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MNI Russia Business Report July 2015

Insight and data for better decisions

MNI Russia Business Report

Methodology

MNI Russia Business Sentiment is a monthly poll of Russian business executives at companies listed on the Moscow Exchange which has been available since March 2013. Companies are a mix of manufacturing, service, construction and agricultural firms.

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

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

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

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

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

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MNI Russia Business Report - July 2015

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Executive Summary

Lower borrowing costs failed to prevent Russian business sentiment from falling slightly in July, although confidence remains in positive territory and still tentatively suggests that the worst of the economic slowdown may have passed.

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The MNI Russia Business Sentiment Indicator fell by 1% to 51.3 in July from 51.8 in June, offsetting last month's rise and leaving it at the same level it was in May. Companies in the service sector were more optimistic about business conditions in July, while both construction and manufacturing firms were unchanged in their attitude from the previous month.

Companies were far less optimistic in their near-term outlook, with the Future Expectations Indicator falling by 13.2% to 53.2 in July from a 22-month high of 61.3 in June. Much of this is likely to have been driven by the recent extension of EU sanctions against Russia, while the sharp fall in the oil price was also likely to have been a contributor.

Inflationary pressures continued to ease in July, with both the costs faced by our panel and the prices they charged falling to the breakeven 50 level, a further sign that inflation has peaked.

Firms took the weakening of the rouble over the past month as a positive, reporting that the exchange rate had no effect on their operations in July, having caused them pain during the previous nine months.

Last month's rate cut by the Central Bank of Russia may not have managed to provide a floor under overall sentiment, but companies reported that credit was more easily available even though capital restrictions remain in place.

While demand from abroad grew, fewer companies reported that their overall number of orders had risen in a sign that domestic demand may have eased slightly in July.

Companies increased their output in July in spite of the slight fall in demand, although thought that they had slightly too many employees for their current requirements.

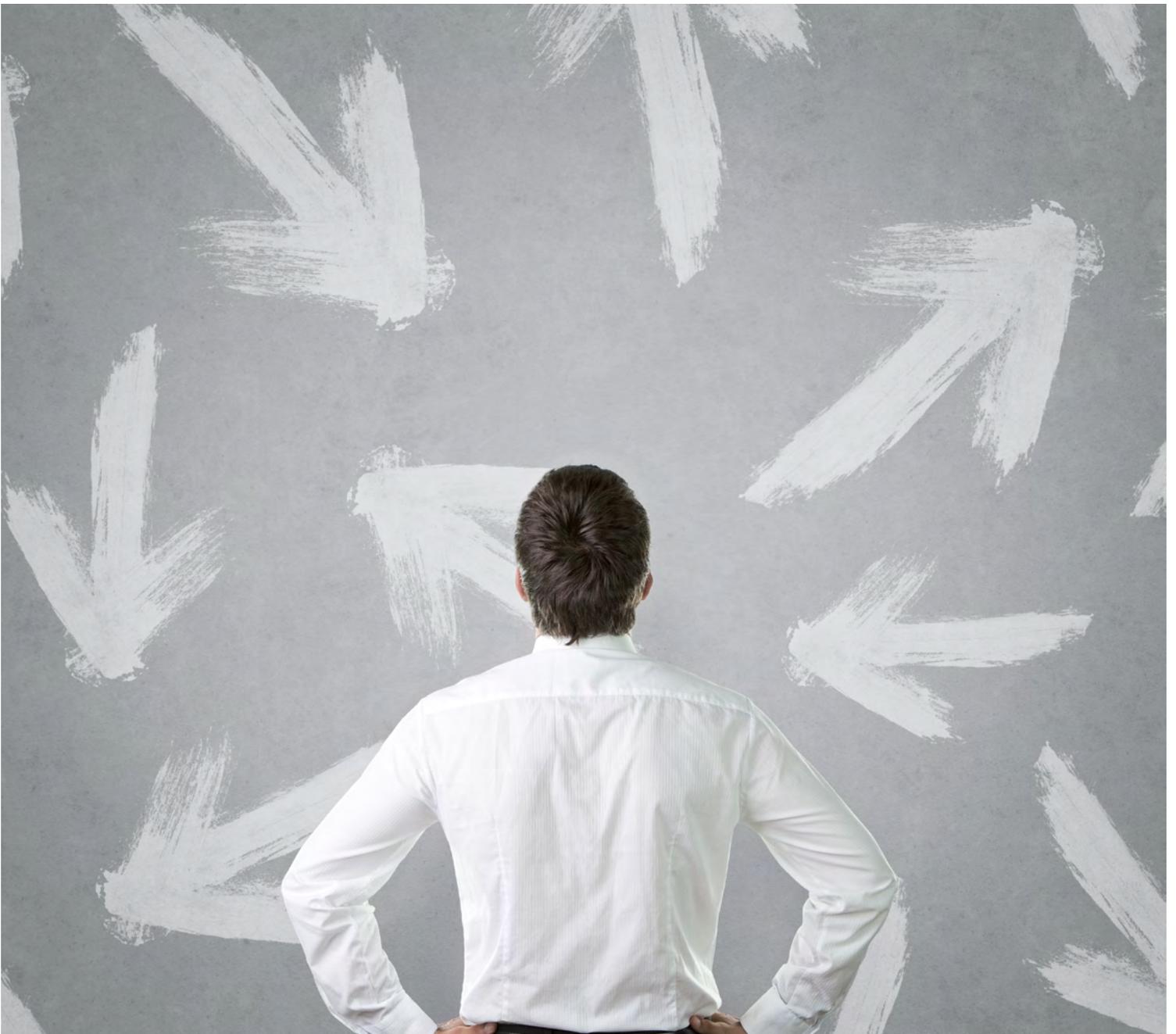
Despite the fact that capital restrictions remain in place, more Russian companies reported increased access to credit in July but continued to experience only moderate improvements in their balance sheets.

Overview

	May-15	Jun-15	Jul-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	51.3	51.8	51.3	-	Apr-15	51.5	-0.5	-1.0%
Future Expectations	55.2	61.3	53.2	-	Mar-15	56.6	-8.1	-13.2%
Production								
Current Conditions	50.5	49.5	50.5	May-15	-	50.2	1.0	2.0%
Future Expectations	52.9	55.8	50.0	-	Mar-15	52.9	-5.8	-10.4%
New Orders								
Current Conditions	50.5	52.8	51.3	-	May-15	51.5	-1.5	-2.8%
Future Expectations	51.5	51.5	49.7	-	Dec-13	50.9	-1.8	-3.5%
Export Orders								
Current Conditions	50.0	50.6	51.3	Jul-14	-	50.6	0.7	1.4%
Future Expectations	52.7	51.7	50.0	-	Jun-14	51.5	-1.7	-3.3%
Productive Capacity								
Current Conditions	50.0	50.0	50.0	Jun-15	-	50.0	0.0	0.0%
Future Expectations	51.0	51.0	50.0	-	Apr-14	50.7	-1.0	-2.0%
Order Backlogs								
Current Conditions	49.8	49.8	49.5	-	Mar-15	49.7	-0.3	-0.6%
Future Expectations	48.3	48.3	48.8	Aug-13	-	48.5	0.5	1.0%
Employment								
Current Conditions	50.0	50.3	50.3	Jun-15	-	50.2	0.0	0.0%
Future Expectations	50.5	50.0	49.8	-	Mar-15	50.1	-0.2	-0.4%
Inventories								
Current Conditions	53.4	46.6	60.1	Apr-15	-	53.4	13.5	29.0%
Future Expectations	49.3	49.3	48.6	-	Sep-14	49.1	-0.7	-1.4%
Input Prices								
Current Conditions	52.5	50.8	50.0	-	series low	51.1	-0.8	-1.6%
Future Expectations	52.1	51.8	50.5	-	Dec-14	51.5	-1.3	-2.5%
Prices Received								
Current Conditions	52.8	53.0	50.0	-	Jul-14	51.9	-3.0	-5.7%
Future Expectations	56.3	58.2	53.6	-	Jan-15	56.0	-4.6	-7.9%
Financial Position								
Current Conditions	50.5	50.5	50.5	Jun-15	-	50.5	0.0	0.0%
Future Expectations	55.6	58.9	55.3	-	Apr-15	56.6	-3.6	-6.1%
Interest Rates Paid								
Current Conditions	50.0	50.0	50.0	Jun-15	-	50.0	0.0	0.0%
Future Expectations	49.7	49.7	50.0	Feb-15	-	49.8	0.3	0.6%
Effect of Rouble Exchange Rate								
Current Conditions	48.8	49.8	50.0	Feb-15	-	49.5	0.2	0.4%
Future Expectations	49.4	49.7	50.0	Sep-14	-	49.7	0.3	0.6%
Supplier Delivery Times								
Current Conditions	48.5	49.8	49.5	-	May-15	49.3	-0.3	-0.6%
Future Expectations	49.7	49.7	49.7	Jun-15	-	49.7	0.0	0.0%
Availability of Credit								
Current Conditions	50.8	51.5	53.5	Jul-14	-	51.9	2.0	3.9%
Future Expectations	55.5	55.1	53.1	-	Feb-15	54.6	-2.0	-3.6%

