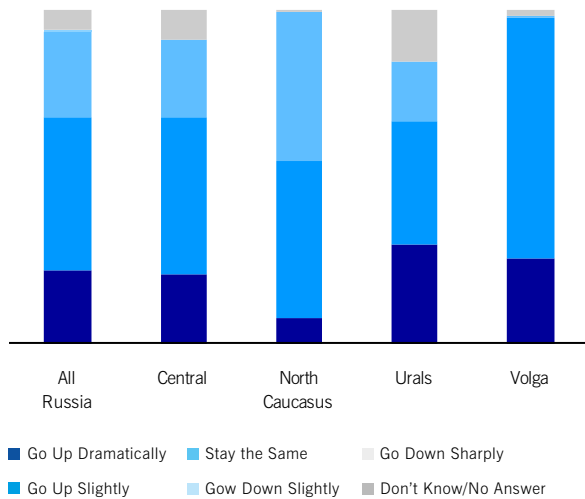
Real Estate Investment Indicator - Components



Real Estate Prices: Expected Changes in the Next 6 Months

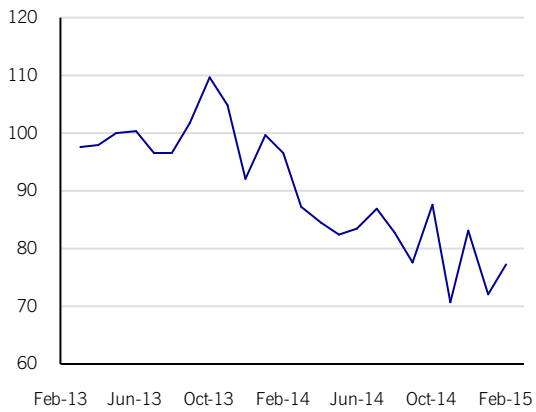


Expected Changes in Real Estate Prices in the Next 6 months (% of Households)

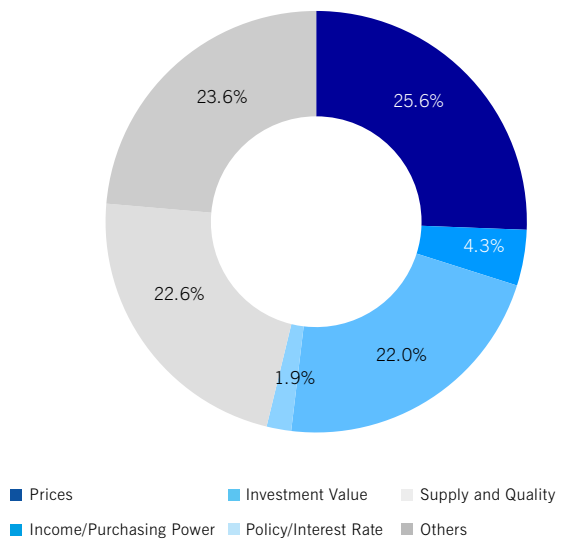




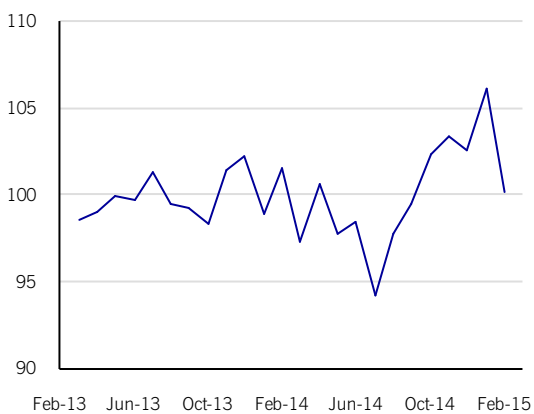
House Buying Sentiment



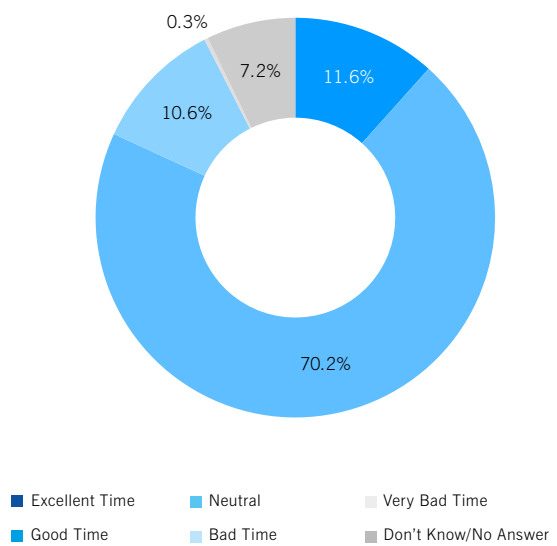
Reasons for Buying Houses (% of Households)



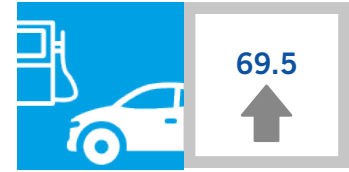
House Selling Sentiment



Timing for Selling Houses (% of Households)



