CEEMEA Business Group

Russia Business Outlook

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Executive summary

- Russian demographics are thankfully taking a noticeable turn for the better
- Russia's GDP could be the best in Europe both this year and next!
- But global uncertainties will continue to weigh on the Russian economy
- So far the economy and business are weathering the storm
- Russia is getting even more global and European focus and is now seen as the No 1 European growth market
- This means the search for talent is hotting up along with salaries
- Falling unemployment to near record low levels (5.4%) means that blue-collar workers are in short supply in some towns and hence why nominal wages are increasing by 11-14%
- Consumer loans surged by a massive 40% in the first quarter of this year (one of the highest rates in the world)
- But we do expect this rate of growth to trend downwards in the second half of year
- Inflation is at an all-time record low (3.6%) but will pop up later this year
- Falling oil prices may help to curb this pick-up in inflation
- Consumer confidence levels are among the strongest in the world
- FX loans represent only a small part of total loans
- But these positives could be undermined by global risk and a depreciating rouble
- Executives report good or very good business results generally with some exceptions
- But executives worry about global trends impacting Russia
- Building categories and route to market are high on the agenda
- FX reserves remain over $500bn and rouble Funds are worth $150bn, up from $112bn last November
- We expect a marginal slow down in Russian GDP for domestic reasons: higher inflation, weaker rouble and slightly weaker government spending
- But our central scenario is steady as she goes with downward tweaking

Russia demographics: Good news - Russia is not shrinking!

Before we move into the economic and business outlook, I would like to share with you some good news about Russian demographics. A declining population has for many years been a depressing feature of the Russian landscape as a consequence of the fall of the Soviet Union and the economic crash of 1998. The negative numbers relating to Russian demographics have also been used by sceptics of the Russian market who were able to validly portray this as an unappealing (business) trend for investors.

But there is now some better news.

- The birth rate is improving strongly: it has jumped from 8 per thousand in 1999 to 13 per thousand in 2011 which is higher than most other CEE countries.

- Life expectancy is also improving and has now reached 75 for women (China the same and Brazil 77) and 63 for men (China 72 and Brazil 77). The figure for men of course remains lamentable but only 14 years ago it was a catastrophic 58. Thanks to social policy and health improvements the figure has increased by 5 years in just over a decade which represents a massive demographic shift

- The overall death rate has also fallen from a high of almost 18 per thousand in 2000 to 13 per thousand last year (Hungary 12, Poland 10, China 6, Brazil 6). Although a solid improvement there remains a considerable way to go.

- These diverging trends, with birth and death rates virtually at parity and combined with immigration/emigration patterns, means the overall population is finally stabilising. After declining from 147mn in 2000 to 142mn in 2008, the population remained flat at 143mn in 2009-2011. Net migration was pretty much zero between 2000 to 2005 but has risen to about 50,000 in recent years and could spike to 70,000 this year, based on official figures, although the real number is probably higher; some 70% or more of migrants originate from Central Asia and the Caucasus.

Key issues

To sum up the current business mood as expressed to me last week in Moscow by many western managing directors:

> "Business is going very well/good/ quite solid BUT I am still quite concerned about what the future holds"

As we have noted in several previous papers, the outlook for most companies doing business in Russia, assuming a "mid-case" global scenario, will see a continuation of recent trends and remain steady. This presumes an annual GDP growth at or just below 4% with an oil price range of $93-105 per barrel. But there are two provisos:

1) The global environment will not do the Russian economy any favors and nearly all global risks are on the downside
2) Internal indicators within Russia in any case point more to a mild slow down than a major collapse. Record low inflation is set to rise from 3.6% and this will erode some of the high real wage levels. Increases in government social spending may decelerate and the rouble may well stay at current lower levels or depreciate further.

Our central scenario for Russia in the next 2-3 years presuming the Eurozone stumbles along without collapsing and with oil trading in a range of $93 - $105 is:

Russian mid-case scenario figures for 2012-15

GDP	3.6 - 4.2%
Inflation average	5.8%
Real wages	4.8 - 6.0%
Retail sales	5.5 - 7.2%
Industrial output	3.6 - 4.8%
Fixed investment	7.0%

These numbers make Russia appealing from an economic and commercial perspective (see sectoral business results below) and Russia usually takes top-spot in most business sectors for top-line sales growth and still remains a highly profitable market for companies. More newcomer companies are arriving in the market and this is putting the Russian market firmly on the HQ corporate radar screen with all the associated pluses and minuses of having your CEO interested in you!