The MNI Russia Business Sentiment Indicator fell by 1% to 51.3 in July from 51.8 in June...

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Economic Landscape

Latest official data for June was mixed with some areas showing improvement – or at least a lower rate of decline – while others continued to show outright weakness.

Latest official data for June was mixed with some areas showing improvement – or at least a lower rate of decline – while others continued to show outright weakness. What is clear is that the economy remains weak, and with inflation looking like it’s peaked, the Central Bank has scope to cut interest rates again at the July meeting.

The decline in industrial production moderated slightly in June having suffered a surprise deterioration in the previous month. Inflationary pressures continued to subside, with both consumer and producer prices easing on the month which should help to alleviate some of the drag on the demand side. Unemployment fell in spite of expectations of a rise while the decline in real wages was more-or-less stable, although this failed to prevent retail sales from falling further into contraction. It is evident that the prohibitively high level of interest rates are currently acting as a constraint on the economy’s prospects of recovery, necessitating further normalisation in monetary policy by the CBR albeit at a gentler pace given the rising risks posed to inflation and the rouble by the external environment and the price of oil.

Economy shrunk more than initially estimated

Data released by the Federal Statistics Service (Rosstat) showed that the economy shrunk by a revised 2.2% on the year in the first quarter of 2015, compared with the

initially estimated fall of 1.9%, following growth of 0.4% in Q4 2014.

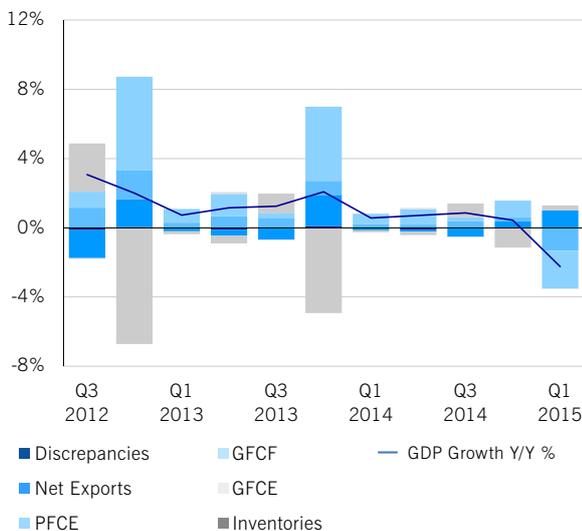
The slowdown was driven by a sharp decline in the wholesale and retail sector with output down 7.6% on the year in Q1 following an expansion of 1.7% in Q4. Similarly, declining appetite for property meant that the real estate sector suffered a 3.3% annual contraction in Q1 after a 1% expansion in Q4. Meanwhile, the manufacturing sector contracted by 0.6% on the year in Q1 following a 0.6% increase in Q4. Furthermore, sharp interest rate increases by the central bank in December combined with Western capital restrictions caused the financial sector to contract by 3.9% on the year compared with a rise of 6.5% in Q4.

On an expenditure basis, the contraction in GDP in Q1 was led by a 2.2% year-on-year drop in gross fixed capital formation as investment outflows from Russia totalled \$33 billion on the quarter. Private consumption was also hit in Q1, suffering a 1.3% year-on-year decline as high interest rates, falling wages and prohibitively high inflation all weighed on demand. Net exports provided some measure of support, growing by 1% year-on-year in Q1 as the weakness in the rouble provided a boost to Russian manufactured goods overseas in spite of the drop in oil prices, the economy’s main export.

Over the course of 2014 as a whole, the Russian economy expanded by 0.6% compared with growth of 1.3% in the previous year. Nevertheless, the economy is expected to contract this year given the difficult headwinds that it faces.

Latest monthly GDP figures from the Economic Development Ministry revealed that the economy shrunk by 4.9% on the year in May after a 4.2% decline in April. The economy ministry estimates that the economy will shrink by 2.5-2.8% in 2015 and that the downturn will be sharpest in the third quarter.

Economic Growth



Source: Rosstat

Output continues to contract

Industrial production declined by a seasonally adjusted 0.1% on the month in June after contracting by 0.6% in the previous month, causing year-on-year growth to fall by 4.8% in June following a decline of 5.5% in May. On a quarterly basis, though, production in Q2 was down 4.9% year-on-year after suffering a 0.4%

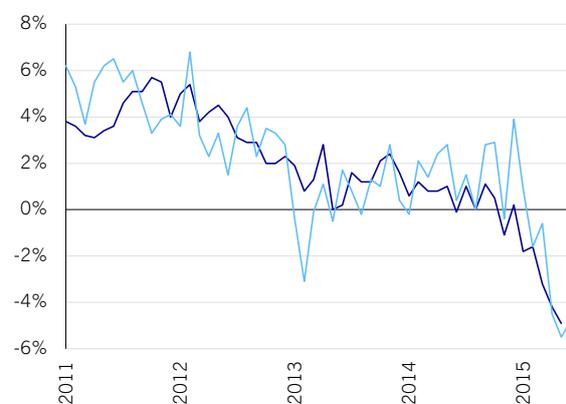
contraction in Q1. With industry accounting for around 40% of Russia's GDP, the deterioration in industrial production is likely to have dragged the economy further into contraction after having previously offered some measure of support for it.

The improvement in June industrial production was driven by manufacturing output, which declined by 6.6% on the year following a decline of 8.3% in May. Only the food and beverage industry expanded in June, growing 3.9% year-on-year after having fallen 1.5% in May, while moderations of more than 15% among both textile producers and manufacturers of goods not elsewhere classified also contributed.

Mining and quarrying output contracted by 0.9% on the year in June, the same magnitude as the previous month. Much of this was driven by a 2.6% expansion in the mining of unclassified materials, although falls in the mining of coal and crude oil of 1.6% and 0.9% respectively meant that the sector as a whole remained in the red.

Utilities output shrunk by 1% on the year in June after declining 1.4% in May. Thermal energy production and distribution was down 1.3% on the year in June after shrinking 3.3% in May. Meanwhile, electricity production contracted by 0.6% on the year in June after suffering a 0.7% decline in the previous month.

Industrial Production and GDP



— GDP: Estimate Y/Y %*

— Industrial Production Y/Y %**

Source: *Ministry of Economic Development, **Rosstat

In the first six months of 2015, industrial production contracted by 2.7% compared with growth of 1.5% in the same period a year ago.

Fourth rate cut in 2015

At its meeting on June 15, the Central Bank of Russia cut the key interest rate by 100 basis points to 11.5% as it sought to further normalise monetary policy. This marks the fourth time the CBR has cut the key interest rate this year, having previously raised it by 650 basis points in December in a desperate effort to support the rouble which was rapidly depreciating. Pressure on the currency has subsided considerably since the December maelstrom and inflation now appears to be easing with CPI having slowed now for two months in a row, vindicating the CBR's quick policy reversal and paving the way for further policy normalisation.

