

MNI Russia Business Report October 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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Executive Summary

Executives on our panel of large Russian companies reported that business conditions had taken a turn for the worse in October as inflationary pressures flared up following the recent rouble depreciation.

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Seven of the 15 current conditions indicators in the MNI Russia Business Survey declined in October and three saw no change, while six of the 15 Future Expectations indicators improved on the month.

Breaking down the data by industry, companies in the services sector led the slowdown in sentiment this month as their assessment of the current business environment fell back into contraction. Manufacturing firms also struck a downbeat note after having been the most optimistic in eight months in September. Construction firms were a little less downbeat than they were in the previous month, although remained the most dissatisfied of all three sectors.

Of those surveyed, just 3.5% of companies reported that conditions had improved from the previous month, down from 15.5% in September while 89.5% reported that the business environment had not changed, up from 75% who did so previously.

Firms were far less positive in their assessment of the rouble exchange rate as the depreciation of the currency pushed up their costs, leaving them with little option but to raise the prices of their own goods and services.

While the rouble weakness did help to lift exports a little this month, the overall number of orders received by our panel dipped back into contraction in a sign that domestic demand remains subdued.

Companies found that loans were harder to come by in October, despite managing to keep their financial position in the black. The Availability of Credit Indicator fell back into contraction to 49.0 after last month's bounce back to 56.8 placed it at the highest level since June 2014; just one month prior to the imposition of capital restrictions.

Still, our panel were more upbeat about the next three months as the busy Russian holiday period approaches, with firms preparing for it by accumulating inventories and clearing backlogs. The Future Expectations Indicator rose 4.1% to 56.5 in October from 54.3 in September.

Overview

	Aug-15	Sep-15	Oct-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
MNI Russia Business Indicator								
Current Conditions	52.3	53.0	48.3	-	Apr-15	51.2	-4.7	-8.9%
Future Expectations	49.7	54.3	56.5	Jun-15	-	53.5	2.2	4.1%
Production								
Current Conditions	51.8	50.3	53.0	Oct-14	-	51.7	2.7	5.4%
Future Expectations	48.5	48.2	49.2	Jul-15	-	48.6	1.0	2.1%
New Orders								
Current Conditions	49.5	50.5	49.8	-	Aug-15	49.9	-0.7	-1.4%
Future Expectations	49.5	49.2	49.0	-	Dec-13	49.2	-0.2	-0.4%
Export Orders								
Current Conditions	50.6	50.0	50.3	Aug-15	-	50.3	0.3	0.6%
Future Expectations	50.0	50.7	50.7	Sep-15	-	50.5	0.0	0.0%
Productive Capacity								
Current Conditions	50.0	50.0	50.0	Sep-15	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Sep-15	-	50.0	0.0	0.0%
Order Backlogs								
Current Conditions	49.5	50.3	49.8	-	Aug-15	49.9	-0.5	-1.0%
Future Expectations	49.0	49.0	49.5	Jul-13	-	49.2	0.5	1.0%
Employment								
Current Conditions	49.8	50.3	50.0	-	Aug-15	50.0	-0.3	-0.6%
Future Expectations	50.5	49.0	49.2	Aug-15	-	49.6	0.2	0.4%
Inventories								
Current Conditions	46.6	47.3	51.4	Jul-15	-	48.4	4.1	8.7%
Future Expectations	48.6	47.9	50.7	Oct-13	-	49.1	2.8	5.8%
Input Prices								
Current Conditions	50.3	51.3	52.8	Apr-15	-	51.5	1.5	2.9%
Future Expectations	52.0	54.3	53.0	-	Aug-15	53.1	-1.3	-2.4%
Prices Received								
Current Conditions	51.8	52.3	53.5	Apr-15	-	52.5	1.2	2.3%
Future Expectations	57.7	59.4	57.6	-	Jul-15	58.2	-1.8	-3.0%
Financial Position								
Current Conditions	52.3	51.8	51.3	-	Jul-15	51.8	-0.5	-1.0%
Future Expectations	60.4	59.1	57.5	-	Jul-15	59.0	-1.6	-2.7%
Interest Rates Paid								
Current Conditions	50.0	50.0	50.0	Sep-15	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Sep-15	-	50.0	0.0	0.0%
Effect of Rouble Exchange Rate								
Current Conditions	59.1	62.4	51.5	-	Jul-15	57.7	-10.9	-17.5%
Future Expectations	52.3	54.8	59.9	series high	-	55.7	5.1	9.3%
Supplier Delivery Times								
Current Conditions	49.8	50.0	50.0	Sep-15	-	49.9	0.0	0.0%
Future Expectations	49.7	50.0	50.0	Sep-15	-	49.9	0.0	0.0%
Availability of Credit								
Current Conditions	48.2	56.8	49.0	-	Aug-15	51.3	-7.8	-13.7%
Future Expectations	48.9	49.4	49.1	-	Aug-15	49.1	-0.3	-0.6%

The MNI Russia Business Sentiment Indicator fell 8.9% to 48.3 in October...

...from 53.0 in September, the lowest since April.



Economic Landscape

In a similar vein to our own surveys, official data suggested that business activity had stabilised in September as consumers continued to face a torrid time, reinforcing the view that households are shouldering the majority of the slowdown in Russia.

In a similar vein to our own surveys, official data suggested that business activity had stabilised in September as consumers continued to face a torrid time, reinforcing the view that households are shouldering the majority of the slowdown in Russia. Industrial production was lifted a little after the manufacture of tradeable was encouraged by the weakness of the rouble, though continued to be held back by consumer-oriented products. Also, the Economy Ministry's GDP estimate for September indicated that the Russian economy contracted to a lesser extent on the year and actually grew on the month in seasonally-adjusted terms. There was a tentative sign that inflation is once again on the back foot following the flare up in recent months, with both consumer and producer prices receding on the month. Even so, real wages fell further given the anaemic job market, weighing down on both retail sales and car purchases, with the former declining at the sharpest pace since 1999.

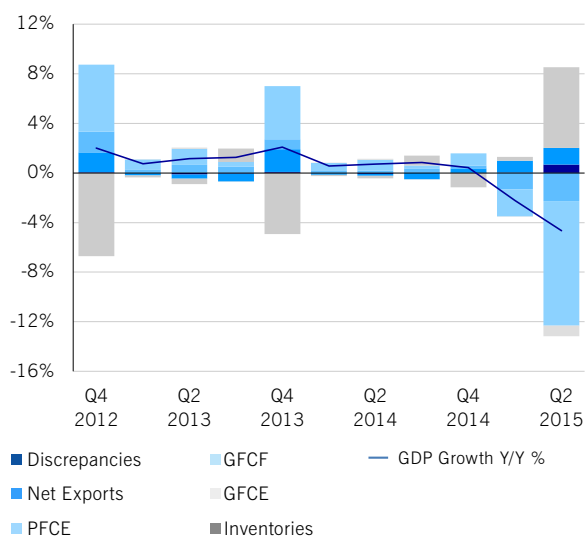
Russia's recession deepens

Data released by the Federal Statistics Service (Rosstat) showed that GDP declined 6% on the year in the second quarter of 2015 following a contraction of 2.2% in the first quarter.