Car Purchase Improves Moderately



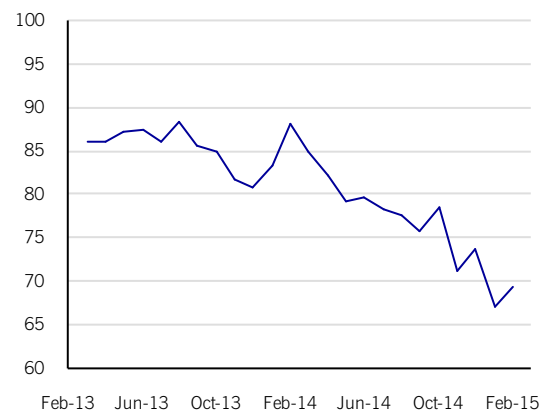
High expectations for the price of gasoline and a lack of purchasing power outweighed the attraction of a government scrappage scheme incentivising the purchases of new vehicles, prompting the majority of our panel to continue to consider it a poor time to buy a car.

The Car Purchase Indicator, which is made up of two components (Car Purchase Expectations and Expectations for the Price of Gasoline), improved to 69.5 in February from a record low of 67.2 in January.

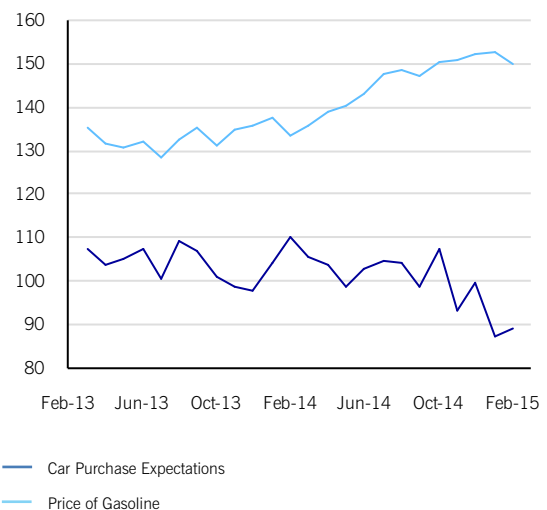
Even though sentiment surrounding car purchases improved slightly in February, the number of pessimists continued to outweigh the number of optimists, causing the indicator to remain in contraction. The Car Purchase Expectations component, which gauges whether consumers believe it is a good or bad time to purchase a car over the next 12 months, rose to 89.2 in February from a record low of 87.4 in the previous month. Over 60% of respondents thought it would be a bad time to purchase a car in the next 12 months, the majority of whom were deterred from making a purchase by a lack of purchasing power and the high cost of use and upkeep of a car.

Official data showed car sales plummeted by 37.9% on the year in February following a decline of 24.4% in January. The sharp decline in car sales may be due to dealerships now pricing in the cost of the significantly weaker rouble, having previously keeping prices in check. While data on car prices has yet to be released for February, in the year to January there was a 19.4% annual rise in the price of a domestically manufactured car and a 15% hike in those that are imported.

Car Purchase Indicator

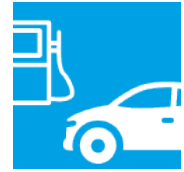


Car Purchase Indicator - Components

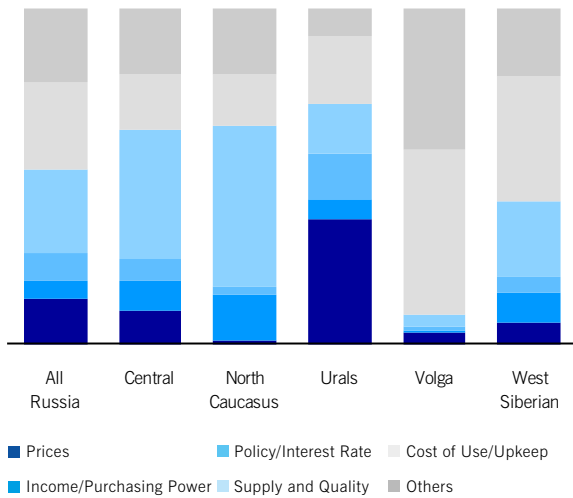


Car Purchase Sentiment

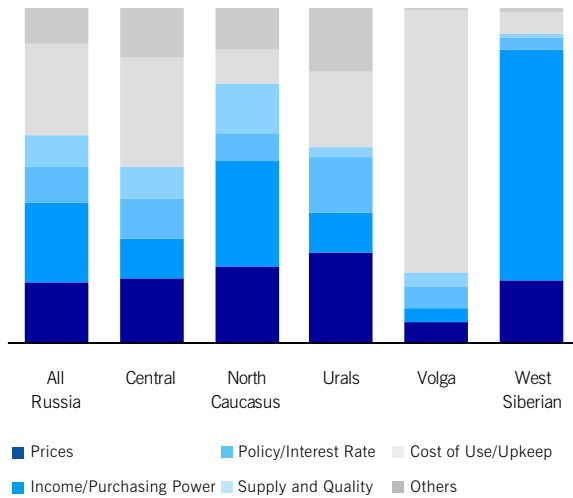
	Feb-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Car Purchase Sentiment	88.3	75.8	78.5	71.3	73.7	67.2	69.5
Car Purchase Expectations	110.5	99.0	107.7	93.6	100.0	87.4	89.2
Price of Gasoline	133.8	147.3	150.6	151.1	152.6	152.9	150.2