With greater focus on Russian market and bigger numbers involved many HQ's are pressing for greater "normalisation of business" i.e. more bottom line as well as top line plus growing market share and reducing administrative costs!

Flash results from our executive survey

Russia top of the CEE (and European) class

Twice each year we survey our Group members anonymously and in confidence and then distribute generic (and anonymous) results. The numbers for sales and profits in our preliminary summer "flash" results reflect the general mood of satisfaction we outlined above.

> Russia remains by far the key growth and profit market in the CEE region (and all of Europe) and is in fact continuing to pull away from other CEE markets in sales growth rates and volume of business

Russia is still the top mid-term market (77% of companies, up from 60% last December), and hiring is also up substantially--72% of companies plan to hire in next 12 months, up from 55% last time! Our survey findings include feedback from country managers in the CEE region and we think that if the results had come only from CEE regional management, then Russia would have been rated the No 1 strategic market for more than 90-95% of companies.

Our aggregate results indicate a continuation of trends identified 6 months ago although perhaps not showing quite as positive a picture as survey results demonstrated earlier in 2011. Slightly more (61% vs 57%) companies see double-digit sales growth this year, but fewer are expecting high growth of over 20% than were predicting this in December. About 8% of companies do not expect to grow this year, but in 2013 all companies forecast growth.

We should also flag that although the majority of companies anticipate double-digit growth this year and in 2013 when most of the rest of the CEE region is entrenched in low single-digit growth, there are still 30% of companies looking to single-digit growth this year in Russia with the number rising to 46% next year. However we believe that many companies reporting single-digit growth in Russia are often citing the 6-10% range (some pharmaceutical and FMCG companies for example) whereas in core central Europe single-digits often means 2-7%.

Profits generally match sales trends but are a bit less encouraging; while growth is still strong for most around 18% of companies don't expect to grow profits this year, compared to 13% forecasting this in December, and just 8% in 2011, 11% of companies don't expect to grow profits in 2013.

Quick rouble resume

The other major uncertainty and concern flagged by executives was the rouble outlook. This topic was dealt with in depth in our recent Rouble Alert (see attached paper which accompanies this one). In brief we summarise this as follows.

There are 3 main factors determining the rouble value:

1) global risk perception which is high and which feeds into
2) the global oil price and
3) 3) Russian Central Bank policy

Recent movements indicate that the rouble falls 1% for every $2 fall in the oil price, so a $5 oil price drop equates to a 2.5% fall in the currency unless the Central Bank chooses to intervene more aggressively.

Global risk perception will fluctuate violently in the coming year and impact Russian stock values and the rouble. The current oil price has fallen below the psychological barrier of $100, but the Russian economy survives in good shape at levels as low as $90 per barrel. In fact Russian fundamentals remain very good and assist in protecting the rouble: public debt levels are tiny at about 10% compared to the USA at 104%, UK close to 88% and even Germany at 84%. The Russian corporate debt profile which was the Achilles heel in 2008-09 is much improved (see earlier papers in this series for details) but when global crises flare up the financial markets attack Russia as a high-beta market. However the Central Bank and government have good experience of handling currency crises and possess enough reserves to support the currency and prevent any deep crash. Current positive real interest rates (which have sometimes been negative) also provide the Central Bank with some wiggle room to let interest rates fall during any potential forthcoming crisis.

We expect the Central Bank to be comfortable with an exchange rate of 32.5 to 35.5 to the US dollar and beyond that level we would expect the Bank to intervene more strongly. Regarding the currency basket, we see the Bank comfortable up to a level of 39/40 compared with its current 36-37 range. In other words, we see the Bank ready to accept a further 10-13% devaluation before becoming excessively protective. The current low inflation rate(3.6%) also gives the Bank some leeway; but the Bank will always monitor carefully any inflationary impacts of a weakening rouble.