A sharp decline in the wholesale and retail sector led the slowdown in Q2, with output down 9.9% year-on-year following a contraction of 7.6% in Q1. The decline in the manufacturing sector accelerated to 4.8% on the year having shrunk just 0.6% in Q1, in stark contrast to the latter half of 2014 when it provided some measure of support for the economy. Western capital restrictions continued to weigh down on the financial sector, with output falling 5.2% year-on-year following a decline of 3.9% in Q1. One of just a handful of areas to see growth was the agricultural sector, which expanded 2.1% on the year in Q2 as the food ban gave a helping hand to domestic farmers, although this was down from growth of 2.9% in Q1.

On an expenditure basis, a 10% year-on-year drop in gross fixed capital formation led the contraction in Q2 as investment outflows totalled \$20 billion on the quarter, down on the \$30 billion that left Russia's shores in Q1. Private consumption was also hit in Q2, suffering a 2.3% year-on-year decline as high inflation, falling wages and the prohibitive cost of credit all weighed on

Economic Growth



Source: Rosstat

households' purchasing power. Net exports provided some measure of support, growing by 1.3% year-on-year in Q2 as the relative weakness of the rouble provided a boost to Russian manufactured goods overseas in spite of oil prices remaining low, the economy's main export.

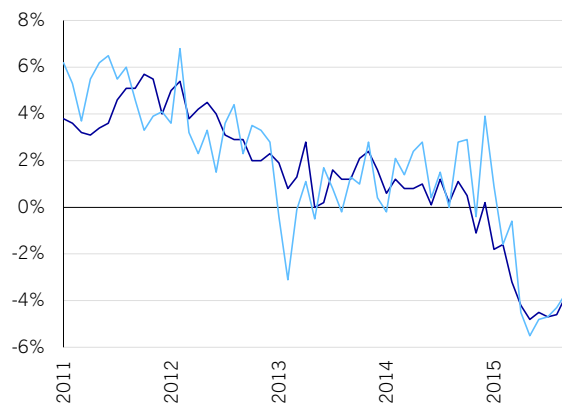
Latest monthly figures from the Economic Development Ministry suggest that GDP fell 3.8% on the year in September following a 4.6% decline in August. Given the slump in oil prices over the past few months, the economy ministry forecasts that GDP will shrink 3.3% in 2015 but believes that the downturn had bottomed out.

Weak rouble helps to lift output

Industrial production expanded by a seasonally adjusted 0.6% on the month in September after contracting by 0.3% in September, while year-on-year growth increased slightly to -3.7% from -4.3% in the previous month.

Once again, there was evidence that the depreciation in the rouble over recent months provided some support to the industrial sector by helping to drive up export volumes which are being weighed down by international sanctions. Looking at the product breakdown, there were improvements in tradeables (such as raw materials) which suggests overseas firms are switching to Russian suppliers in order to take advantage of the more

Industrial Production and GDP



— GDP: Estimate Y/Y %*

— Industrial Production Y/Y %**

Source: *Ministry of Economic Development, **Rosstat

favourable exchange rate. Even so, consumer-oriented goods (such as cars, clothing and durables) continued to drag down industrial production after Russian households reined in their spending in recent months.

Manufacturing output was down 5.4% on the year following a 6.8% fall in the previous month. Chemicals production was the star performer with growth of 9.3%, though this was countered by the decline in 11 of the 14 remaining manufacturing industries. Mining and quarrying output was 0.8% above the same month a year earlier, matching the August improvement. Only extraction of crude oil and natural gas was down, shrinking by 0.4% in annual terms, while mining of unclassified materials exhibited the greatest improvement of 9.7% in September. Year-on-year growth in utilities output fell 2.6% in September following a decline of 0.7% in the previous month. Thermal energy production and distribution contracted 1.6% on the year in September following growth of 1.1% in August, whereas electricity production suffered a 1.6% decline after contracting just 0.1% in the previous month.

CBR puts normalisation on pause

Citing increased inflation risks posed by the rouble depreciation, the Central Bank of Russia chose to maintain the key interest rate at 11% at its meeting on September 11. This brought to an end five consecutive cuts which have brought the key rate down by a total of

600 basis points. Even so, the benchmark rate is still above the 10.5% it was in December last year, before it was hiked to 17% in a desperate effort to support the rouble which was rapidly depreciating.

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

It is a tough call as to whether the central bank will find room to ease the benchmark rate further at its next meeting on October 30. While the likelihood of a rate hike by the US Federal Reserve by year-end has diminished, removing one potential obstacle to further policy normalisation, the slight easing in consumer prices in September provides little convincing evidence that inflation has indeed peaked. That being said, CBR Governor Elvira Nabiullina has recently made several supportive comments about the Russian economy, unusual given that she typically refrains from speaking in the run-up to meetings. As such, there is the possibility for a rate cut at the October meeting but we assess that it would be no greater than 50 basis points.

Trade balance shows tentative signs of stabilising

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

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

Imports, on the other hand, fell by 35.7% on the year to \$16.7 billion in September from \$16.6 billion in August.

Since the rouble has weakened considerably over the past year, the cost of imports has risen sharply. Consequently, imports have reduced as companies have looked increasingly to domestic suppliers.

Early evidence that inflation could be easing

Consumer price inflation eased to 15.7% in September from 15.8% in August, a tentative sign that the trend pick-up in inflation over the past two months might be coming to an end.

The slowdown was mainly on the back of lower food price inflation, which is the largest contributor to the CPI basket, which eased to 17.4% in September from 18.1% in August. There was also a drop in service sector inflation to 13.8% from 14.1% previously. In contrast, non-food item inflation was pushed higher to 14.6% in September from 14.3% in August, albeit unsurprising given that the rouble depreciation hadn't fully filtered through on this side last month. Stripping out the prices of food and fuel, which tend to be volatile, core inflation was unchanged at 16.6% on the year in September.