In a press release explaining the rationale behind the rate cut, the CBR cited both lower inflation risks and the contracting Russian economy. Once again, the CBR reiterated that it is open to additional monetary easing in line with its forecast for inflation. The central bank is due to meet next on July 31 when it is likely to cut rates further in an effort to alleviate the downturn in the Russian economy, although recent comments by the central bank suggest that it may be smaller in size than the previous cuts we have seen this year.

Trade surplus deteriorates

Russia's trade surplus has narrowed considerably over the past year as the low price of oil and economic sanctions have caused a continuous decline in exports that has outstripped the simultaneous fall in imports. In May, Russia's trade surplus declined by 14.6% to \$15.3 billion from \$17.9 billion in May 2014.

Exports declined by almost 30% to \$30.9 billion in May from \$44 billion a year earlier. Much of the decline is the result of the slide in the price of oil, Russia's key export commodity, which started falling in July last year. It is likely that exports will continue to post annual declines until base effects begin to kick-in.

Imports, meanwhile, fell by a more pronounced 40.3% to \$15.6 billion in May from \$26.1 billion a year earlier. Since the rouble has weakened considerably over the past year, the cost of imports has risen sharply.

Consequently, imports have reduced as companies have looked increasingly to domestic suppliers.

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. While the rouble lost almost half of its value in 2014, it has recovered considerably against the dollar in the first two quarters of 2015 which could ease the pressure on imports over the coming months and thus cause Russia's trade surplus to narrow even further.

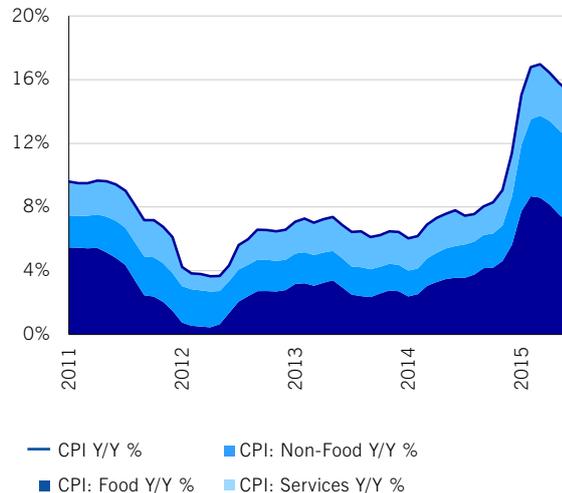
Inflationary pressures subside further

Consumer price inflation slowed for the third consecutive month in June, easing to 15.3% on the year from 15.8% in May, providing further evidence that inflation may have passed its peak. A deceleration in food price inflation, which makes up more than a third of the basket, eased to 18.8% on the year in June following a rise of 20.2% in May. Food inflation continued to be the main driver of the fall in consumer price inflation while a more favourable base effect also helped. Stripping out the prices of food and fuel, which tend to be volatile, core inflation also slowed as the strengthening of the rouble since the start of the year began to filter through to lower prices of imported goods. In June, it eased for the second month in a row to 16.7% on the year from 17.1% in May.

Under the Central Bank of Russia's most recent baseline scenario, weak economic growth is forecast to slow inflation to 8% by 2016 before finally falling to its medium-term target of 4% in 2017. While the current trend in easing inflation is likely to face a hiccup in July due to the hike in utility prices at the start of the month, more favourable base effects combined with an anticipated strengthening in the rouble should help to maintain the downward direction throughout the remainder of the year

Producer price inflation, meanwhile, eased to 13.1% on the year in June having risen 13.4% in the previous month. Prices in the utility sector led the slowdown, falling to 2% year-on-year in June from 4.2% in May. Manufacturing sector prices also fell, albeit slightly, to 13.9% on the year in June from 14.7% in May, while

Consumer Price Inflation



Source: Rosstat

prices in the mining and quarrying sector were up 16.8% from 14.4% in the previous month.

Household finances remain poor

Unemployment surprisingly fell to 5.4% in June from 5.6% in May against expectations of a slight rise. 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.

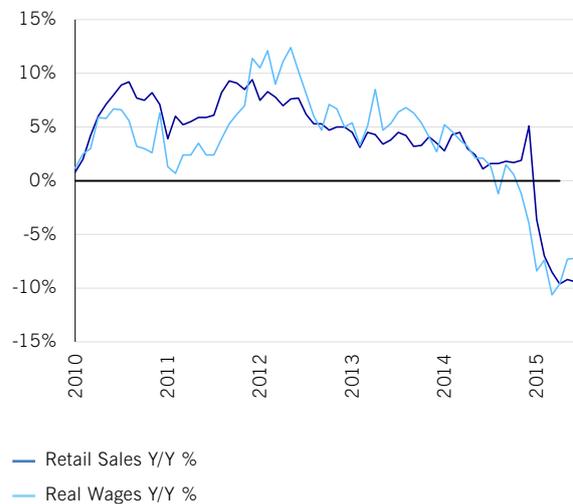
Rising unemployment has reduced the bargaining power of the Russian workforce and many have accepted wage cuts as companies seek to scale back their operations. Real wages fell by 7.2% on the year in June after declining by 7.3% in May. Evidence from our consumer survey shows that Russian households spend a significant proportion of their income on daily expenses; leaving them with very little, if any, to save or invest.

Consumer spending remains anaemic

Retail sales fell by 9.4% in June from a year earlier, following a decline of 9.2% in May. Sales of non-food items declined by 9.1% on the year in June having contracted by a revised 9.6% in May, whereas food sales declined by 9.7% on the year in June after shrinking by a revised 9.6% in the previous month.

Automobile sales declined by 29.7% on the year in June following a fall of 37.7% in May. This came in spite of the government car scrappage and trade-in scheme 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. The sharp decline in car sales may be due to dealerships having raised prices after having previously kept them in check. In June, the price of a domestically manufactured car was 21.5% above one produced a year previously and the price of an imported one was 18.1% higher on the year.