There are two big points for executives to understand about Russian Central Bank policy: 1) the Bank has decided to let the currency act a shock absorber to take some of the heat from GDP and budget deficit and thus companies have experienced more rouble volatility in the last 8 months and must expect more volatility in the next 18 months given the stop-go nature of the weak global recovery 2) there is good news as well: the Russian Central Bank has the reserves and the debt capacity to protect the rouble in any deteriorating situation. With FX reserves of $510bn and with rouble-denominated reserves at over the equivalent of $150bn the Bank can do what is required to protect the rouble at almost any reasonable level it so chooses.

Russia doesn't have a budget deficit problem

Unlike 100 other governments in the world today, the new Russian government is not struggling with a large deficit problem. In April this year it had a rolling surplus of +0.3% and in May was virtually in balance at +0.1%. At the start of the year it was as high as +0.5% but then the government increased spending in the presidential election run-up.

Comparisons of government budget balance in 2012

Russia	+ 1.6%	Germany	-1.0%	Turkey	-1.3%
USA	-9.4%	UK	-8.3%	China	-1.3%
Eurozone	-4.1%	Poland	-5.1%	India	-8.4%

The Russian government budget balance is either the best in the world or among the top 2-3 of major markets in the world.

The major point is that the Russian government has the option of whether to spend a lot or a little more on social projects/support or on infrastructure which would invariably benefit Russian and western company sales. There is no guarantee that this will happen and companies in important sectors such as pharmaceuticals do not think enough expenditure has been made in critical areas. So although there is no guarantee of increased government spending the huge differentiating factor in Russia is that there is a real possibility of some targeted increases that will help some companies.

Indeed, we believe that currently a significant debate is taking place within the new government with questions being raised about the level of government spending and the budget balance: some commentators will argue (assuming the Eurozone and global economy does not collapse), why are we not investing more in health, education and infrastructure? Former finance minister Kudrin kept a tight rein on spending and this certainly helped the build up of strong reserves. But the debate will focus on a balanced spending increase allowing the deficit to rise from its current +0.1% to -1.0% or even -2.0%. Such a shift could have positive consequences for investment, consumer spending and western companies.

According to recent budget revisions, the government expects to allocate an extra 58bn roubles to the social sector this year and other 48bn roubles for infrastructure-related projects. There is a plan is to allocate up to 30% of any additional oil-related revenues to the Reserve Fund (this latter aim was outlined prior to the recent fall in oil prices).

We also noted in our December 2011 paper in this series just how important the role of the Russian government is in the economy and society. The role of government and public spending is very important in Russia because of the following:

- Public sector wages account for 12% of total national income.
- Government transfers account for 19% of total national incomes (of which 11% is devoted to pensions).
- This means that together public sector wages and government transfers account for a massive 31% of total national income.
- 12% of the population (25% of the workforce) is employed by the government.
- 40% of the population receives social benefits.
- Thus when the Russian government acts, it has the potential for huge impacts on the people and spending patterns.

Business outlook by sector

For trends in other sectors see our April 2012 paper.

Pharmaceuticals

The pharmaceutical and healthcare industry continues to adapt to changing legislation and to assess how the new government and accompanying changes in the Health Ministry will impact them. Top-line sales trends remain steady at about 7-15% for most companies. The MD of one major US company commented last week in Moscow that, "The winter season has not been too harsh this year and so sales for cold remedies have been sluggish but overall the market is acceptable".

The senior and highly-experienced MD of one major European pharmaceutical investor reported last week that, "Our business is going well although we are constantly benchmarked with China which can put more pressure on our budget targets. We have gotten accustomed to many/most of the regulatory changes although they did put more downward strain on our sales and profitability. We are planning for top-line growth of just over 10% during 2012-14 which we think is a realistic and decent target to aim at".

The consumer goods sector

The Russian CP market is performing as well as any in Europe and is amongst the best in the world: most companies are growing in a range of 7-15% organic top-line although there are big fluctuations by category. In comparison most other CEE and developed markets are growing 0-5% or worse.

Several executives in the consumer product sector noted last week in Moscow that after the strong end of 2011 and the good first quarter of 2012 (the run up to the presidential elections) April, perhaps not surprisingly, saw a bit of a slow down but first indicators for May suggest this is not yet a sustained downward trend. But we still argue strongly that the macro-economy will be helping business less in the second half of the year.

