

Macro Foresight

**Rebound in Consumer Demand May Start Within One Year,
Triggering Broad-based Economic Recovery**

October 2016

Consumer sentiment is starting to improve, driving delayed purchases. Meanwhile, production, profit, financial stability and other leading indicators improve in key economic sectors

CONSUMER DEMAND

- Consumer sentiment/ confidence surveys (VtsIOM, Higher School of Economics, etc.) are showing visible improvement. Most people believe the economic situation has stabilized, and concerns over high inflation and unemployment are now receding
- According to anecdotal evidence from several major online retailers, the average receipt on per item basis has grown 2-3 times in recent months. Market players tend to attribute this to delayed purchases now being made by customers
- According to GfK Research, sales of consumer electronics and household appliances surged 14.2% y/y in Q2/2016

LABOR MARKET

- The drop in real wages has been reversed due to slowing inflation and corporates trying to retain key employees. Nominal wages still managed to grow 7.3% y/y in Jan-Aug 2016 amid the economic slump
- Corporate wage arrears declined by 6.6% over May-Sep 2016 after spiking up since the start of the “Ukraine crisis”
- ILO-definition unemployment is down marginally y/y as of end-Aug 2016, despite widespread concerns

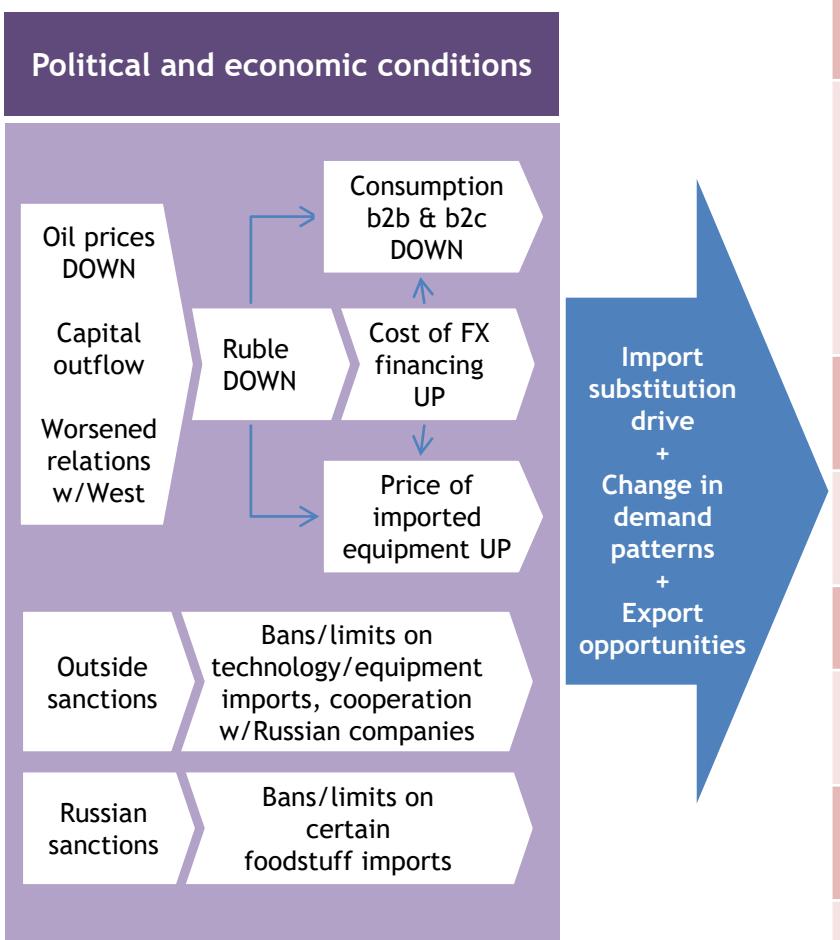
ECONOMIC DEVELOPMENT