Retail Sales and Real Wages

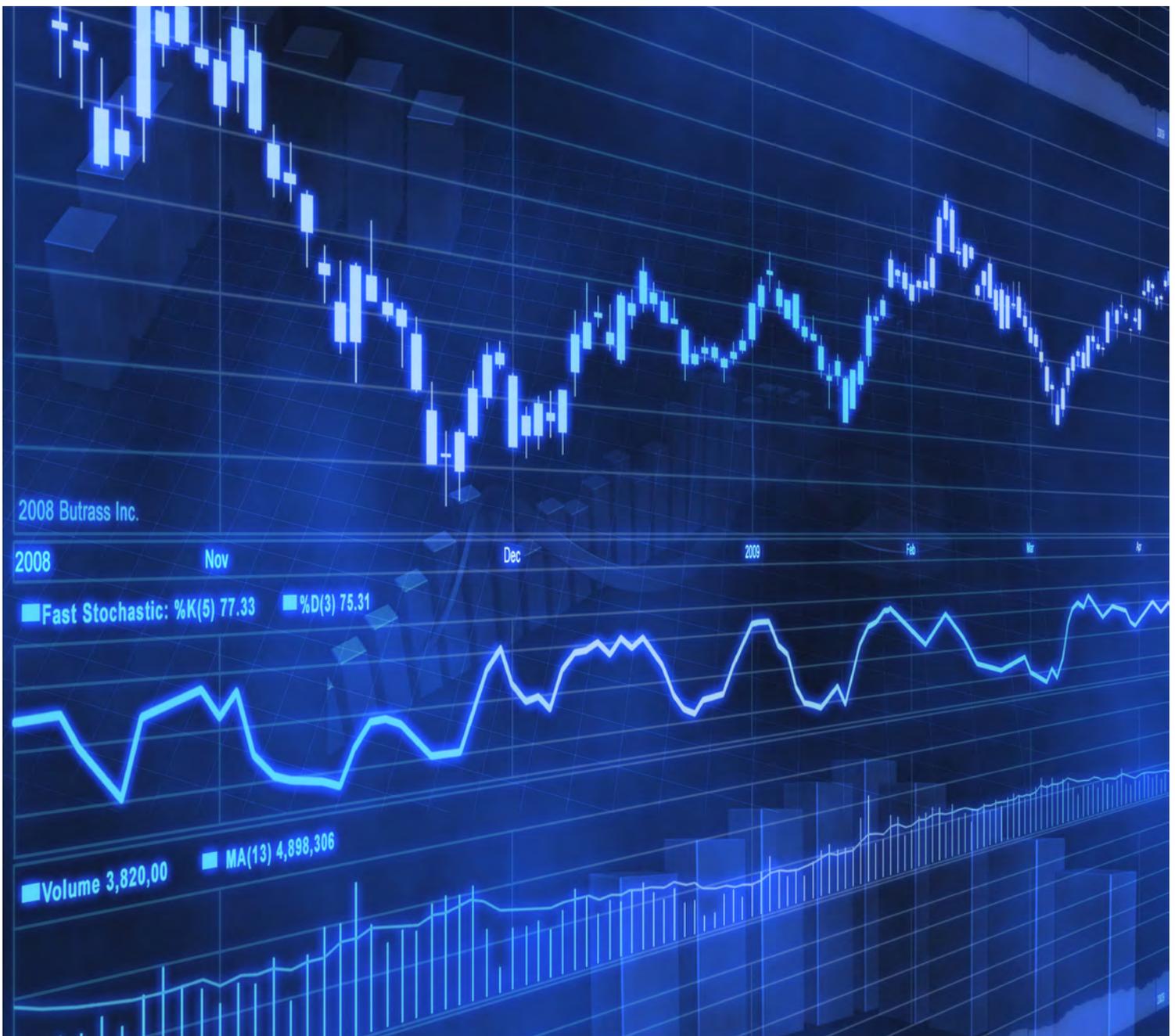


Source: Rosstat

Key Monthly Economic Data

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
GDP Y/Y %*	-1.8	-1.6	-3.2	-4.2	-4.9	-	-
Industrial Production Y/Y %**	0.9	-1.6	-0.6	-4.5	-5.5	-4.8	-
Consumer Price Index Y/Y %**	15.0	16.7	16.9	16.4	15.8	15.3	-
Producer Price Index Y/Y %**	7.1	9.3	13.0	15.0	13.4	13.1	-
Unemployment Y/Y %**	5.5	5.8	5.9	5.8	5.6	5.4	-
Real Wages Y/Y %**	-8.4	-7.4	-10.6	-9.6	-7.4	-7.2	-
Retail Sales Y/Y %**	-3.6	-7.0	-8.5	-9.6	-9.2	-9.4	-
Car Sales Y/Y %***	-24.4	-37.9	-42.5	-41.5	-37.6	-29.7	-
Trade Balance \$ Bn.****	15.3	13.7	15.4	15.0	15.3	-	-
Exports \$ Bn.****	27.8	29.3	32.7	31.5	30.9	-	-
Imports \$ Bn.****	12.5	15.6	17.3	16.4	15.6	-	-
MNI Russia Business Sentiment Indicator	49.2	42.0	48.8	46.0	51.3	51.8	51.3
MNI Russia Consumer Sentiment Indicator	70.6	73.1	69.2	73.0	72.8	76.4	-

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



Indicators

While Russian companies were slightly more downbeat in their perception of the business environment in July, the improvements in several of the ancillary indicators of the survey continue to suggest that the economy might be at a turning point.

MNI Russia Business Indicator

Offsets Last Month's Gain



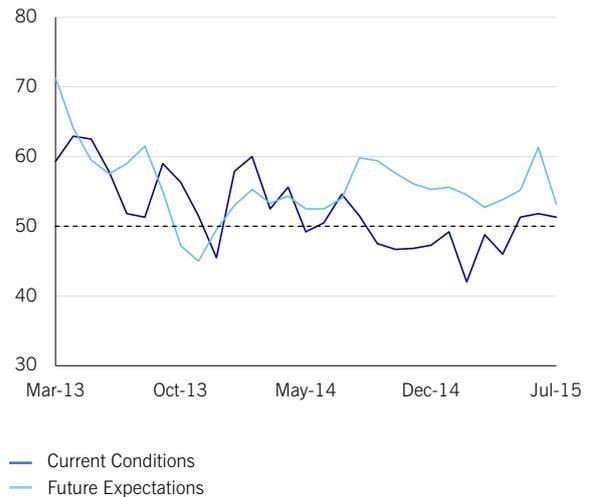
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The MNI Russia Business Sentiment Indicator fell by 1% to 51.3 in July from 51.8 in June, offsetting last month's rise and leaving it at the same level it was in May. Only companies in the service sector were more optimistic about conditions in July, while both construction and manufacturing firms were unchanged in their attitude from the previous month.

Previously, we had suggested that the recent upturn in business confidence following a prolonged period of pessimism provided a tentative indication that the economic downturn in Russia was starting to abate. This view remains intact, with the headline indicator still above 50, although a sharp fall in expectations raises a note of caution.

Inflationary pressures continued to subside in July, with both the costs faced by our panel and the prices they charged unchanged from the previous month in a tentative sign that inflation has peaked. More of our panel managed to secure access to credit in July after the Central Bank of Russia brought down borrowing costs further at its meeting on June 15. Companies also increased their production in July after having previously scaled back, although this coincided with a slight cooling in the number of orders they received which possibly accounted for the surge in stockbuilding as the rise in output outstripped demand. Firms took the weakening of the rouble over the past month as a positive, reporting that the exchange rate had no effect on their operations in July, having hurt them during the previous nine months.

MNI Russia Business Sentiment Indicator



MNI Russia Business Indicator

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Current Conditions	54.6	42.0	48.8	46.0	51.3	51.8	51.3

Companies were far less optimistic in their near-term outlook, with the Future Expectations Indicator falling by 13.2% to 53.2 in July from a 22-month high of 61.3 in June. Much of this is likely to have been driven by the recent extension of EU sanctions against Russia, as we had previously suggested, while the sharp fall in the oil price was also likely to have been a contributor following the announcement that the Iran oil embargo will be lifted.

Five out of the 15 current conditions indicators in the MNI Russia Business Survey rose in July and four saw no change, while 11 of the 15 Future Expectations indicators decreased on the month.

Sectors - Overall Business Conditions

	Manufacturing	Services	Construction
Current Conditions	↔ = 50	↑ > 50	↓ = 50
Future Expectations	↓ > 50	↓ > 50	↓ > 50

MNI Russia Business Indicator

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Future Expectations	54.0	54.5	52.7	53.8	55.2	61.3	53.2

Orders

Faltering Domestic Demand Outweighs Improvement in Exports



While demand from abroad grew, fewer companies reported that their overall number of orders had risen in a sign that domestic demand may have eased slightly in July.

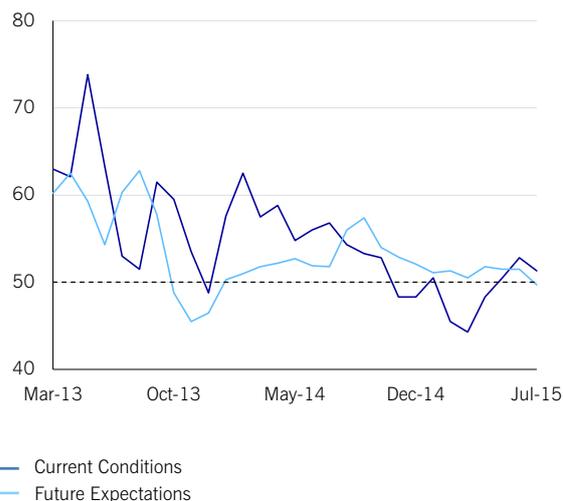
Over the past year, companies have seen their order books shrink as sectoral sanctions imposed by the West created a highly uncertain business environment. More recently, a growing number of firms have reported that their customers are placing additional orders.

While the New Orders Indicator eased to 51.3 in July after rising to an eight-month high of 52.8 in June, it remained above the 50 level indicating that the total number of orders continued to rise. However, companies became pessimistic in their expectations for demand over the coming three months, with the Expectations Indicator for New Orders dipping into contraction to 49.7 in July, having remained unchanged at 51.5 in June.