- Russia/Turkey/Poland are the three winners - 80% of retail sales in CEE region emanate from these 3 markets
- Turkey is slowing down this year and with the Eurozone virtually dead, we will probably see continued growing interest and investment in the Russian market --where else can you get growth?
- Russia is one of the few markets in the world where executives still consistently feel that 2012 can be better than 2011 for business
- Most CP companies talk of good or very good trends in premium-priced products and of course luxury goods sales remain at close-to-record levels
- One executive from the drinks/spirits industry expressed the thoughts of many: "The middle class is increasing and disposable incomes are rising. It's not difficult to see why the market is good. We know there will be bumps on the way but it does seem sustainable".
- BUT the big factor remains that Russian consumers have discovered VALUE. They will pay more for western brands and services but they expect better marketing and sales techniques directed at them to explain why they should spend on higher-priced products. This means that the sales and marketing departments of all western companies have to be more innovatory and genuinely "think outside the box"; several companies report good recent experiences from their own "great marketing initiatives".
- Many companies achieve most of their growth through price rather than volume and some executives are concerned about the ability to pass on price rises indefinitely
- Not all CP sectors are flourishing and the beer industry is under severe legislative pressure and cosmetics are also struggling for market/consumer reasons
- Competition is increasing and this will not abate. To combat this development many executives see the advantages of building categories in order to make the overall cake get bigger with the aim/hope of acquiring more market share
- Route to market remains a key concern. As one FMCG managing director remarked: "Getting route to market right is the key to success".
- Several executives talk of strong and sharp negotiations with Russian retail and one executive advocates "playing hard ball because they usually cave in and come back to the table after 2-3

months". Not all relations with Russian retail are fraught with challenges but the majority of executives complain that such negotiations are simply getting tougher as the Russian retailers appreciate their growing bargaining power.

The Russian consumer

One feature of the last 12months is that the Russian consumer has been financing her/his FMCG and larger consumer purchases by 1) out of pocket income thanks to high real take-home pay and 2) drawing down bank credits (see next section). On balance the consumer is currently using less of her/his savings given that these were drawn down between 2009 and the first half of 2011. Savings are of course still being employed but not to the same extent as previously and the savings ratio is falling.

However, as inflation has fallen deposit rates in Russia have turned positive and are now more appealing. We therefore estimate that the size of personal deposits in banks could rise this year by 15-20%: new rouble deposits were rising by 30% at start of 2011 and rose by 20% in the first quarter this year.

Consumer confidence was at contemporary record levels in March after strengthening through the end of 2011 and in early 2012 thanks to government spending and a rising oil price combined with low inflation. We think that as the general macro-economic indicators start to decline in the coming months, then consumer confidence will stabilise or deteriorate marginally. But Russian consumer confidence will remain not only among the very highest in Europe but globally. Russian consumer confidence was at a level of -5 in March when most Eurozone countries showed levels of -25 to -30 with most CEE countries reporting
-30 to – 45; Greece recorded of course the worst level at -84 while at the other extreme Germany was and remains one of the few markets more confident than Russia at -1.

Retail spending has stabilised in recent months in a range of 6-8% after bouncing to almost 10% in December. The gap between food and non-food sales has narrowed but not closed. Food sales lagged non-food for most of 2011 and then surged in final months of 2011 and remain solid this year to date:

Retail sales year-on-year: food and non-food

	Retail sales	**Non-food**	**Food**
January 2011	4%	9%	0.1%
March 2011	5.2%	8%	1.3%
June 2011	5.8%	10%	1.0%
October	9.1	12%	6.1%
December	9.3	8%	7.3%
Q1/2012	7.5%	9%	4.4%
April 2012	6.4%	8%	5.0%

As we note below, consumers are also spending more on travel, real estate and cars. Auto production held up strongly in the first 5 months of this year at 23% and was trending higher with the May figure alone rising 37%. It seems that a lot of the surging credit is being spent on cars.

The Russian consumer saw wages and incomes spike upwards in 2011 and in the first quarter of this year thanks to increases in social payments, transfers for child-bearing women, higher wages in the public sector and boosts to pensions and the minimum wage. This will continue in the coming years:

- Salaries for teachers and doctors are set to rise from September 2012
- University staff will receive wage hikes in 2013-18 elevating them to twice the regional average wage
- Families with three children will be granted an additional family allowance of 7,000 roubles (approx $230)
- First-year university students will see their grants rise by 5,000 roubles

Credit in Russia and how it is used

Russia also stands out as a market where bank credit is still strong and Russia probably ranks as one of the top-5 markets in the world along with China. Bank credit in 2011 rose on average about 25% and while most commentators expected some slow down this year, so far this has not transpired; corporate credit is rising about 26% but consumer credit is surging at 30-40% but we do think this will slow at the margins in the second half of the year. We also note that a lot of credit is being used for car purchases, property, white goods and foreign travel. This means of course that consumers may now actually have less disposable income for FMCG items.