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

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

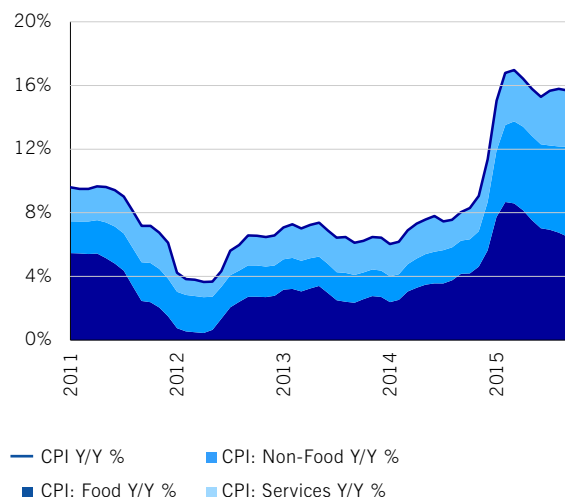
Prices at the factory gate in Russia were up 12.7% on the year in September, down from 13.7% in August. Inflation in the manufacturing sector, which accounts for almost 70% of the index, was unchanged at 14.3% on the year. Prices in the mining and quarrying sector fell sharpest to 10.7% year-on-year in September from 14.6% in August, while inflation in the utilities sector eased to 7.3% after accelerating to 9% previously.

Remuneration falls amid poor job market

Unemployment surprisingly fell to 5.2% in September after remaining at 5.3% in August. Joblessness in Russia has remained relatively resilient in the face of the slowdown, with the labour market adjustment instead being transmitted through a combination of wage cuts and increased part-time employment.

The poor job market has reduced the bargaining power of the Russian workforce and many have accepted wage cuts as companies seek to scale back their operations. Real wages fell by 9.7% on the year in September after declining by 9% in August (revised up from -9.8% previously). While the downturn in remuneration had begun to moderate towards the middle of the year, growing inflationary pressures have since pulled real wages further into negative territory over the past three months. 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 Price Inflation



Source: Rosstat

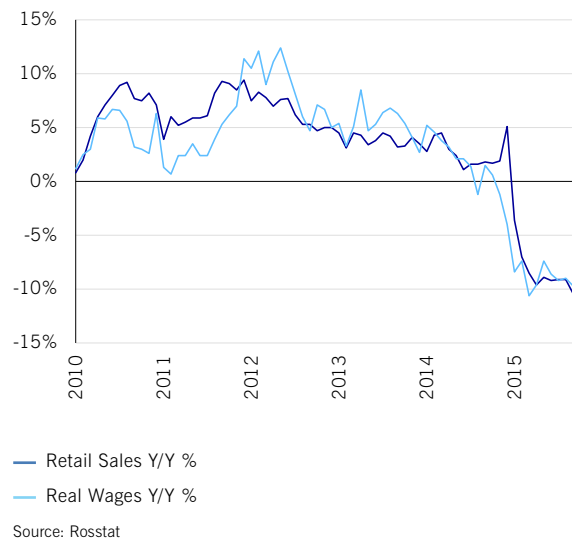
Households rein in spending

Combined with the prohibitively high rate of inflation, falling wages have left Russian consumers with very little purchasing power. This is reflected in retail sales which were 10.4% below the level seen a year earlier in September compared with a 9.1% fall in August, the sharpest decline since August 1999. Sales of non-food items were down 10.9% on the year in September following a contraction of 8.3% in August, whereas food sales declined by 9.7% on the year after shrinking 10% in the previous month.

Automobile sales were down 28.6% on the year in September following a fall of 19.4% in August. While the government has introduced a car scrappage 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, car sales have continued to be hit by the prohibitive cost of credit as well as high prices passed on by dealerships following the rouble's sharp depreciation. In September, the price of a domestically manufactured car was 26.4% above one produced a year previously and the price of an imported one was 18.9% higher on the year.

Retail Sales and Real Wages



Key Monthly Economic Data

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
GDP Y/Y %*	-4.2	-4.8	-4.5	-4.7	-4.6	-3.8	-
Industrial Production Y/Y %**	-4.5	-5.5	-4.8	-4.7	-4.3	-3.7	-
Consumer Price Index Y/Y %**	16.4	15.8	15.3	15.6	15.8	15.7	-
Producer Price Index Y/Y %**	15.0	13.4	13.1	13.1	13.7	12.7	-
Unemployment Y/Y %**	5.8	5.6	5.4	5.3	5.3	5.2	-
Real Wages Y/Y %**	-9.6	-7.4	-8.6	-9.2	-9.0	-9.7	-
Retail Sales Y/Y %**	-9.6	-8.9	-9.2	-9.1	-9.1	-10.4	-
Car Sales Y/Y %***	-41.5	-37.6	-29.7	-27.5	-19.4	-28.6	-
Trade Balance \$ Bn.****	14.2	15.1	13.6	10.7	8.7	-141.6	-
Exports \$ Bn.****	30.5	30.6	30.0	27.7	25.3	25.6	-
Imports \$ Bn.****	16.3	15.5	16.4	17.0	16.6	167.2	-
MNI Russia Business Sentiment Indicator	46.0	51.3	51.8	51.3	52.3	53.0	48.3
MNI Russia Consumer Sentiment Indicator	73.0	72.8	76.4	70.8	72.5	70.0	-

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



Indicators

Sentiment pared back sharply into negative territory in October as our panel's perception of the exchange rate soured after the rouble depreciation caused inflationary pressures to return once again.

MNI Russia Business Indicator

Six-Month Low



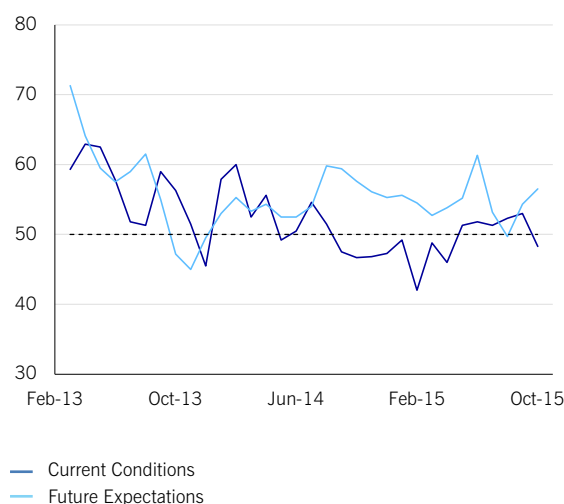
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The MNI Russia Business Sentiment Indicator fell 8.9% to 48.3 in October from 53.0 in September, the lowest since April. Breaking down the data by industry, companies in the services sector led the slowdown in sentiment this month as their assessment of the current business environment fell back into contraction. Manufacturing firms also struck a downbeat note after having been the most optimistic in eight months in September. Construction firms were a little less downbeat than they were in the previous month, although remained the most dissatisfied of all three sectors.