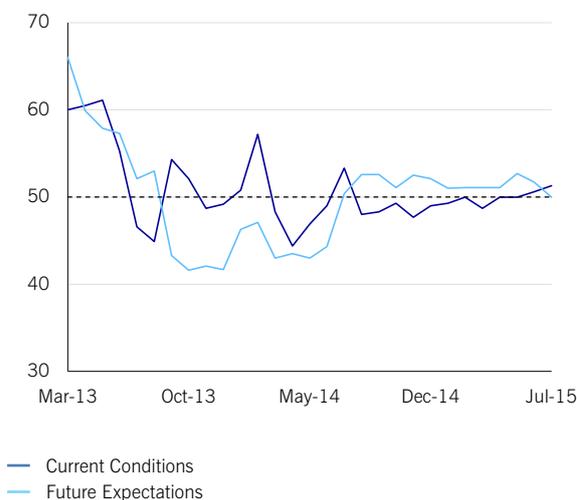
This fall came in spite of growing demand from abroad as the relative weakness of the rouble means that Russian goods and services have become cheaper to foreign companies. This has been countered somewhat by international sanctions, which have prevented trade in certain goods from certain industries, whereas the currency has since staged a remarkable comeback which has eroded a considerable amount of the cost advantage to exporters.

Despite the less favourable conditions, Export Orders rose to 51.3 in July from 50.6 in June suggesting that appetite from overseas buyers is growing. While the indicator remains weak by historical standards, this months' rise placed it at the highest level since the implementation of sanctions in July 2014. Even so, companies revised down their outlook for Export Orders

New Orders



Export Orders



Orders - Current Conditions

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
New Orders	56.8	45.5	44.3	48.3	50.5	52.8	51.3
Export Orders	53.3	50.0	48.7	50.0	50.0	50.6	51.3
Order Backlogs	47.7	49.5	47.8	50.0	49.8	49.8	49.5

Order Backlogs



Sectors - Current Conditions

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

Sectors - Future Expectations

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

over the coming three months following the recent EU extension of sanctions against Russia, with the Expectations Indicator falling to 50.0 in July from 51.7 in June.

Firms continued to report that their Order Backlogs were falling with the indicator standing at 49.5 in July compared with 49.8 in June. While the continued contraction in the indicator suggests that companies possess some degree of spare capacity, growing order books are likely to place upward pressure on backlogs once this slack diminishes. Our panel was marginally less pessimistic in their outlook for unfulfilled orders in the future, with the Expectations Indicator rising to 48.8 in July, having stood at 48.3 for three consecutive months.

Orders - Future Expectations

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
New Orders	51.8	51.3	50.5	51.8	51.5	51.5	49.7
Export Orders	50.4	51.1	51.1	51.1	52.7	51.7	50.0
Order Backlogs	45.4	47.5	48.0	48.3	48.3	48.3	48.8

Output and Employment

Production Expands in July



Companies increased their output in July in spite of a slight fall in demand, although thought that they had slightly too many employees for their current requirements.

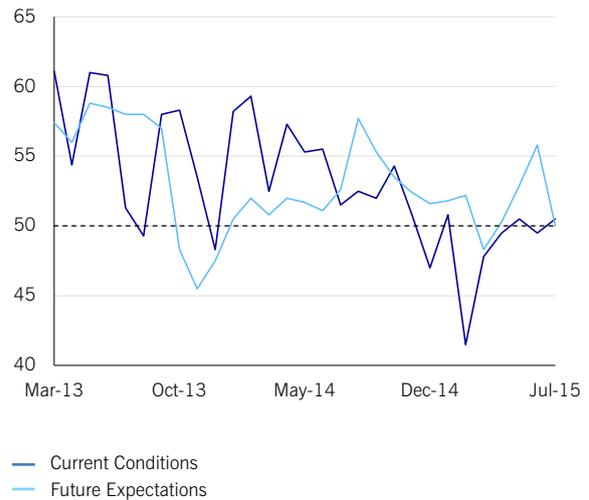
The Production Indicator rose by 2% to 50.5 in July, offsetting last month's fall to 49.5 in June. Much of this month's rise was driven by companies in the service sector who expanded their output in July, having scaled it back in the previous three months, while both construction and manufacturing firms reported that their production levels were the same as they were in June.

Even so, companies anticipated that they would keep output stable over the coming months amid expectations that orders would fall over the next three months. Expectations for Production fell to the 50 benchmark level in July from 55.8 in June, the lowest since March 2014. All three sectors had higher expectations for production in June, with those in the construction sector having the most optimistic plans for output.

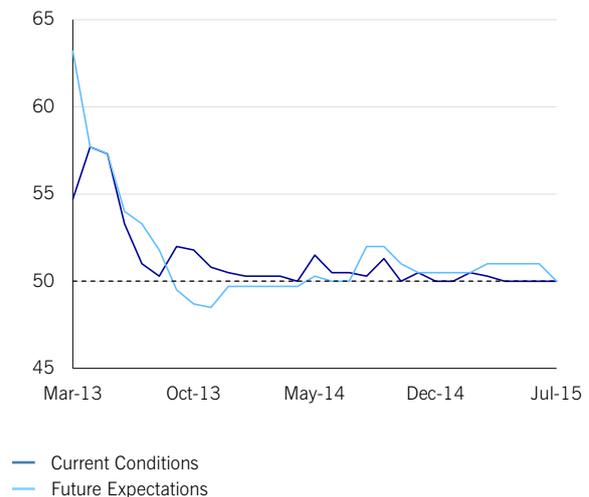
Our Production Indicator has a close correlation with official data on industrial production which declined by a seasonally adjusted 0.1% on the month in June after contracting by 0.6% in the previous month. While our indicator may have risen in June, it remains low both in absolute and historical terms, suggesting that output is still subdued and will probably take some time to recover.

Companies continued to find the size of their workforce to be slightly surplus to their requirements in July, with the Employment Indicator remaining unchanged at 50.3. However, companies anticipated they would have too few employees in three months' time, with the Expectations Indicator falling to 49.8 in July from 50.0 in June.

Production



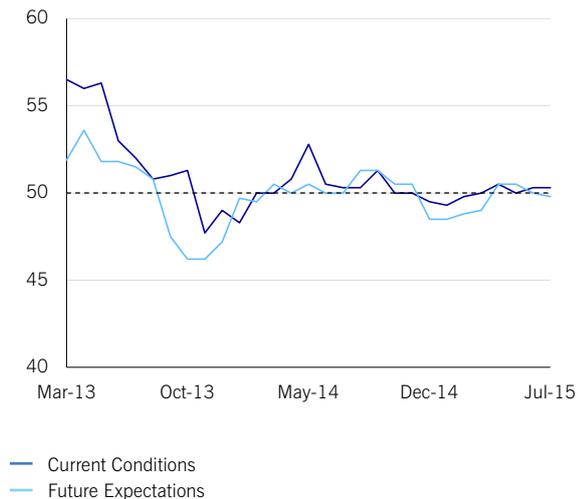
Productive Capacity



Output and Employment - Current Conditions

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Production	51.5	41.5	47.8	49.5	50.5	49.5	50.5
Productive Capacity	50.5	50.5	50.3	50.0	50.0	50.0	50.0
Employment	50.3	49.8	50.0	50.5	50.0	50.3	50.3

Employment



Sectors - Current Conditions

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

Sectors - Future Expectations

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

Firms reported that their Productive Capacity was unchanged for the fourth month in a row, with the indicator standing at 50.0 in July. Moreover, companies anticipated that they would neither expand nor reduce their capacity in the future, with the Expectations Indicator falling to 50.0 in July after having stood at 51.0 for four consecutive months.

Output and Employment - Future Expectations

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Production	52.6	52.2	48.3	50.3	52.9	55.8	50.0
Productive Capacity	50.0	50.5	51.0	51.0	51.0	51.0	50.0
Employment	50.0	48.8	49.0	50.5	50.5	50.0	49.8

Prices

Lowest Input Costs on Record



For only the second time since the survey began, both the costs faced by our panel and the prices they charged were unchanged from the previous month in a tentative sign that inflation has peaked.