The share of FX loans among total loans fell from 33% in the autumn of 2008 to 26% in the spring of this year; this is a much lower proportion than in many CEE countries and leaves the Russian consumer relatively less exposed to FX fluctuations which could increase in the next 6-18 months.

Bank liquidity has been kept tight over the last year matching the depreciating global risk perception; in broad terms bank liquidity was tightened by the Central Bank during September-December 2011, then was eased quite noticeably in January-March but then tightened again in April-May. The spring reduction in refinancing operations occurred despite interest rates rising to 8% from the more normal 5-6%. The Central Bank has also been selling relatively smaller amounts of dollars to protect the rouble and this of course means fewer roubles in circulation. Tight liquidity has been one reason for companies experiencing more cash management/flow problems and hence why a few more western companies have reported some extended duration in receivables.

Raising prices

In general companies across sectors have raised prices steadily since 2008. One MD of a western food company admits, “We and our counterparts in other companies raised prices very sharply indeed in 2009 and as a result our already profitable business became even more profitable”. Most companies have moderated price rises since then but have kept up a steady rate of increases. The local MD of one US food and beverage company states that, “We too have raised prices along with our peers and like them we didn’t see too many negative consequences on volume or market share. But at the start of this year, I did see the first signs of some negative loop feedback. I wonder how long we can keep this going.”

However, given strong nominal wage rises of 10-14% and moderate inflation in the next 2-3 years, bearable price rises may remain a feature of western business where price rather than volume drives the business.

Ukraine getting very bad for some but not all

There were several harsh and mixed comments about the Ukraine last week in our Moscow meetings (and we will explore these in depth in our upcoming Ukraine slides presentation later in June).

The CIS managing director of one European construction company stated quite harshly that, “For us Russia is white and good and Ukraine is black and bad”. No equivocation there! Another executive from the beer industry which is facing tough regulatory pressures in Russia echoed this remark: “We remain optimistic about the Russian market outlook but I can’t say the same for Ukraine and I and my regional/global management are quite worried about what’s going on there in every aspect”.

Another regional MD from a European consumer products company also doubted the Ukraine market: “We are not having a good time there and sales and compliance are under pressure. We much prefer doing business in Kazakhstan where the top-line is growing faster and compliance while not perfect is much better than Ukraine”. This executive went on to say, “We should be investing on the ground in Ukraine but we will postpone this for 2-3 years. We want to see how corruption develops and to assess what happens politically after the autumn elections but also in the medium term”. Another MD in the B2B sector noted that, “We were doing so well until 2008 and then the market collapsed and since then we have never really had traction in the market and it is not coming back at the moment either”.

But some see the market more positively. The MD of one major European FMCG company told me in a one-on-one meeting that, "Ukraine has bounced back very strongly for us in the first quarter of 2012". And the CIS MD of a US food company echoed this positive note: "Our business is several hundred million dollars, approaching one billion sales and these have gone very well in recent months and we are growing at 20% top line. I also have to say that we are not experiencing any significant issues with compliance and the business is running well".

Given that real wages and retail sales growth are nudging double figures, one might expect good results to flow from the Ukraine market but this has not been the case for many in recent months; executives from the food and beverages industry have complained of severe down-trading and the fact that not all of this down-trading is flowing to western branded products.

Receivables do not appear to be worsening

Liquidity is tight and we do not think there will be any early improvement on this front but problems with receivables do note seem to be deteriorating. Some 6-8 months ago 10-15% of companies reported that they were seeing delays in payments and a rising number of requests for longer payment terms. But according to our informal surveys, this situation is limited to a minority of companies. As we noted in our last report, no one is yet talking about bad debts.

Another word on "capital flight"

This is an indicator often cited as highly detrimental for the Russian economy but it is worth analyzing why the money is leaving the country; last year $84bn of "net, private capital" left the country according to official figures. This was a recent high. Further capital export was anticipated prior to the presidential elections and this occurred but it has not relented much since then with the figure as it stood at the enf of April reaching $42bn. At current levels the 2011 figure could be matched or even surpassed.