Of those surveyed, 89.5% reported that the business environment had not changed from the previous month, up from 75% who did so in September, while just 3.5% of companies reported that conditions had improved, down from 15.5% previously. Meanwhile, the proportion of companies who thought that trading conditions had deteriorated on the month eased to 7% in October from 9.5% in September.

Our panel were far less positive in their assessment of the rouble exchange rate this month as the depreciation of the currency pushed up their costs, leaving them with little option but to raise the prices of their own goods and services. While the rouble weakness did help to lift exports a little this month, the overall number of orders received by our panel dipped back into contraction in a sign that domestic demand had faltered somewhat.

MNI Russia Business Sentiment Indicator



MNI Russia Business Indicator

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Current Conditions	46.7	51.3	51.8	51.3	52.3	53.0	48.3

Still, our panel were more upbeat about the future as the Russian holiday period approached, with firms seemingly preparing for the additional demand that typically accompanies it by accumulating inventories and clearing backlogs.

The Future Expectations Indicator rose 4.1% to 56.5 in October from 54.3 in September, indicating that firms anticipate that business conditions will improve over the coming three months.

Sectors - Overall Business Conditions

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

MNI Russia Business Indicator

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Future Expectations	57.6	55.2	61.3	53.2	49.7	54.3	56.5

Orders

Domestic Demand Falters



Firms reported a slight pickup in overseas demand in October on the back of the rouble weakness, although it was not enough to prevent their order books from dipping back into contraction.

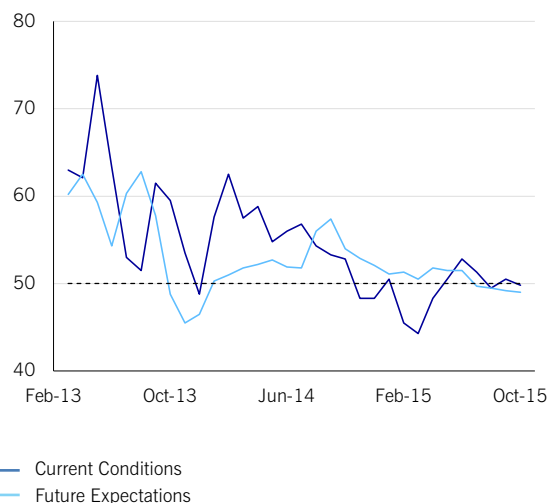
New Orders receded to 49.8 in October after last month's rise to 50.5 briefly lifted the indicator out of contraction. Since exports picked up this month, the coinciding decline in total orders is suggestive of weaker domestic demand. Companies remained pessimistic in their outlook for demand over the coming three months, with the Expectations Indicator more-or-less unchanged at 49.0 in October compared with 49.2 in September.

Manufacturing firms were alone in reporting that their sales had risen this month, whereas construction companies saw no change and those in the services sector experienced a shrinkage for the third month in a row. Companies in both the construction and services sectors forecast that their order books would contract over the next three months, in contrast to manufacturing firms who remained upbeat in their expectations for the future.

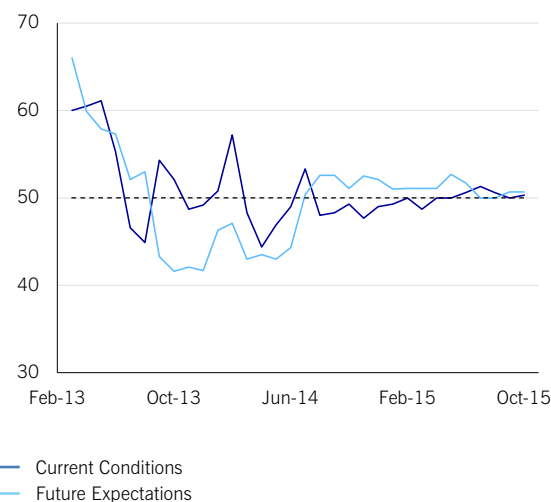
While the rouble has been on a rollercoaster ride over the past year, it remains extremely weak which has afforded exporters with a cost advantage over their international rivals by lowering the cost of Russian goods and services to foreign companies. That being said, the benefits of the currency depreciation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

Export Orders edged higher to 50.3 in October from 50.0 in September. While the currency has strengthened somewhat after hitting a new low just a couple of months ago, companies continued to be optimistic in their

New Orders



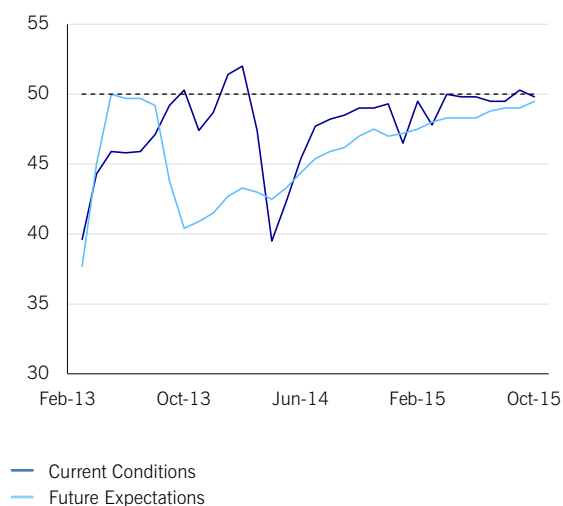
Export Orders



Orders - Current Conditions

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
New Orders	52.8	50.5	52.8	51.3	49.5	50.5	49.8
Export Orders	49.3	50.0	50.6	51.3	50.6	50.0	50.3
Order Backlogs	49.0	49.8	49.8	49.5	49.5	50.3	49.8

Order Backlogs



outlook for exports over the coming three months with the Expectations Indicator remaining unchanged at 50.7 in October.

With demand easing little this month, firms faced fewer order backlogs, evidenced by the 1% decline in the indicator to 49.8 after last month's rise to 50.3 took it above the 50 mark for the first time since February 2014. Our panel were, however, slightly less pessimistic in their three-month outlook for backlogs, possibly as the January holiday period came onto the horizon, with the Expectations Indicator rising to 49.5 in October from 49.0 in September, the highest since July 2013.