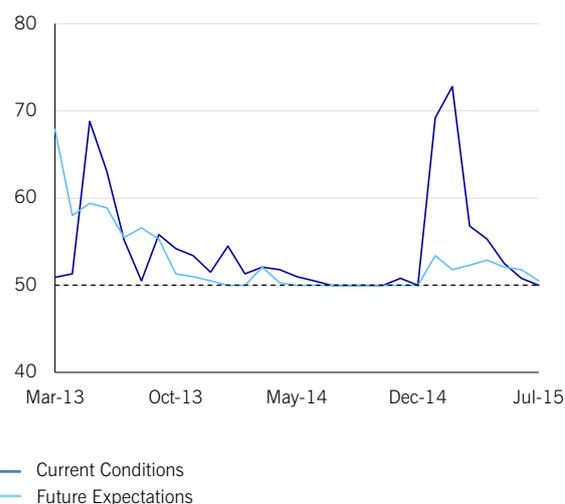
Companies reported that input prices were the same as they were last month, as reflected by the fall in the Input Prices Indicator to a series low of 50.0 in July from 50.8 in June. Easing inflation pressures meant that fewer of our panel anticipated that their costs would rise over the coming months, with the Expectations Indicator declining to 50.5 in July from 51.8 in June.

Official figures showed that producer price inflation slowed for the second consecutive month in June to 13.1% on the year from 13.4% in May. Prices in the utility sector led the slowdown, falling to 2% year-on-year in June from 4.2% in May. Manufacturing sector price inflation also fell, albeit slightly, to 13.9% on the year in June from 14.7% in May although nevertheless important as it makes up more than two-thirds of the index. Conversely, prices in the mining and quarrying sector were up 16.8% from 14.4% in the previous month.

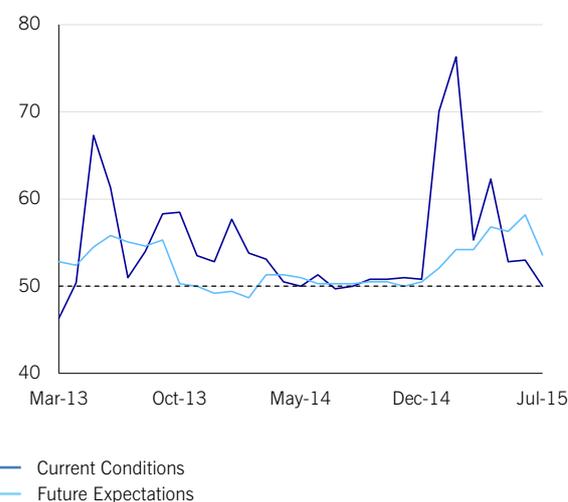
Stable input costs meant that firms were able to keep their own prices in check, with the Prices Received Indicator similarly falling to the breakeven level of 50.0 in July from 53.0 in June. Companies also revised down their projections for what prices they would charge for their goods and services over the coming three months, with the Expectations Indicator declining to 53.6 in July from an all-time high of 58.2 in June.

Following a turbulent few months towards the end of 2014, our panel has welcomed the subsequent appreciation of the rouble with companies reporting that

Input Prices



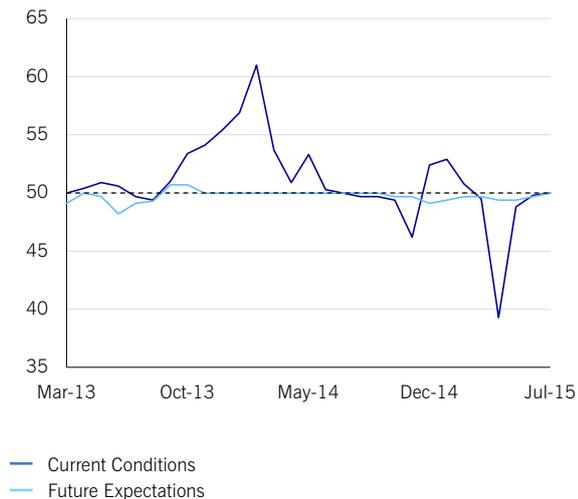
Prices Received



Prices - Current Conditions

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Input Prices	50.0	72.8	56.8	55.3	52.5	50.8	50.0
Prices Received	49.7	76.3	55.3	62.3	52.8	53.0	50.0
Exchange Rate	50.0	50.8	49.5	39.3	48.8	49.8	50.0

Effect of Rouble Exchange Rate



the exchange rate was no longer hurting their overall business operations. The Effect of the Rouble Exchange Rate Indicator rose slightly to 50.0 in July from 49.8 in June. A value above 50 shows that more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting.

Although downside risks remain to the rouble given the volatility in the price of oil, with the currency having recently experienced a correction following the announcement that the Iran oil embargo will be lifted, companies did not expect that the exchange rate would have any impact on their operations. The Expectations Indicator rose to 50.0 in July from 49.7 in June, matching the outturn of the same month in the previous year.

Sectors - Current Conditions

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

Sectors - Future Expectations

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

Prices - Future Expectations

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Input Prices	50.0	51.8	52.3	52.9	52.1	51.8	50.5
Prices Received	50.3	54.2	54.2	56.8	56.3	58.2	53.6
Exchange Rate	50.0	49.7	49.7	49.4	49.4	49.7	50.0

Money and Credit

Credit Availability Highest Since July 2014



Despite the fact that capital restrictions remain in place, more Russian companies reported increased access to credit in July but continued to experience only moderate improvements in their balance sheets.

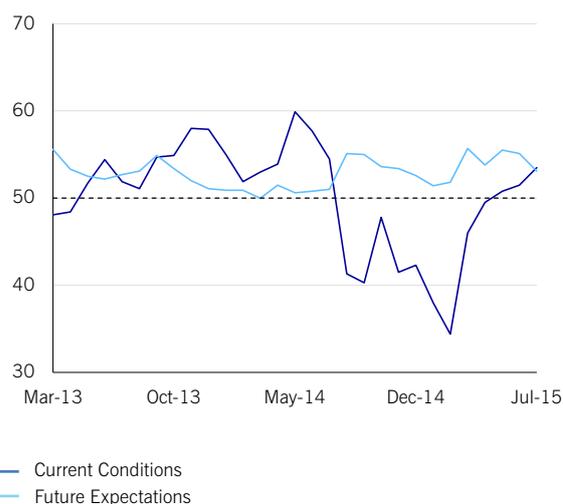
Firms in Russia have found it difficult to secure lending since the annexation of Crimea, particularly so following the subsequent imposition of capital restrictions by Western nations at the end of July 2014. As a consequence, credit availability to firms has been severely dented with two of the three major ratings agencies considering Russian government debt to be below investment-grade.

While this initially had a detrimental impact on our panels' access to credit, in recent months an increasing number of firms have reported that they have found new streams of lending. This trend continued in July with the Availability of Credit Indicator rising to 53.5 from 51.5, the highest since capital restrictions were first imposed one year ago. While the rate cuts by the Central Bank of Russia are one factor behind the improvement, reports have suggested that firms have been looking east toward China to fulfil their financing requirements following high-level meetings between Russian President Vladimir Putin and his Chinese counterpart Xi Jinping.

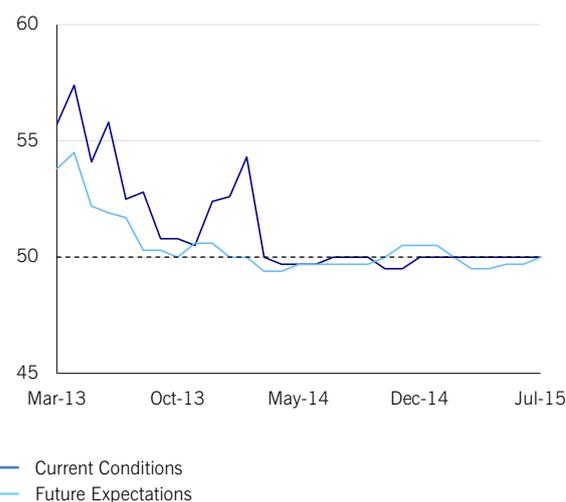
While both manufacturing and service sector companies reported an improvement in credit availability in July, those in the service sector experienced the same lending conditions as they did in the previous month.