But what kind of money is leaving the country?

1) In fact last year half the "capital flight" (some $40bn) was due to western bank subsidiaries repatriating this capital westwards and had nothing to do with frightened oligarchs looking to stash funds off-shore.
2) Russian companies are also paying off their foreign debt and when that happens it is booked under the heading "capital flight": for example in 2011 Gazprom and Bashneft paid back some $6bn of loans.
3) In addition more Russian companies are now investing abroad with Sberbank buying the Austrian Volksbank for $585mn just as one example.
4) Much of the remainder of the capital flight is due to loan refinancing, Russian M&A activity.

It is very difficult to assess but we "guesstimate" that 75% of capital flight is really nothing of the kind. That said, some real capital flight may be seeping out of the country and not recorded in official figures which is certainly a fair counter argument.

The key point is that these inflated figures are thrown about and interpreted by the media and markets as severely negative which impacts investor sentiment and the exchange rate when the perception does not reflect the reality.

Economic outlook – key drivers

Compared with most other CEEMEA and global markets, the economic numbers coming out of Russia remain essentially good despite the global downward pressures.

We have given our central growth scenario above and a GDP growth rate of 3.7 to 4.2% makes Russia one of the most attractive markets in Europe (indeed the fastest growing one) and with China trending down to 7.5% or 8%, the GDP gap between the two countries has shrunk.

As we have reported before, the current main growth engine has been consumer spending supported by record low inflation and rising real wages of an average 10% over the last 4 months. This level of real wage growth is one of the highest in the world and when you couple that with one of the highest levels of consumer credit growth, you get a very solid consumer environment which explains the generally consistently good consumer goods companies sales.

This environment also supports the remarks of those executives who have said that the spring has not seen any sustained downturn. These consumer trends are further supported by a continuing fall in unemployment to 5.4% in May which has resulted in actual labour shortages in some towns and cities. This in turn explains why nominal wages are rising 11-14%; if you want good labour, you have to pay for it.

Industrial output recovered nicely in May to 3.4% after a recent low of 1.3% in April (but May was a longer working month). Industrial output finished 2011 on a weak note and sectors are mixed but construction is recording a steady recovery thanks perhaps to weather conditions (average construction output rose 12% in the first quarter this year). Industry may be struggling due to a decline in non-oil exports although such exports will be receiving a boost from the falling rouble. On this final point the purchasing managers' index (PMI) rose to 53.2 in May, again one of the strongest numbers in Europe, most likely helped by the falling rouble making exports more competitive.

Industrial output globally though is going through a very weak patch on the back of weakening trade flows so comparatively the Russian numbers are good.

Fixed investment slowed in March after a flying start to the year (but this early 2012 boost was a jump on weak figures from the start of 2011). But with corporate profit growth still healthy and spare capacity rapidly diminishing, there exists scope for further investment. FDI will also play a marginal but expanding role for investment.

We follow the consensus view that a number of taxes will increase in the coming 4-15 months as the Russian government follows the global trend:

- It seems certain that further excise taxes will be imposed on alcohol and tobacco
- The social contribution tax may rise from its current 30% but this has proven a highly controversial tax and the authorities may steer clear
- Introduction of a luxury tax and revisions to the property tax
- Some increases on oil and tax revenues from which the Russian budget already receives some 30% of its tax revenue.

Inflation outlook

Year-on-year inflation stayed at a record low of 3.6% in May, the same figure as April, but some monthly indicators are hinting at the first signs of an increase. We are quite certain that inflation will start to rise this summer and accelerate through the autumn thanks to rising administered prices, and we can see year-end inflation at 6.5% compared to 6.1% at the end of 2011. The weaker rouble could push this figure beyond 7% but on the other hand if energy prices stabilise at their current lower figures, this will prevent any inflationary spike. Much will also depend on the harvest and consequent food prices.

We do not foresee central interest rates varying much as the Bank sees growth and inflation risks finely balanced. But it is likely that as inflation rises over the coming 9 months, the next rate move will be upwards from the current 8% to 8.25% unless growth starts to stagnate, signs of which are certainly not apparent at the moment.