Reasons for a Good Time to Buy a Car (% of Households)



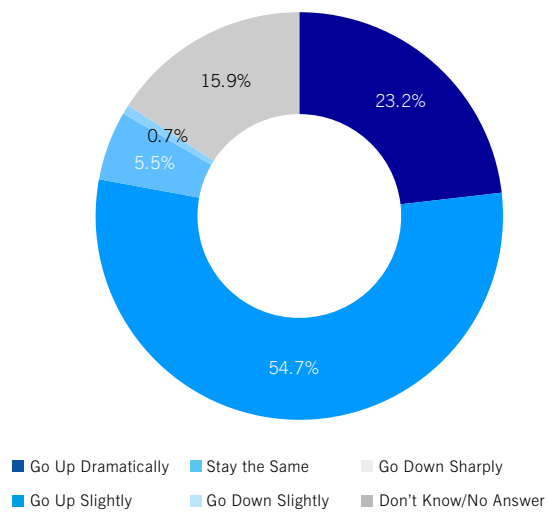
Reasons for a Bad Time to Buy a Car (% of Households)



In an attempt to alleviate the downturn in the automobile market, the Russian government introduced a car scrappage and trade-in scheme at the beginning of September. Under the scheme, cars that are at least six years old can be demolished or traded in return for payment towards the purchase of a new car. While it had helped to ease pressure on the automobile market in recent months, it has since been outweighed by the high cost of credit and increased price of cars brought about by the weakening in the rouble. Evidence from this survey suggests that the market has not reached the bottom, providing a warning to those in the industry to fasten their seatbelts.

While the slide in global oil prices has reduced gasoline prices in many countries, the extension of excise taxes on Russian gasoline production in 2015 means that consumers are likely to face higher fuel costs in the months ahead. As a consequence, the majority of Russian consumers expected gasoline prices to rise in the next 12 months. Expectations for the Price of Gasoline fell slightly to 150.2 in February from a series high of 152.9 in January.

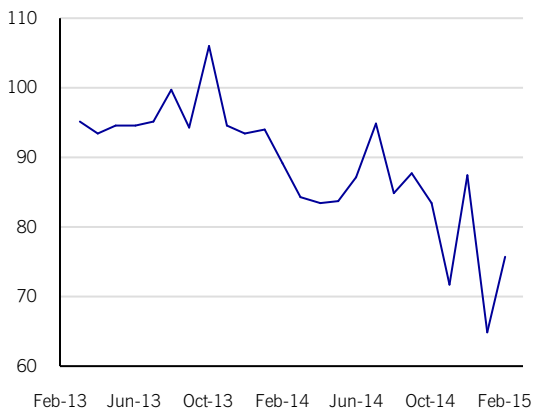
Expected Change in the Price of Gasoline (% of Households)



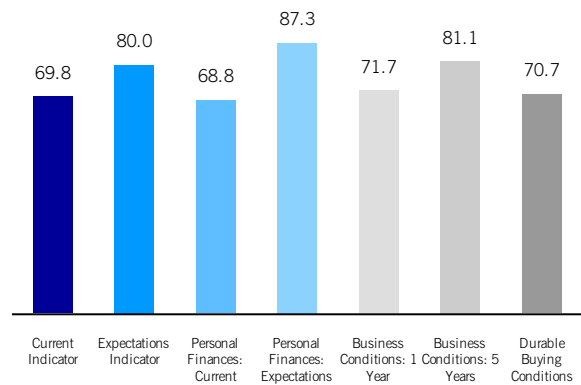
MNI Russia Consumer Indicator Regions



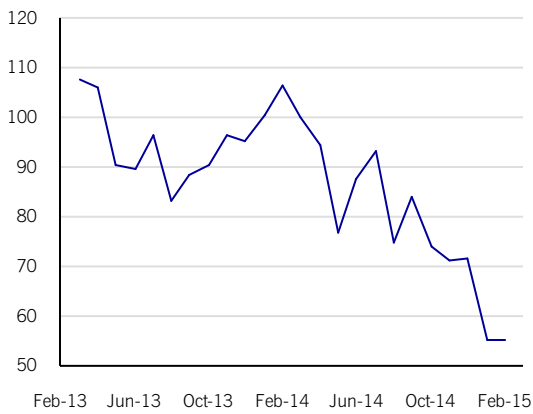
Consumer Indicator: North Caucasus



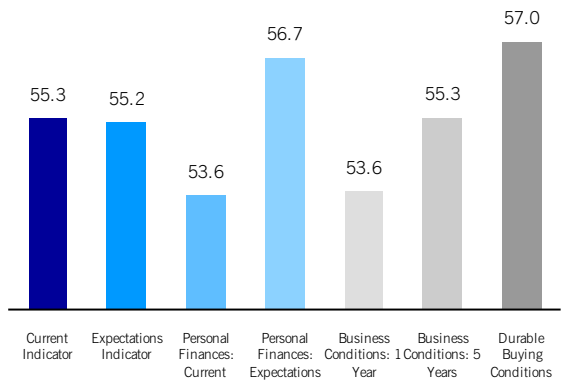
Consumer Indicator Components: North Caucasus