- Import substitution continues fueling growth in a widening range of economic sectors, which cannot be explained away by the low base effect. Production volumes in absolute terms in a number of key industries significantly exceed levels recorded before the start of the “Ukraine crisis” in 2014 (*for details, please refer to sl. 2*)
- Moreover, output price growth is now starting to pick up in a host of sectors enjoying production increases, e.g. fish, agricultural produce (grains & cereals, sunflower oil, etc.), footwear, textiles, and electronics & home appliances. This reflects stronger consumer demand and bodes well for growth of investment in these sectors
- Real sector pre-tax profit rose another 4.7% y/y in Jan-Jul 2016 after growing 50% in 2015 (which included a 3-fold increase in manufacturing). Corresponding indices declined just marginally in 2014, which shows the upsurge is not owed to the low base
- Central Bank data shows vivid improvement in key financial stability indices in retail & wholesale trade, including current liquidity, own funds' sufficiency, and debt/earnings. The improved financial performance allows retailers & distributors to introduce additional discounts, further supporting consumer demand, and to broaden their sales network

OTHER LEADING INDICATORS

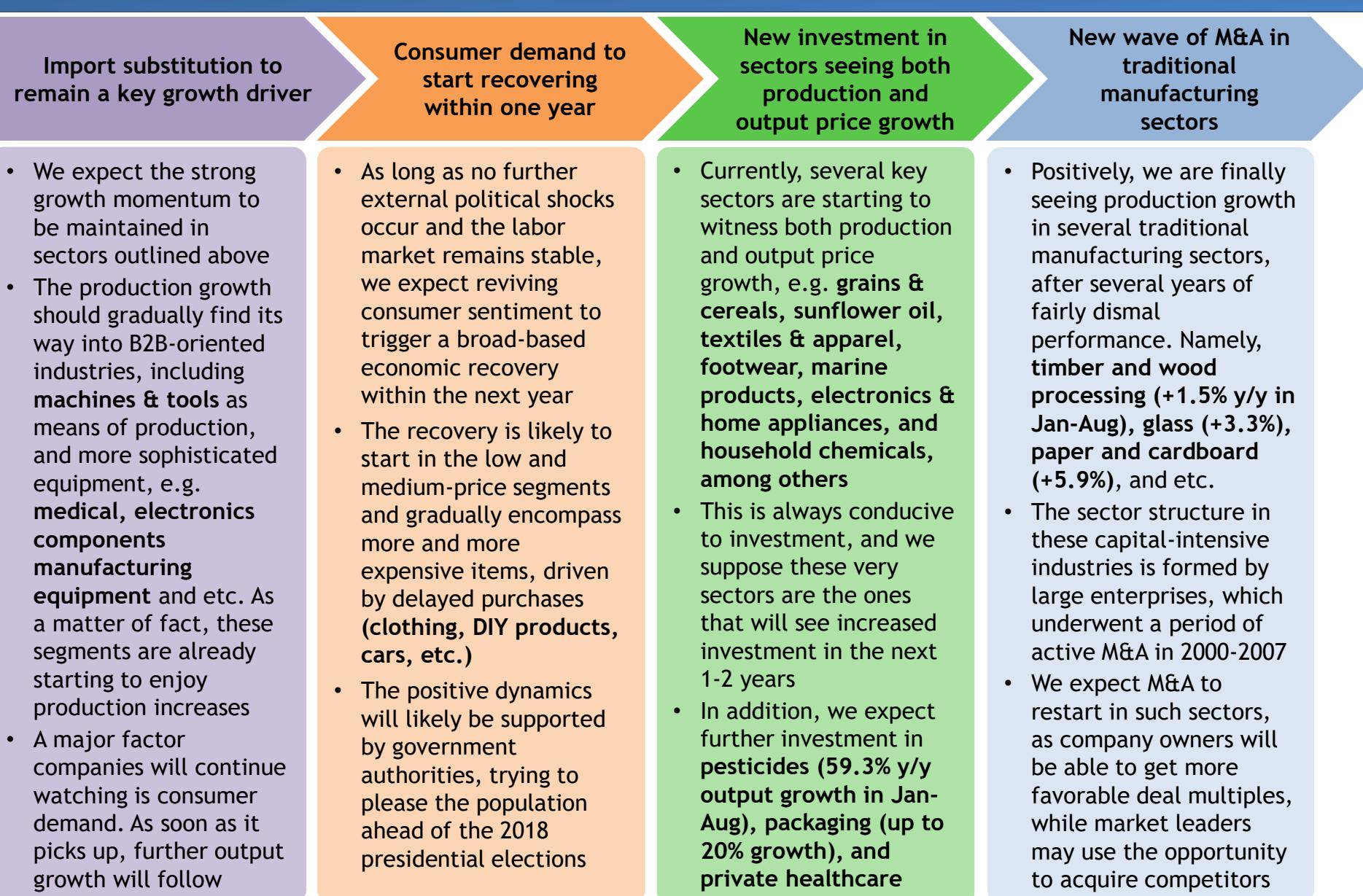
- Serving as a leading indicator for such a vast country like Russia, growth of transportation is observed in practically all means of transport, including truck and railway. The goods breakdown reveals growth in both consumer and industrial goods