Consumer-related statistics: by year and monthly

	2009	2010	2011*						2012				
	year	year	Q1	Q2	Q3	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Disposable income	1,0	3,7	-3,0	-2,8	1,3	0,4	0,3	6,3	2,0	3,1	2,6	2,1	n/a
Real wages	-2,8	4,2	0,6	3,3	4,3	5,0	3,3	4,9	9,1	13,3	9	10,4	n/a
Real retail sales	-5,5	4,4	5,1	5,7	7,5	8,8	8,6	9,5	6,8	7,7	7,3	6,4	n/a
Unemployment	8,3	7,6	7,4	6,5	6,2	6,4	6,3	6,1	6,6	6,5	6,5	5,8	5,4
Industrial output	-10,8	7,3	5,9	5,1	5,1	3,6	4,1	2,5	3,8	6,5	2,2	1,3	3,7
Fixed investment	-17,9	5,6	-3,2	4,7	7,6	8,6	7,7	8,9	15,6	15,1	4,9	7,8	n/a
Consumer prices	8,8	8,7	9,5	9,5	8,1	6,8	6,8	6,1	4,2	3,7	3,7	3,6	3,6
Budget deficit (running)	-5,9	-4,0	-3,4	-2,2	-0,9	-0,3	0,8	0,8	0,5	0,3	0,2	0,3	0,1
Notes: * month compared with same month of previous year													

Macro-economic data 2009-15

	2009	2010	2011	2012	2013	2014	2015	2016
GDP	-7,9	4,3	4,3	3,8	4,2	4,5	4,9	5,0
Retail sales	-5,5	6,3	7,2	5,8	5,5	4,8	4,9	4,8
Real wages	-2,8	4,4	4,9	5,1	5,0	4,8	4,7	5,2
Disposable income	1,0	3,7	2,8	3,4	3,8	4,0	4,2	4,0
Inflation (year-end)	8,8	8,7	6,1	6,5	5,7	5,4	5,0	5,0
Unemployment rates	7,9	7,6	6,5	5,8	6,1	5,6	5,6	5,3
Gross fixed investment	-17,9	5,6	6,8	6,4	7,0	6,8	7,3	7,3
Industrial output	-10,8	8,3	6,1	5,0	5,2	5,4	5,7	6,2
FX reserves ($bn)	447	485	490	520	560	605	635	660
Rouble/$ (year-end)	30,3	30,4	32,1	32,0	30,8	29,5	29,0	29,2
Rouble/Euro (year-end)	43,4	40,0	41,5	41,0	39,2	38,6	35,8	35,6
Budget balance (% of GDP)	-6,3	-3,5	0,8	-1,0	-0,7	-0,5	0,0	0,2
Current-account balance (% of GDP)	3,8	4,9	4,9	4,0	2,9	2,8	2,5	2,5

Brief HR comments

Average salaries remain in a steady ball-park: the HR director of one major services company noted that the 'average index" for salaries is running in a range of 7-10% and when you are making individual salary assessments these can rise to 12-13%. But other executives also agreed that for the very top talent in key positions, average numbers are not applicable and increases can be of 25-50-100% but we stress that these are not the norm. The regional director of one executive search company has commented before that: "One major independent company wanted to create a management team of 5-6 senior executives to drive the business over the next 2-4 years and decided on salary increases of close to 100% with a solid bonus program to keep this talent". Not everyone may agree with that approach but it is certainly not unique.

The Spaniards are coming!

The MD of one luxury goods company remarked in Moscow that he would consider transferring well-trained staff from Spain and Italy to his operations in Russia for senior finance roles: "I think we have many well-qualified staff in those peripheral markets that will be looking for or needing a transfer to a better market environment and Russia offers that. From my point of view I think we can obtain good people at salaries which are frankly lower than those of Russian candidates". We do not think that there will be a flood of Spanish and Italian, Portuguese executives swamping the market but for some senior positions, companies may look closely at the option of internal transfers.

The HR director of one IT company mentioned last week that, "We do not try to stop people leaving our company when they want to do their own start-up company. Often they end up as customers/suppliers or partners or if their venture does not succeed, we have few problems in taking them back on board".

I hope you have enjoyed this paper and please review the others in this series which are attached with in the mailing. If you have any queries, then do feel free to contact me at danielthorniley@dt-gbc.com

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