Consumer Indicator: West Siberian

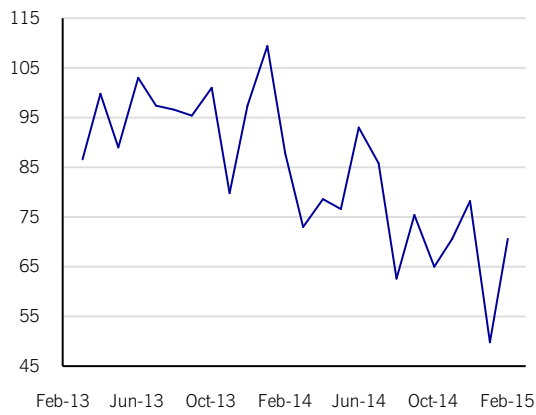


Consumer Indicator Components: West Siberian

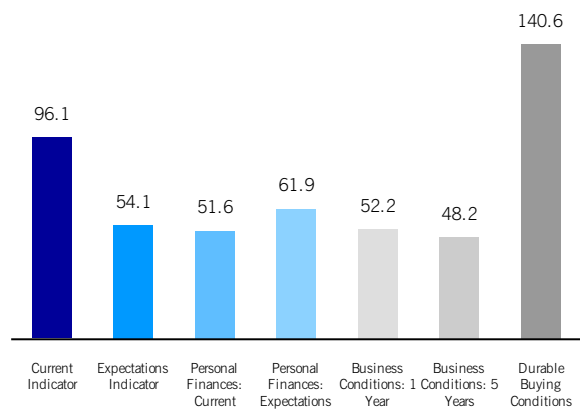




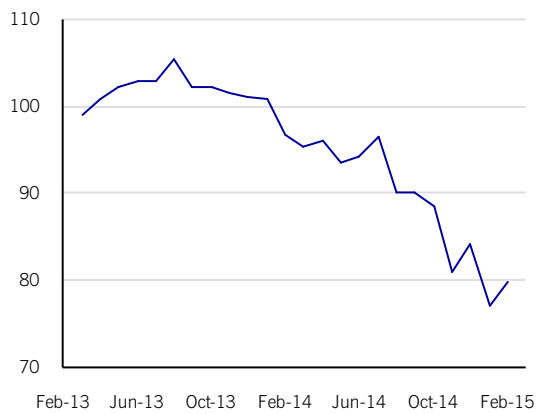
Consumer Indicator: Volga



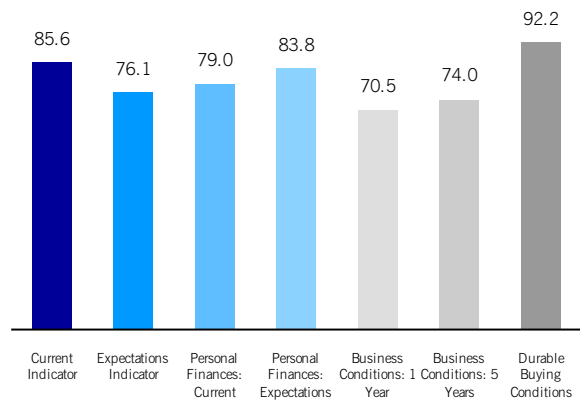
Consumer Indicator Components: Volga



Consumer Indicator: Central

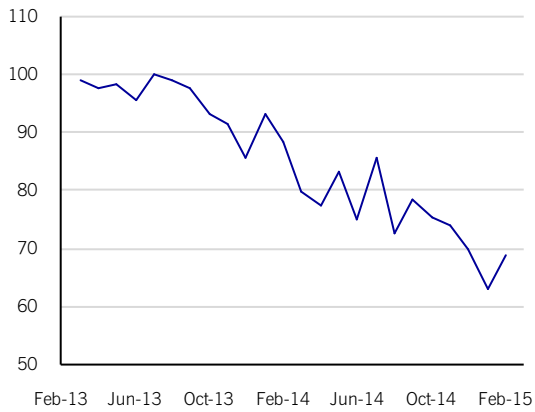


Consumer Indicator Components: Central

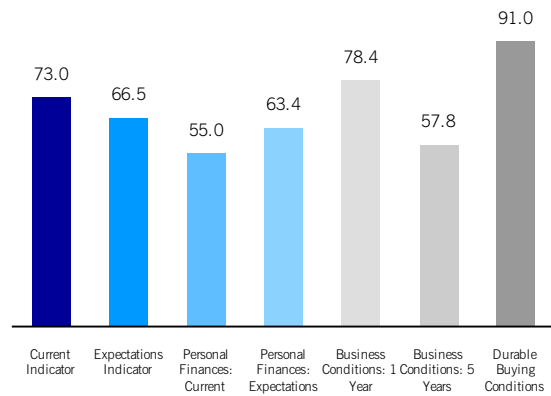




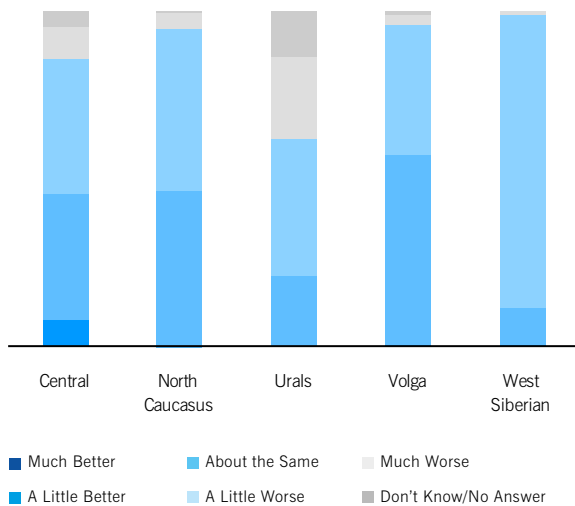
Consumer Indicator: Urals



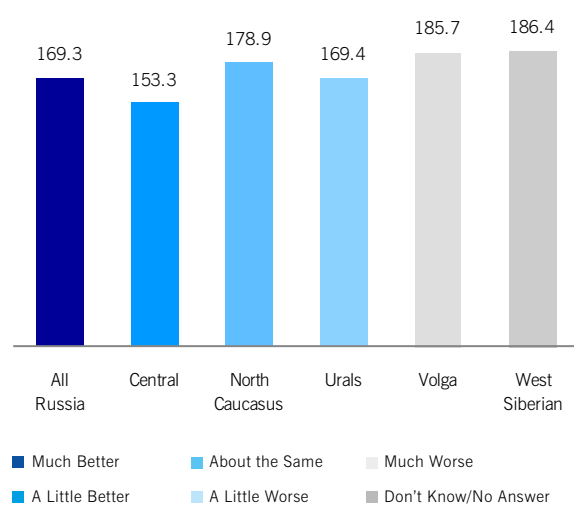
Consumer Indicator Components: Urals