Import substitution becomes a major economic growth driver, despite political turbulence and consumption weakness. This presents ample production localization and M&A/ JV opportunities for foreign players



Output growth, Jan-Aug 2016, % y/y	Main growth drivers	Opportunities
Agriculture +3.4% - Grain +2.9% - Meat & poultry +5.2%	<ul style="list-style-type: none"> Import substitution Government support Export opportunities 	<ul style="list-style-type: none"> Investment in leaders in respective segments Joint production
Food manufacturing +2.4% - Meat, meat products +4.0% - Oils & fats +6.7% - Canned vegetables & mushrooms +11.4% - Ice cream +9.8% - Rice +15.5% - Fodder feed +4.4%	<ul style="list-style-type: none"> Import substitution Vertical and horizontal integration Increased competition 	<ul style="list-style-type: none"> Investment in leaders in respective segments Joint production Investment in high value-added products, incl. eco and premium foods
Marine products +3.6% - Frozen fish fillet +24.9% - Fish preserves +15.0%	<ul style="list-style-type: none"> Import substitution Growth of processing Increased competition 	<ul style="list-style-type: none"> Investment in processing capacity, joint production
Textiles & apparel +4.0% - Fabrics +20.4% - Apparel + 4.6%	<ul style="list-style-type: none"> Import substitution Increased readiness to buy local products 	<ul style="list-style-type: none"> Investment in textile manufacturing, JV Creating design bureaus
Footwear, leather +9.3%	<ul style="list-style-type: none"> Import substitution Horizontal integration 	<ul style="list-style-type: none"> Production localization M&A
Plastics & resins +5.9%	<ul style="list-style-type: none"> Demand in industries spurred by import substitution 	<ul style="list-style-type: none"> High-precision plastics - manufacturing & equipment
Cosmetics +8.7%	<ul style="list-style-type: none"> Import substitution Focus on local brands in natural products 	<ul style="list-style-type: none"> M&A Licensed production in Russia
Machines, equipment +3.6% - Agricultural equip. +28.8% - Metal-cutting tools +16.9% - Medical devices +11.6% - Home appliances +11.2%	<ul style="list-style-type: none"> Import substitution Production localization by foreign players 	<ul style="list-style-type: none"> Technology transfer Production localization

Consumer demand expected to start recovering over the coming year, further stimulating investment, in addition to import substitution. Several key sectors may see a new wave of M&A



Contact details

*For additional information,
please contact:*

Andrew Afanasiev

Partner
Head of Strategy and
Integration Advisory

Mob. +7 (903) 745 7330
E-mail: aafanasiev@strategicchoice.org

Sergey Trofimov

Partner
Head of Corporate Finance
and M&A Advisory

Mob. +7 (916) 685 5993
E-mail: strofimov@strategicchoice.org

Strategic Choice Advisory

World Trade Center
Office# 1404A, entrance 3,
12 Krasnopresnenskaya nab., Moscow, Russia

Tel. +7 (495) 778 4597

<http://www.strategicchoice.org>