Throughout 2014, the CBR raised the benchmark interest rate by a total of 1150 basis points in an effort to stem a significant depreciation in the rouble. With the financial situation in Russia having stabilised somewhat, the CBR has reduced the key interest rate by 550 basis

Availability of Credit



Interest Rates Paid



Money and Credit - Current Conditions

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Availability of Credit	54.5	34.4	46.0	49.5	50.8	51.5	53.5
Interest Rates Paid	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Financial Position	54.3	48.5	49.3	52.8	50.5	50.5	50.5

Financial Position



points to 11.5% at its first four meetings of 2015 but has suggested that it may slow down the pace of easing at its fifth meeting of the year on July 31 should any risks to the current deflationary trend arise.

Even so, the Interest Rates Paid Indicator remained at 50.0 in July for the eighth consecutive month as nearly our entire panel reported that they faced the same financing costs as they did in June. It is surprising that the indicator has not been more responsive to the frequent, sizeable movements in the benchmark interest rate but there is a possibility that it will fall over the coming months as the CBR is expected to normalise monetary policy by cutting the key interest rate.

There was no change in the proportion of companies who reported that their financial health had improved, with the Financial Position Indicator standing at 50.5 in

Sectors - Current Conditions

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

Sectors - Future Expectations

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

July for the third month in a row. Our panel was, however, less optimistic in their outlook for their financial position over the following three months as reflected by the fall in the Expectations Indicator to 55.3 in July from a 20-month high of 58.9 in June.

Money and Credit - Future Expectations

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Availability of Credit	51.0	51.8	55.7	53.8	55.5	55.1	53.1
Interest Rates Paid	49.7	50.0	49.5	49.5	49.7	49.7	50.0
Financial Position	53.9	57.6	52.5	54.7	55.6	58.9	55.3

Logistics

Surge in Stockbuilding



After having destocked for the first time in eight months in June, there was a surge in the proportion of companies reporting that their inventories had risen in July.

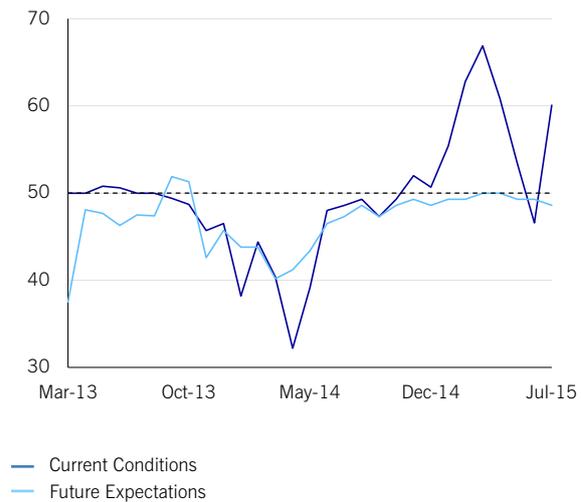
Having been reluctant to scale back output in spite of faltering demand over the past two quarters, companies had become burdened with a glut of inventories. Although with orders picking up last month, firms seemingly used the opportunity to normalise their stock levels in June by fulfilling new orders with their current stock rather than by increasing production.

Even so, in July there was a surge in stockbuilding with the Inventories Indicator rising by 29% to 60.1 from 46.6 in June. Construction companies started building their inventories again in July after having destocked at the quickest pace on record in the previous month, while firms in the manufacturing sector also reported that their inventories had risen after previously keeping them unchanged.

Our panel, however, anticipated that this departure from the recent trend would be short-lived, with the Expectations Indicator for future stock levels falling to a 10-month low of 48.6 in July from 49.3 in June. Given that companies expected their stock levels to fall, rather than rise in both of the previous two months suggests that this month's build-up was unplanned and possibly a one-off, particularly as there appears to be no fundamentals driving it, although it will be necessary to observe the indicator over the coming months before determining whether this is indeed true.

The Supplier Delivery Times Indicator measures sentiment about the speed of supplier deliveries compared with the previous month. A reading above 50 indicates that a higher proportion of companies reported

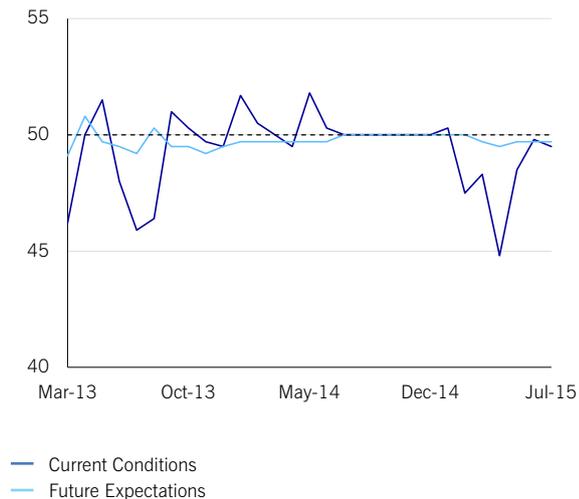
Inventories



Logistics - Current Conditions

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Inventories	48.6	62.8	66.9	60.8	53.4	46.6	60.1
Supplier Deliveries	50.0	47.5	48.3	44.8	48.5	49.8	49.5

Supplier Delivery Times



that supplier deliveries were longer compared with a month ago while a reading below 50 indicates a higher proportion of companies reported that supplier delivery times were shorter compared with a month ago.

The time taken to deliver supplies to companies shortened for the sixth consecutive month in July, with the Supplier Delivery Times Indicator remaining more-or-less unchanged at 49.5 in July compared with 49.8 in June. Companies continued to anticipate that their suppliers would be able to cut their delivery times over the coming months, with the Expectations Indicator remaining unchanged at 49.7 in July for the third month in a row.

Sectors - Current Conditions

	Inventories of Finished Goods	Supplier Delivery Times
Manufacturing	↑ > 50	↓ < 50
Construction	↑ > 50	↔ = 50

Sectors - Future Expectations

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

Logistics - Future Expectations

	Jul-14	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Inventories	47.3	49.3	50.0	50.0	49.3	49.3	48.6
Supplier Deliveries	50.0	50.0	49.7	49.5	49.7	49.7	49.7