Sectors - Current Conditions

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

Sectors - Future Expectations

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

Orders - Future Expectations

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
New Orders	54.0	51.5	51.5	49.7	49.5	49.2	49.0
Export Orders	51.1	52.7	51.7	50.0	50.0	50.7	50.7
Order Backlogs	47.0	48.3	48.3	48.8	49.0	49.0	49.5

Output and Employment

Production at One-Year High



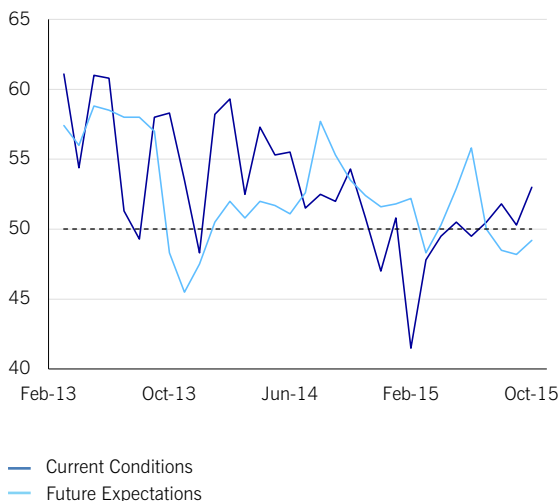
While a greater proportion of our panel scaled up their production in October, they no longer considered the size of their workforce to be inadequate for their requirements.

The Production Indicator rose 5.4% to 53.0 this month after falling to 50.3 in September, the highest since October last year. Still, this was unsurprising since output is often ramped up at this time of the year in order to accumulate stock for the busy festive period. The number of manufacturing firms who scaled up output in October was the highest since we first started releasing data on a sectoral basis a year ago. Meanwhile, companies in the services sector left production unchanged after scaling back in September and construction firms were cutting back at the same pace as they were in the previous month.

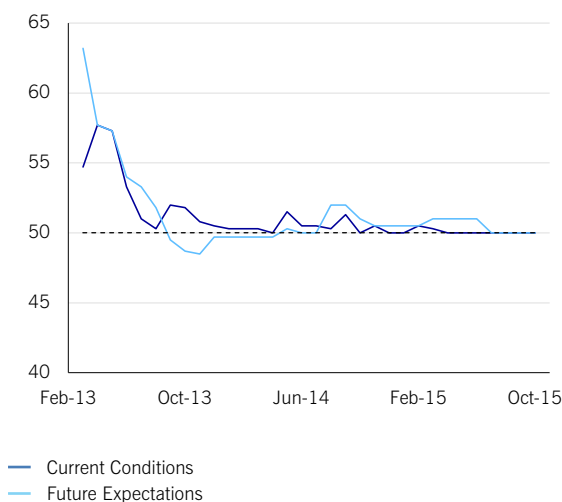
Our Production Indicator has a close correlation with official data on industrial production which expanded by a seasonally adjusted 0.6% on the month in September after contracting by 0.3% in the previous month. While our indicator may have risen to a one-year high in October, it was driven primarily by seasonal effects rather than any specific fundamentals. Even so, there is a possibility that industrial production could continue to expand on the back of the growing level of import substitution that has arisen from the weakness of the rouble.

The former scenario appears to be more likely given that our panel anticipated that they would rein in their output over the coming three months. Expectations for Production improved a little to 49.2 in October after three months of easing left it at a near two-year low of 48.2 in September. Manufacturing firms were alone in anticipating that their production would grow, while

Production



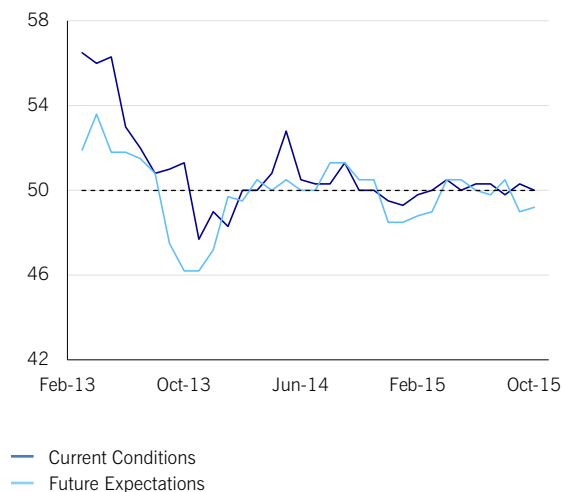
Productive Capacity



Output and Employment - Current Conditions

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Production	54.3	50.5	49.5	50.5	51.8	50.3	53.0
Productive Capacity	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Employment	50.0	50.0	50.3	50.3	49.8	50.3	50.0

Employment



Sectors - Current Conditions

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

Sectors - Future Expectations

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

construction companies thought their output levels would remain stable and those in the services sector expected it to fall in the future.

Firms considered the size of their workforce to be neither too small nor too large for their requirements with the Employment Indicator easing to 50.0 in October from 50.3 in September. Even so, companies anticipated they would have too many employees in three months' time, with the Expectations Indicator stable at 49.2 in October after dipping into contraction to 49.0 in September.

Firms reported that their Productive Capacity was unchanged for the seventh month in a row, with the indicator standing at 50.0 in October. Moreover, companies anticipated that they would neither expand

nor reduce their capacity in the future, with the Expectations Indicator remaining at 50.0 in October for the fourth consecutive month.

Output and Employment - Future Expectations

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Production	53.5	52.9	55.8	50.0	48.5	48.2	49.2
Productive Capacity	51.0	51.0	51.0	50.0	50.0	50.0	50.0
Employment	50.5	50.5	50.0	49.8	50.5	49.0	49.2

Prices

Inflationary Pressures Flare Up



Despite official data suggesting that inflation may have peaked, a growing number of our panel faced higher prices this month in a sign that the rouble depreciation had continued to filter through, weighing on their attitude towards the exchange rate.

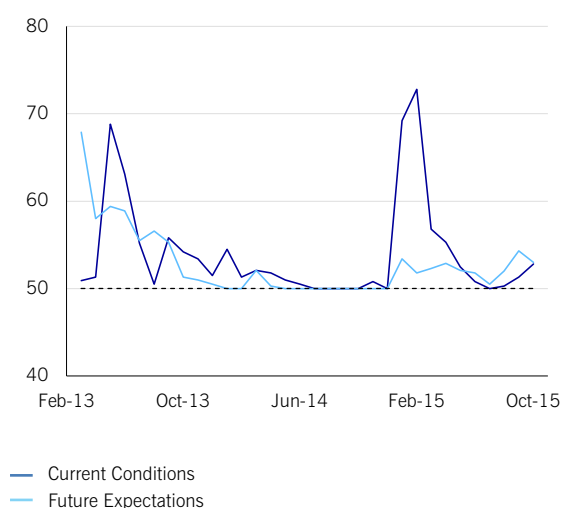
Official figures showed that producer price inflation eased to 12.7% in September from 13.7% in August. Inflation in the manufacturing sector, which accounts for almost 70% of the index, was unchanged at 14.3% on the year. Prices in the mining and quarrying sector fell sharpest to 10.7% year-on-year in September from 14.6% in August, while inflation in the utilities sector eased to 7.3% after accelerating to 9% previously.