Employment Indicator Outlook for the Next 12 Months (% of Households)



Interest Rates Expectations Indicator (% of Households)

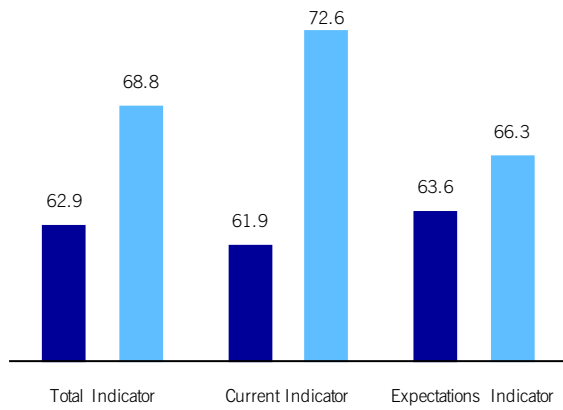


MNI Russia Consumer Indicator

Income Groups

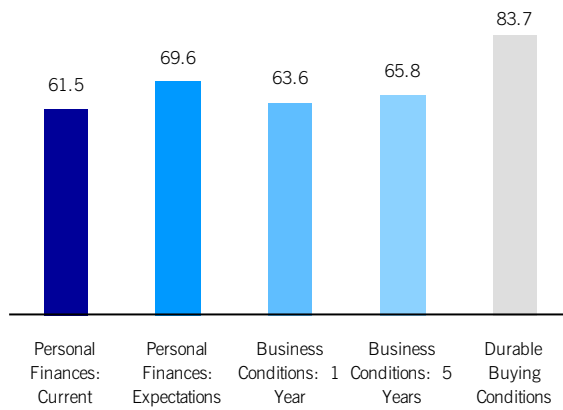


< RUB 480,000 Per Annum

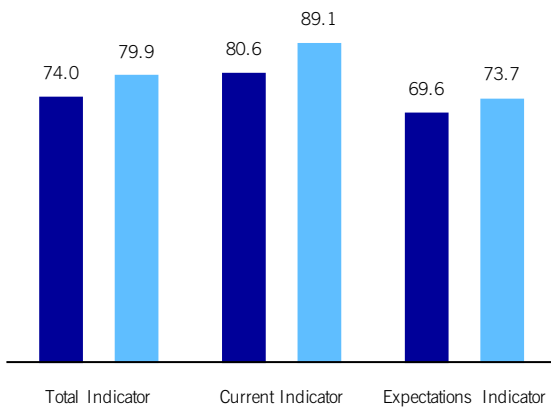


■ January 2015
■ February 2015

< RUB 480,000 - Components

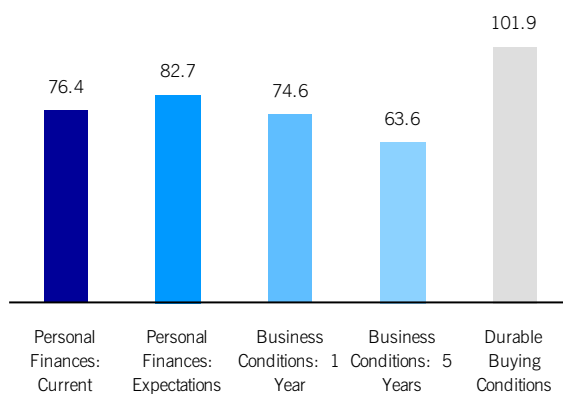


> RUB 480,000 Per Annum



■ January 2015
■ February 2015

> RUB 480,000 - Components





What the Panel Said

A selection of comments from the panel of consumers surveyed over the past month.