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Historical Summary

	2014						2015						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
MNI Russia Business Indicator													
Current Conditions	54.6	51.5	47.5	46.7	46.8	47.3	49.2	42.0	48.8	46.0	51.3	51.8	51.3
Future Expectations	54.0	59.8	59.4	57.6	56.1	55.3	55.6	54.5	52.7	53.8	55.2	61.3	53.2
Production													
Current Conditions	51.5	52.5	52.0	54.3	50.8	47.0	50.8	41.5	47.8	49.5	50.5	49.5	50.5
Future Expectations	52.6	57.7	55.3	53.5	52.4	51.6	51.8	52.2	48.3	50.3	52.9	55.8	50.0
New Orders													
Current Conditions	56.8	54.3	53.3	52.8	48.3	48.3	50.5	45.5	44.3	48.3	50.5	52.8	51.3
Future Expectations	51.8	56.0	57.4	54.0	52.9	52.1	51.1	51.3	50.5	51.8	51.5	51.5	49.7
Export Orders													
Current Conditions	53.3	48.0	48.3	49.3	47.7	49.0	49.3	50.0	48.7	50.0	50.0	50.6	51.3
Future Expectations	50.4	52.6	52.6	51.1	52.5	52.1	51.0	51.1	51.1	51.1	52.7	51.7	50.0
Productive Capacity													
Current Conditions	50.5	50.3	51.3	50.0	50.5	50.0	50.0	50.5	50.3	50.0	50.0	50.0	50.0
Future Expectations	50.0	52.0	52.0	51.0	50.5	50.5	50.5	50.5	51.0	51.0	51.0	51.0	50.0
Order Backlogs													
Current Conditions	47.7	48.2	48.5	49.0	49.0	49.3	46.5	49.5	47.8	50.0	49.8	49.8	49.5
Future Expectations	45.4	45.9	46.2	47.0	47.5	47.0	47.2	47.5	48.0	48.3	48.3	48.3	48.8
Employment													
Current Conditions	50.3	50.3	51.3	50.0	50.0	49.5	49.3	49.8	50.0	50.5	50.0	50.3	50.3
Future Expectations	50.0	51.3	51.3	50.5	50.5	48.5	48.5	48.8	49.0	50.5	50.5	50.0	49.8
Inventories													
Current Conditions	48.6	49.3	47.3	49.3	52.0	50.7	55.4	62.8	66.9	60.8	53.4	46.6	60.1
Future Expectations	47.3	48.6	47.3	48.6	49.3	48.6	49.3	49.3	50.0	50.0	49.3	49.3	48.6
Input Prices													
Current Conditions	50.0	50.0	50.0	50.0	50.8	50.0	69.2	72.8	56.8	55.3	52.5	50.8	50.0
Future Expectations	50.0	50.0	50.0	50.0	50.0	50.0	53.4	51.8	52.3	52.9	52.1	51.8	50.5
Prices Received													
Current Conditions	49.7	50.0	50.8	50.8	51.0	50.8	70.1	76.3	55.3	62.3	52.8	53.0	50.0
Future Expectations	50.3	50.3	50.5	50.5	50.0	50.5	52.1	54.2	54.2	56.8	56.3	58.2	53.6
Financial Position													
Current Conditions	54.3	51.0	53.3	52.5	51.3	50.5	50.0	48.5	49.3	52.8	50.5	50.5	50.5
Future Expectations	53.9	56.8	57.8	58.1	58.4	57.6	57.1	57.6	52.5	54.7	55.6	58.9	55.3
Interest Rates Paid													
Current Conditions	50.0	50.0	50.0	49.5	49.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	49.7	49.7	49.7	50.0	50.5	50.5	50.5	50.0	49.5	49.5	49.7	49.7	50.0
Effect of Rouble Exchange Rate													
Current Conditions	50.0	49.7	49.7	49.4	46.2	52.4	52.9	50.8	49.5	39.3	48.8	49.8	50.0
Future Expectations	50.0	50.0	50.0	49.7	49.7	49.1	49.4	49.7	49.7	49.4	49.4	49.7	50.0
Supplier Delivery Times													
Current Conditions	50.0	50.0	50.0	50.0	50.0	50.0	50.3	47.5	48.3	44.8	48.5	49.8	49.5
Future Expectations	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.7	49.5	49.7	49.7	49.7
Availability of Credit													
Current Conditions	54.5	41.3	40.3	47.8	41.5	42.3	38.0	34.4	46.0	49.5	50.8	51.5	53.5
Future Expectations	51.0	55.1	55.0	53.6	53.4	52.6	51.4	51.8	55.7	53.8	55.5	55.1	53.1

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	42.0	62.9	52.4	51.5
Future Expectations	45.0	71.3	55.8	55.2
Production				
Current Conditions	41.5	61.1	53.2	52.5
Future Expectations	45.5	58.8	53.0	52.2
New Orders				
Current Conditions	44.3	73.8	55.0	53.5
Future Expectations	45.5	62.8	53.4	51.9
Export Orders				
Current Conditions	44.4	61.1	50.9	49.3
Future Expectations	41.6	66.0	50.1	51.1
Productive Capacity				
Current Conditions	50.0	57.7	51.2	50.5
Future Expectations	48.5	63.2	51.5	50.5
Order Backlogs				
Current Conditions	39.5	52.0	47.5	48.2
Future Expectations	37.7	50.0	45.6	46.2
Employment				
Current Conditions	47.7	56.5	51.0	50.3
Future Expectations	46.2	53.6	49.9	50.0
Inventories				
Current Conditions	32.2	66.9	49.6	49.4
Future Expectations	37.5	51.9	46.9	47.7
Input Prices				
Current Conditions	50.0	72.8	54.3	51.5
Future Expectations	50.0	67.9	52.8	51.3
Prices Received				
Current Conditions	46.3	76.3	54.9	52.8
Future Expectations	48.7	58.2	52.4	51.3
Financial Position				
Current Conditions	48.5	68.0	56.0	54.3
Future Expectations	52.5	68.5	57.5	57.1
Interest Rates Paid				
Current Conditions	49.5	57.4	51.3	50.0
Future Expectations	49.4	54.5	50.5	50.0
Effect of Rouble Exchange Rate				
Current Conditions	39.3	61.0	51.0	50.4
Future Expectations	48.2	50.7	49.7	50.0
Supplier Delivery Times				
Current Conditions	44.8	51.8	49.3	50.0
Future Expectations	49.1	50.8	49.8	49.7
Availability of Credit				
Current Conditions	34.4	59.9	50.1	51.7
Future Expectations	50.0	55.7	52.8	52.7

Historical Records - Quarterly

	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Quarterly Change	Quarterly % Change
MNI Russia Business Indicator							
Current Conditions	51.8	51.2	46.9	46.7	49.7	3.0	6.4%
Future Expectations	53.1	57.7	56.3	54.3	56.8	2.5	4.6%
Production							
Current Conditions	56.0	52.0	50.7	46.7	49.8	3.1	6.6%
Future Expectations	51.6	55.2	52.5	50.8	53.0	2.2	4.3%
New Orders							
Current Conditions	56.5	54.8	49.8	46.8	50.5	3.7	7.9%
Future Expectations	52.3	55.1	53.0	51.0	51.6	0.6	1.2%
Export Orders							
Current Conditions	46.8	49.9	48.7	49.3	50.2	0.9	1.8%
Future Expectations	43.6	51.9	51.9	51.1	51.8	0.7	1.4%
Productive Capacity							
Current Conditions	50.7	50.7	50.2	50.3	50.0	-0.3	-0.6%
Future Expectations	50.0	51.3	50.7	50.7	51.0	0.3	0.6%
Order Backlogs							
Current Conditions	42.4	48.1	49.1	47.9	49.9	2.0	4.2%
Future Expectations	43.4	45.8	47.2	47.6	48.3	0.7	1.5%
Employment							
Current Conditions	51.4	50.6	49.8	49.7	50.3	0.6	1.2%
Future Expectations	50.2	50.9	49.8	48.8	50.3	1.5	3.1%
Inventories							
Current Conditions	39.8	48.4	50.7	61.7	53.6	-8.1	-13.1%
Future Expectations	43.7	47.7	48.8	49.5	49.5	0.0	0.0%
Input Prices							
Current Conditions	51.1	50.0	50.3	66.3	52.9	-13.4	-20.2%
Future Expectations	50.1	50.0	50.0	52.5	52.3	-0.2	-0.4%
Prices Received							
Current Conditions	50.6	50.2	50.9	67.2	56.0	-11.2	-16.7%
Future Expectations	50.9	50.4	50.3	53.5	57.1	3.6	6.7%
Financial Position							
Current Conditions	56.8	52.9	51.4	49.3	51.3	2.0	4.1%
Future Expectations	53.6	56.2	58.0	55.7	56.4	0.7	1.3%
Interest Rates Paid							
Current Conditions	49.7	50.0	49.7	50.0	50.0	0.0	0.0%
Future Expectations	49.6	49.7	50.3	50.0	49.6	-0.4	-0.8%
Effect of Rouble Exchange Rate							
Current Conditions	51.5	49.8	49.3	51.1	46.0	-5.1	-10.0%
Future Expectations	50.0	50.0	49.5	49.6	49.5	-0.1	-0.2%
Supplier Delivery Times							
Current Conditions	50.5	50.0	50.0	48.7	47.7	-1.0	-2.1%
Future Expectations	49.7	50.0	50.0	49.9	49.6	-0.3	-0.6%
Availability of Credit							
Current Conditions	57.2	45.4	43.9	39.5	50.6	11.1	28.1%
Future Expectations	51.0	53.7	53.2	53.0	54.8	1.8	3.4%

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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.

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