Our survey results suggest that the September easing in inflation may prove to be short-lived as more our panel reported that their costs had risen. The Input Prices Indicator rose 2.9% to a six-month high of 52.8 in October from 51.3 in the previous month. While the Expectations Indicator pared back to 53.0 in October after having risen to a two-year high of 54.3 in September, it remained above the 50 breakeven level which suggests that companies, albeit fewer anticipate that their costs will continue to rise in the short-term.

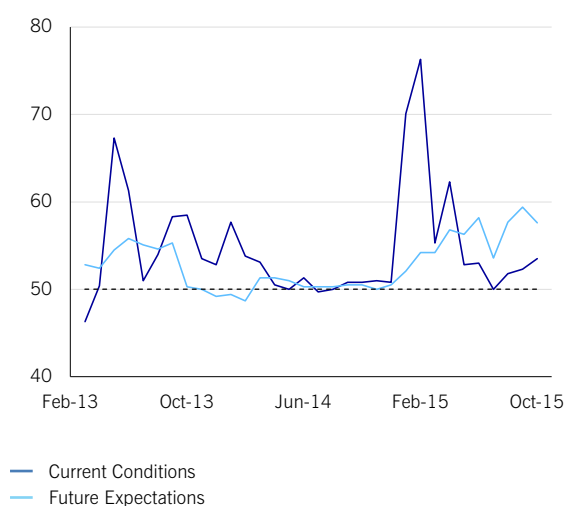
Higher costs translated through to higher prices charged, reflected by the increase in the Prices Received Indicator to 53.5 in October from 52.3 in September, the highest since April. Even so, companies revised down their projections for the prices they would charge over the coming three months, with the Expectations Indicator falling to 57.6 in October after climbing to an all-time high of 59.4 in September.

Given that the rouble weakness had pushed up our panel's costs this month, it was no surprise that they

Input Prices



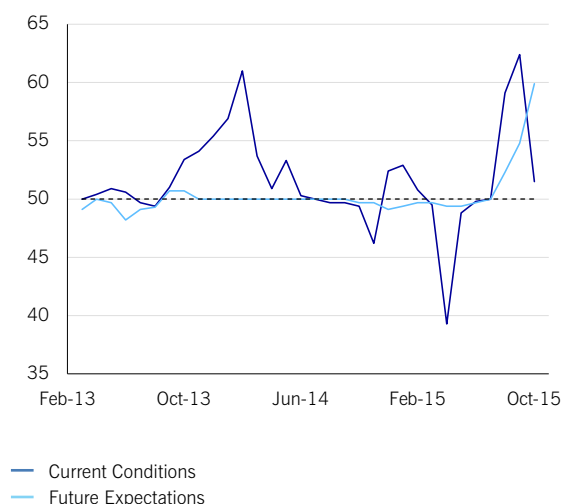
Prices Received



Prices - Current Conditions

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Input Prices	50.0	52.5	50.8	50.0	50.3	51.3	52.8
Prices Received	50.8	52.8	53.0	50.0	51.8	52.3	53.5
Exchange Rate	49.4	48.8	49.8	50.0	59.1	62.4	51.5

Effect of Rouble Exchange Rate



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

were less optimistic in their assessment of the impact of the exchange rate on their business operations. The Effect of the Rouble Exchange Rate Indicator plummeted to 51.5 in October after last month's rise to 62.4 placed it at an all-time high. A value above 50 shows that more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting. Companies expected that the exchange rate would be beneficial to their operations over the coming months, with the Expectations Indicator rising to a fresh high of 59.9 in October from a previous high of 54.8 in September.

may also anticipate that they will see more domestic demand from import substitution.

It is difficult to determine what has driven the more upbeat attitude toward the exchange rate over the past three months. One possibility is that companies expect exports to pick-up over the coming months as foreign companies are swayed by the weak rouble, while they

Prices - Future Expectations

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Input Prices	50.0	52.1	51.8	50.5	52.0	54.3	53.0
Prices Received	50.5	56.3	58.2	53.6	57.7	59.4	57.6
Exchange Rate	49.7	49.4	49.7	50.0	52.3	54.8	59.9

Money and Credit

Lending Squeezed



While our panel reported that their balance sheets had remained healthy, they found it more difficult to secure credit than they did in the previous month.

Loans to Russian companies have dried up following the imposition of capital restrictions by Western nations in response to the annexation of Crimea. Even so, since the start of the year a growing number of firms had reported that they were finding new streams of lending as they managed to keep their finances in the black in spite of the difficult conditions.

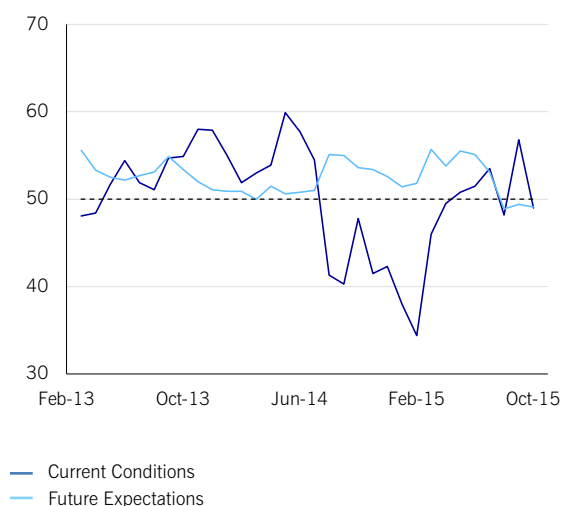
Slightly fewer panellists reported an improvement in the state of their finances in October, causing the Financial Position Indicator to pull back slightly to 51.3 in October from 51.8 in September. Firms were also less optimistic in their outlook for their balance sheets over the following three months, with the Expectations Indicator ticking down to 57.5 in October from 59.1 in September.

Even though our panel's finances continued to show improvement, the Availability of Credit Indicator fell back into contraction to 49.0 after last month's bounce back to 56.8 placed it at the highest level since June 2014; just one month prior to the imposition of capital restrictions.