“At my company they have fired personnel and reduced the salaries of those who remain.” **45-year-old male from Moscow**

“The price of necessities have risen significantly, particularly medicines.” **29-year-old male from Moscow**

“The enforcement of international sanctions in connection with the worsening situation in the east of Ukraine has made the outlook for business very bleak.” **23-year-old male from Moscow**

“The situation at where I work has become more difficult, there are rumours of firings.” **45-year-old male from St. Petersburg**

“The price of big-ticket goods will grow in the future, one should buy now before they rise.” **39-year-old male from Novosibirsk**

“The business environment is slowly but surely dying.” **36-year-old female from Kaliningrad**

“Imported household goods are high quality, one should buy now before they disappear from shops.” **36-year-old female from Kaliningrad**

“My salary has been significantly reduced because of the depreciation in the rouble.” **33-year-old female from Samara**

“I may be fired like the many people in my city already have.” **46-year-old female from Voronezh**

“It is a great time to invest into real estate, although I don’t have sufficient finances to do so.” **43-year-old male from Irkutsk**

“It’s hard to secure credit and rates are too high.” **41-year-old female from Kazan**

“Gasoline prices have become much higher.” **21-year-old male from Ryazan**

“Credit situation is poor, a mortgage is now out of reach for many.” **39-year-old male from Kolomna**

“Prices have grown for food, utilities and other everyday goods.” **59-year-old female from Nakhodka**

“The Government refuses to change policy despite the difficult situation, but the people will survive as they always have.” **34-year-old female from Vsevolozhsk**

“Inflows from Western investors have decreased due to the sanctions.” **62-year-old male from Angarsk**

“House prices have risen too much and will continue to rise for some time to come.” **48-year-old male from Reutov**

“The economy is not growing and soon it will start to contract.” **31-year-old male from Nizhny Novgorod**

“Both domestic and imported cars have become significantly more expensive.” **50-year-old female from Tula**



Data Tables

A closer look at the data from the February consumer survey.

Russia - Central Overview

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
Russia - Central Consumer Indicator	84.3	77.2	79.9	Dec-14	-	80.5	2.7	3.6%
Current Indicator	88.2	83.2	85.6	Dec-14	-	85.7	2.4	2.9%
Expectations Indicator	81.7	73.1	76.1	Dec-14	-	77.0	3.0	4.1%
Personal Finance: Current	82.7	76.3	79.0	Dec-14	-	79.3	2.7	3.6%
Personal Finance: Expected	86.4	81.7	83.8	Dec-14	-	84.0	2.1	2.7%
Business Condition: 1 Year	75.4	64.4	70.5	Dec-14	-	70.1	6.1	9.5%
Business Condition: 5 Years	83.4	73.3	74.0	Dec-14	-	76.9	0.7	1.0%
Durable Buying Conditions	93.8	90.1	92.2	Dec-14	-	92.0	2.1	2.3%
Current Business Conditions Indicator	79.2	72.2	71.8	-	series low	74.4	-0.4	-0.5%
Real Estate Investment Indicator	111.8	106.9	108.6	Dec-14	-	109.1	1.7	1.6%
Car Purchase Indicator	74.2	64.4	67.0	Dec-14	-	68.5	2.6	4.0%
Employment Outlook Indicator	85.7	70.4	74.2	Dec-14	-	76.8	3.8	5.3%
Inflation Expectations Indicator	154.3	166.0	171.4	series high	-	163.9	5.4	3.2%
Current Prices Satisfaction Indicator	60.8	46.8	48.6	Dec-14	-	52.1	1.8	3.9%
Interest Rates Expectations Indicator	125.0	152.3	153.3	series high	-	143.5	1.0	0.7%

Russia - Urals Overview

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
Russia - Urals Consumer Indicator	69.9	63.3	69.1	Dec-14	-	67.4	5.8	9.1%
Current Indicator	76.8	54.9	73.0	Dec-14	-	68.2	18.1	33.0%
Expectations Indicator	65.4	69.0	66.5	-	Dec-14	67.0	-2.5	-3.6%
Personal Finance: Current	61.3	55.4	55.0	-	series low	57.2	-0.4	-0.7%
Personal Finance: Expected	71.1	75.4	63.4	-	Oct-14	70.0	-12.0	-15.9%
Business Condition: 1 Year	55.3	54.3	78.4	May-14	-	62.7	24.1	44.3%
Business Condition: 5 Years	69.7	77.2	57.8	-	series low	68.2	-19.4	-25.2%
Durable Buying Conditions	92.3	54.3	91.0	Dec-14	-	79.2	36.7	67.4%
Current Business Conditions Indicator	72.3	61.9	72.6	Nov-14	-	68.9	10.7	17.3%
Real Estate Investment Indicator	113.3	98.3	104.2	Dec-14	-	105.3	5.9	6.0%
Car Purchase Indicator	74.2	61.0	70.0	Dec-14	-	68.4	9.0	14.7%
Employment Outlook Indicator	83.8	64.9	55.2	-	series low	68.0	-9.7	-14.9%
Inflation Expectations Indicator	157.9	159.5	172.1	series high	-	163.2	12.6	7.9%
Current Prices Satisfaction Indicator	46.6	42.6	37.6	-	series low	42.3	-5.0	-11.9%
Interest Rates Expectations Indicator	141.0	180.1	169.4	-	Dec-14	163.5	-10.7	-5.9%