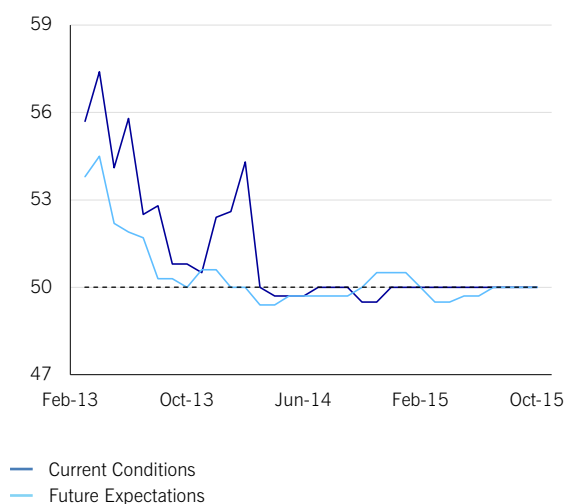
While the Central Bank of Russia was able to cut the key rate by a total of 600 basis points on the back of an easing in inflation and the recovery in the rouble during the first half of this year, pressure returned to the currency due to the slump in oil prices that accompanied the global stock market sell-off in August.

With the rise in external volatility threatening the central bank's inflation mandate, the CBR chose to put its normalisation cycle on hold at its September meeting

Availability of Credit



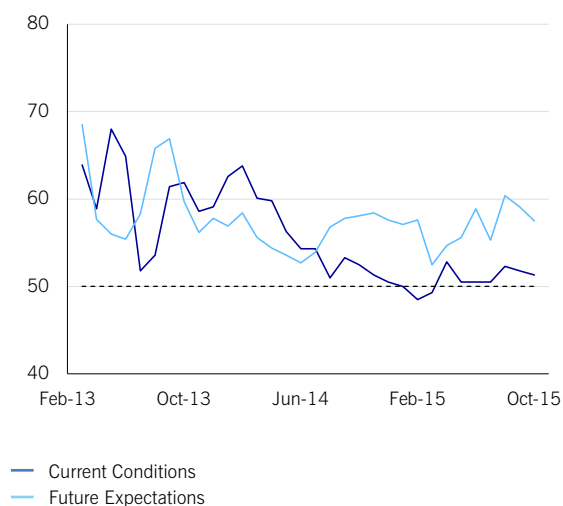
Interest Rates Paid



Money and Credit - Current Conditions

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Availability of Credit	47.8	50.8	51.5	53.5	48.2	56.8	49.0
Interest Rates Paid	49.5	50.0	50.0	50.0	50.0	50.0	50.0
Financial Position	52.5	50.5	50.5	50.5	52.3	51.8	51.3

Financial Position



Sectors - Current Conditions

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

Sectors - Future Expectations

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

and any further rate cuts this year are now much less uncertain. Consequently, the Interest Rates Paid Indicator remained at 50.0 in October as nearly our entire panel reported that they faced the same financing costs as they did in September.

Money and Credit - Future Expectations

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Availability of Credit	53.6	55.5	55.1	53.1	48.9	49.4	49.1
Interest Rates Paid	50.0	49.7	49.7	50.0	50.0	50.0	50.0
Financial Position	58.1	55.6	58.9	55.3	60.4	59.1	57.5

Logistics

Inventories Rise as the Festive Period Approaches



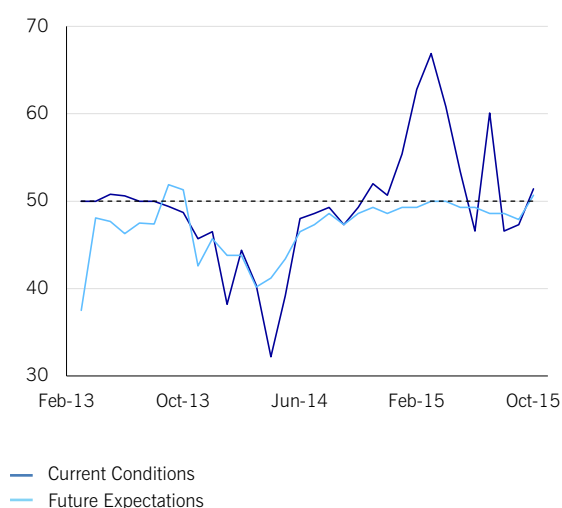
Companies resumed stockbuilding in October, with the Inventories Indicator climbing 8.7% to 51.4 in October from 47.3 in September. Given that the January festive period is now just a few months away, the build-up of stocks could be seen as an attempt by companies to brace themselves for the rise in orders that typically occurs in the lead-up to it.

This would also go some way in explaining the clearing of backlogs in October and accompanying rise in expectations for them. That being said, the Inventories Indicator has recently been relatively volatile, making it difficult to draw conclusions from its monthly movements, hence it remains to be seen whether this assertion will ultimately be realised.

While companies in the manufacturing sector reported that their inventories had risen on the month, constructions firms reported that their stock levels were neither higher nor lower. According to our panel, this month's resurgence in stockbuilding will continue with the Expectations Indicator for future inventory levels climbing to 50.7 in October following last month's fall to 47.9 which placed it at a one-year low.

The Supplier Delivery Times Indicator measures sentiment about the speed of supplier deliveries compared with the previous month. A reading above 50 indicates that a higher proportion of companies reported that supplier deliveries were longer compared with a month ago while a reading below 50 indicates a higher proportion of companies reported that supplier delivery times were shorter compared with a month ago.

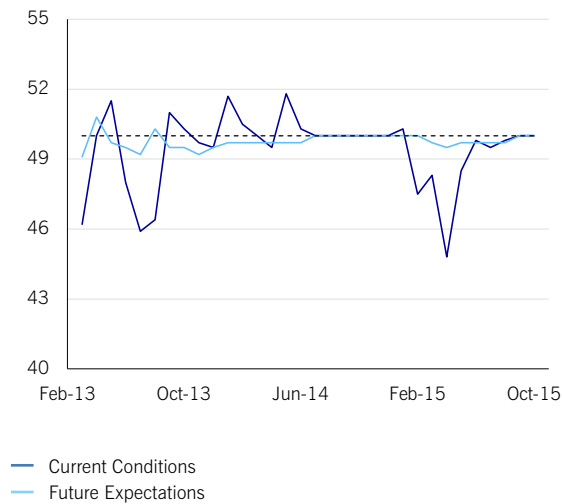
Inventories



Logistics - Current Conditions

	Oct-14	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Inventories	49.3	53.4	46.6	60.1	46.6	47.3	51.4
Supplier Deliveries	50.0	48.5	49.8	49.5	49.8	50.0	50.0

Supplier Delivery Times



The time taken to deliver supplies to companies was unchanged in October after last month's rise to 50.0 brought to an end seven consecutive months of shortening. Moreover, companies anticipated that their suppliers' delivery times would not change over the coming months, with the Expectations Indicator standing at 50.0 in October.

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

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



Data tables

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Historical Summary

	2014			2015									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
MNI Russia Business Indicator													
Current Conditions	46.7	46.8	47.3	49.2	42.0	48.8	46.0	51.3	51.8	51.3	52.3	53.0	48.3
Future Expectations	57.6	56.1	55.3	55.6	54.5	52.7	53.8	55.2	61.3	53.2	49.7	54.3	56.5
Production													
Current Conditions	54.3	50.8	47.0	50.8	41.5	47.8	49.5	50.5	49.5	50.5	51.8	50.3	53.0
Future Expectations	53.5	52.4	51.6	51.8	52.2	48.3	50.3	52.9	55.8	50.0	48.5	48.2	49.2
New Orders													
Current Conditions	52.8	48.3	48.3	50.5	45.5	44.3	48.3	50.5	52.8	51.3	49.5	50.5	49.8
Future Expectations	54.0	52.9	52.1	51.1	51.3	50.5	51.8	51.5	51.5	49.7	49.5	49.2	49.0
Export Orders													
Current Conditions	49.3	47.7	49.0	49.3	50.0	48.7	50.0	50.0	50.6	51.3	50.6	50.0	50.3
Future Expectations	51.1	52.5	52.1	51.0	51.1	51.1	51.1	52.7	51.7	50.0	50.0	50.7	50.7
Productive Capacity													
Current Conditions	50.0	50.5	50.0	50.0	50.5	50.3	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	51.0	50.5	50.5	50.5	50.5	51.0	51.0	51.0	51.0	50.0	50.0	50.0	50.0
Order Backlogs													
Current Conditions	49.0	49.0	49.3	46.5	49.5	47.8	50.0	49.8	49.8	49.5	49.5	50.3	49.8
Future Expectations	47.0	47.5	47.0	47.2	47.5	48.0	48.3	48.3	48.3	48.8	49.0	49.0	49.5
Employment													
Current Conditions	50.0	50.0	49.5	49.3	49.8	50.0	50.5	50.0	50.3	50.3	49.8	50.3	50.0
Future Expectations	50.5	50.5	48.5	48.5	48.8	49.0	50.5	50.5	50.0	49.8	50.5	49.0	49.2
Inventories													
Current Conditions	49.3	52.0	50.7	55.4	62.8	66.9	60.8	53.4	46.6	60.1	46.6	47.3	51.4
Future Expectations	48.6	49.3	48.6	49.3	49.3	50.0	50.0	49.3	49.3	48.6	48.6	47.9	50.7
Input Prices													
Current Conditions	50.0	50.8	50.0	69.2	72.8	56.8	55.3	52.5	50.8	50.0	50.3	51.3	52.8
Future Expectations	50.0	50.0	50.0	53.4	51.8	52.3	52.9	52.1	51.8	50.5	52.0	54.3	53.0
Prices Received													
Current Conditions	50.8	51.0	50.8	70.1	76.3	55.3	62.3	52.8	53.0	50.0	51.8	52.3	53.5
Future Expectations	50.5	50.0	50.5	52.1	54.2	54.2	56.8	56.3	58.2	53.6	57.7	59.4	57.6
Financial Position													
Current Conditions	52.5	51.3	50.5	50.0	48.5	49.3	52.8	50.5	50.5	50.5	52.3	51.8	51.3
Future Expectations	58.1	58.4	57.6	57.1	57.6	52.5	54.7	55.6	58.9	55.3	60.4	59.1	57.5
Interest Rates Paid													
Current Conditions	49.5	49.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	50.0	50.5	50.5	50.5	50.0	49.5	49.5	49.7	49.7	50.0	50.0	50.0	50.0
Effect of Rouble Exchange Rate													
Current Conditions	49.4	46.2	52.4	52.9	50.8	49.5	39.3	48.8	49.8	50.0	59.1	62.4	51.5
Future Expectations	49.7	49.7	49.1	49.4	49.7	49.7	49.4	49.4	49.7	50.0	52.3	54.8	59.9
Supplier Delivery Times													
Current Conditions	50.0	50.0	50.0	50.3	47.5	48.3	44.8	48.5	49.8	49.5	49.8	50.0	50.0
Future Expectations	50.0	50.0	50.0	50.0	50.0	49.7	49.5	49.7	49.7	49.7	49.7	50.0	50.0
Availability of Credit													
Current Conditions	47.8	41.5	42.3	38.0	34.4	46.0	49.5	50.8	51.5	53.5	48.2	56.8	49.0
Future Expectations	53.6	53.4	52.6	51.4	51.8	55.7	53.8	55.5	55.1	53.1	48.9	49.4	49.1

Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
MNI Russia Business Indicator				
Current Conditions	42.0	62.9	52.3	51.5
Future Expectations	45.0	71.3	55.6	55.1
Production				
Current Conditions	41.5	61.1	53.0	52.3
Future Expectations	45.5	58.8	52.6	52.0
New Orders				
Current Conditions	44.3	73.8	54.5	53.2
Future Expectations	45.5	62.8	53.0	51.8
Export Orders				
Current Conditions	44.4	61.1	50.8	50.0
Future Expectations	41.6	66.0	50.1	51.1
Productive Capacity				
Current Conditions	50.0	57.7	51.1	50.3
Future Expectations	48.5	63.2	51.4	50.5
Order Backlogs				
Current Conditions	39.5	52.0	47.7	48.6
Future Expectations	37.7	50.0	45.9	47.0
Employment				
Current Conditions	47.7	56.5	50.9	50.3
Future Expectations	46.2	53.6	49.9	50.0
Inventories				
Current Conditions	32.2	66.9	49.5	49.4
Future Expectations	37.5	51.9	47.1	48.0
Input Prices				
Current Conditions	50.0	72.8	54.0	51.4
Future Expectations	50.0	67.9	52.8	51.8
Prices Received				
Current Conditions	46.3	76.3	54.7	52.8
Future Expectations	48.7	59.4	52.9	52.3
Financial Position				
Current Conditions	48.5	68.0	55.6	53.5
Future Expectations	52.5	68.5	57.7	57.6
Interest Rates Paid				
Current Conditions	49.5	57.4	51.2	50.0
Future Expectations	49.4	54.5	50.4	50.0
Effect of Rouble Exchange Rate				
Current Conditions	39.3	62.4	51.6	50.7
Future Expectations	48.2	59.9	50.3	50.0
Supplier Delivery Times				
Current Conditions	44.8	51.8	49.4	50.0
Future Expectations	49.1	50.8	49.8	49.7
Availability of Credit				
Current Conditions	34.4	59.9	50.2	51.6
Future Expectations	48.9	55.7	52.5	52.6

Historical Records - Quarterly

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

About MNI Indicators

Insight and data for better decisions

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

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

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

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