Russia - Volga Overview

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
Russia - Volga Consumer Indicator	78.5	50.1	70.9	Dec-14	-	66.5	20.8	41.5%
Current Indicator	87.1	54.7	96.1	Jul-14	-	79.3	41.4	75.7%
Expectations Indicator	72.8	47.1	54.1	Dec-14	-	58.0	7.0	14.9%
Personal Finance: Current	52.4	52.0	51.6	-	series low	52.0	-0.4	-0.9%
Personal Finance: Expected	70.7	52.7	61.9	Dec-14	-	61.8	9.2	17.5%
Business Condition: 1 Year	71.4	52.0	52.2	Dec-14	-	58.5	0.2	0.4%
Business Condition: 5 Years	76.4	36.5	48.2	Dec-14	-	53.7	11.7	32.1%
Durable Buying Conditions	121.7	57.3	140.6	Jan-14	-	106.5	83.3	145.2%
Current Business Conditions Indicator	77.8	82.2	69.8	-	Nov-14	76.6	-12.4	-15.0%
Real Estate Investment Indicator	117.0	102.5	120.4	Mar-14	-	113.3	17.9	17.4%
Car Purchase Indicator	79.7	61.1	78.2	Dec-14	-	73.0	17.1	28.0%
Employment Outlook Indicator	54.4	80.4	77.7	-	Dec-14	70.8	-2.7	-3.4%
Inflation Expectations Indicator	177.7	166.7	185.0	series high	-	176.5	18.3	11.0%
Current Prices Satisfaction Indicator	107.8	48.9	31.4	-	Oct-14	62.7	-17.5	-35.8%
Interest Rates Expectations Indicator	177.7	180.1	185.7	series high	-	181.2	5.6	3.1%

Russia - North Caucasus Overview

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
Russia - North Caucasus Consumer Indicator	87.4	64.9	75.9	Dec-14	-	76.1	11.0	17.0%
Current Indicator	79.4	51.8	69.8	Dec-14	-	67.0	18.0	34.7%
Expectations Indicator	92.8	73.6	80.0	Dec-14	-	82.1	6.4	8.7%
Personal Finance: Current	79.0	50.8	68.8	Dec-14	-	66.2	18.0	35.5%
Personal Finance: Expected	99.1	88.5	87.3	-	series low	91.6	-1.2	-1.4%
Business Condition: 1 Year	78.3	51.3	71.7	Dec-14	-	67.1	20.4	39.7%
Business Condition: 5 Years	101.0	81.0	81.1	Dec-14	-	87.7	0.1	0.1%
Durable Buying Conditions	79.7	52.7	70.7	Dec-14	-	67.7	18.0	34.0%
Current Business Conditions Indicator	96.4	71.4	71.4	-	series low	79.7	0.0	-0.1%
Real Estate Investment Indicator	104.3	95.2	100.8	Dec-14	-	100.1	5.6	5.8%
Car Purchase Indicator	70.7	61.5	66.0	Dec-14	-	66.1	4.5	7.3%
Employment Outlook Indicator	100.7	71.2	71.3	Dec-14	-	81.1	0.1	0.1%
Inflation Expectations Indicator	118.6	157.2	172.9	series high	-	149.6	15.7	10.0%
Current Prices Satisfaction Indicator	50.2	43.3	43.3	Dec-14	-	45.6	0.0	0.1%
Interest Rates Expectations Indicator	115.4	178.2	178.9	series high	-	157.5	0.7	0.4%

Russia - West Siberian Overview

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
Russia - West Siberian Consumer Indicator	71.6	55.4	55.2	-	series low	60.7	-0.2	-0.3%
Current Indicator	54.9	55.5	55.3	-	Dec-14	55.2	-0.2	-0.4%
Expectations Indicator	82.8	55.3	55.2	-	series low	64.4	-0.1	-0.2%
Personal Finance: Current	53.6	53.9	53.6	-	series low	53.7	-0.3	-0.7%
Personal Finance: Expected	96.9	56.3	56.7	Dec-14	-	70.0	0.4	0.6%
Business Condition: 1 Year	53.8	54.5	53.6	-	series low	54.0	-0.9	-1.5%
Business Condition: 5 Years	97.8	55.1	55.3	Dec-14	-	69.4	0.2	0.3%
Durable Buying Conditions	56.1	57.0	57.0	-	Dec-14	56.7	0.0	0.0%
Current Business Conditions Indicator	97.0	57.1	55.7	-	series low	69.9	-1.4	-2.3%
Real Estate Investment Indicator	99.3	99.2	99.6	Oct-14	-	99.4	0.4	0.3%
Car Purchase Indicator	67.4	74.8	65.2	-	May-14	69.1	-9.6	-12.9%
Employment Outlook Indicator	82.7	53.6	55.7	Dec-14	-	64.0	2.1	3.9%
Inflation Expectations Indicator	125.4	188.3	170.1	-	Dec-14	161.3	-18.2	-9.7%
Current Prices Satisfaction Indicator	14.5	11.7	11.4	-	series low	12.5	-0.3	-2.8%
Interest Rates Expectations Indicator	105.3	185.9	186.4	series high	-	159.2	0.5	0.3%

All Russia - Overview by Age

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
Age 18-34								
MNI Russia Consumer Indicator	80.8	67.3	72.8	Dec-14	-	73.6	5.5	8.1%
Current Indicator	80.4	69.3	76.1	Dec-14	-	75.3	6.8	9.8%
Expectations Indicator	81.1	66.0	70.6	Dec-14	-	72.6	4.6	7.0%
Personal Finance: Current	72.5	66.3	69.2	Dec-14	-	69.3	2.9	4.4%
Personal Finance: Expected	90.0	76.9	74.1	-	series low	80.3	-2.8	-3.6%
Business Condition: 1 Year	69.3	56.7	68.2	Dec-14	-	64.7	11.5	20.3%
Business Condition: 5 Years	83.9	64.5	69.6	Dec-14	-	72.7	5.1	7.9%
Durable Buying Conditions	88.3	72.4	83.0	Dec-14	-	81.2	10.6	14.7%
Age 35-54								
MNI Russia Consumer Indicator	79.6	67.5	72.3	Dec-14	-	73.1	4.8	7.1%
Current Indicator	83.6	70.8	80.6	Dec-14	-	78.3	9.8	13.9%
Expectations Indicator	76.8	65.3	66.7	Dec-14	-	69.6	1.4	2.3%
Personal Finance: Current	70.2	63.6	65.7	Dec-14	-	66.5	2.1	3.4%
Personal Finance: Expected	75.5	66.7	72.8	Dec-14	-	71.7	6.1	9.3%
Business Condition: 1 Year	66.6	61.1	67.2	Oct-14	-	65.0	6.1	10.0%
Business Condition: 5 Years	88.4	68.1	60.2	-	series low	72.2	-7.9	-11.6%
Durable Buying Conditions	97.0	77.9	95.4	Dec-14	-	90.1	17.5	22.5%
Age 55-64								
MNI Russia Consumer Indicator	76.3	68.6	71.7	Dec-14	-	72.2	3.1	4.5%
Current Indicator	72.2	68.3	78.5	Oct-14	-	73.0	10.2	14.9%
Expectations Indicator	79.0	68.8	67.2	-	series low	71.7	-1.6	-2.3%
Personal Finance: Current	66.0	61.7	58.2	-	series low	62.0	-3.5	-5.7%
Personal Finance: Expected	91.3	77.0	76.5	-	Aug-14	81.6	-0.5	-0.6%
Business Condition: 1 Year	79.7	60.4	63.7	Dec-14	-	67.9	3.3	5.6%
Business Condition: 5 Years	66.0	69.0	61.4	-	series low	65.5	-7.6	-11.1%
Durable Buying Conditions	78.3	74.9	98.8	Jun-14	-	84.0	23.9	31.9%

All Russia - Overview by Income

	Dec-14	Jan-15	Feb-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
< RUB 480,000 Per Annum								
MNI Russia Consumer Indicator	77.1	62.9	68.8	Dec-14	-	69.6	5.9	9.5%
Current Indicator	74.2	61.9	72.6	Dec-14	-	69.6	10.7	17.3%
Expectations Indicator	79.0	63.6	66.3	Dec-14	-	69.6	2.7	4.4%
Personal Finance: Current	68.8	58.5	61.5	Dec-14	-	62.9	3.0	5.1%
Personal Finance: Expected	82.8	71.6	69.6	-	series low	74.7	-2.0	-2.8%
Business Condition: 1 Year	66.1	55.7	63.6	Dec-14	-	61.8	7.9	14.0%
Business Condition: 5 Years	88.1	63.3	65.8	Dec-14	-	72.4	2.5	4.0%
Durable Buying Conditions	79.5	65.3	83.7	Sep-14	-	76.2	18.4	28.3%
> RUB 480,000 Per Annum								
MNI Russia Consumer Indicator	83.4	74.0	79.9	Dec-14	-	79.1	5.9	7.9%
Current Indicator	89.3	80.6	89.1	Dec-14	-	86.3	8.5	10.5%
Expectations Indicator	79.5	69.6	73.7	Dec-14	-	74.3	4.1	5.9%
Personal Finance: Current	76.7	73.8	76.4	Dec-14	-	75.6	2.6	3.5%
Personal Finance: Expected	82.1	76.0	82.7	Nov-14	-	80.3	6.7	8.9%
Business Condition: 1 Year	71.3	62.1	74.6	Oct-14	-	69.3	12.5	20.2%
Business Condition: 5 Years	85.0	70.7	63.6	-	series low	73.1	-7.1	-10.0%
Durable Buying Conditions	101.9	87.5	101.9	Dec-14	-	97.1	14.4	16.4%

Methodology

The MNI Russia Consumer Sentiment Survey is a wide ranging monthly survey of consumer confidence across Russia.

Data is collected through computer aided telephone interviews (CATI), with each interviewee selected randomly by computer. At least 1,000 interviews are conducted each month. The survey has been in place since March 2013.

The survey adopts a similar methodology to the University of Michigan survey of U.S. consumer sentiment.

The MNI Russia Consumer Indicator is derived from five questions, two on current conditions and three on future expectations:

- 1) Current personal financial situation compared to a year ago
- 2) Current willingness to buy major household items
- 3) Personal financial situation one year from now
- 4) Overall business conditions one year from now
- 5) Overall business conditions for the next 5 years

Indicators relating to specific questions in the report are diffusion indices with 100 representing a neutral level, meaning positive and negative answers are equal. Values above 100 indicate increasing positivity while values below show increasing negativity.



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