

# MNI Russia Business Report September 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 - September 2015

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# Executive Summary

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The MNI Russia Business Sentiment Indicator rose 1.3% to 53.0 in September from 52.3 in August. This month's outturn lifted the indicator just above the series average of 52.4 and meant that Q3 came in at 52.2 compared with the 49.7 recorded in Q2.

This month's improvement in sentiment was led by companies in the service sector, although this paled in comparison to their attitude in August which was at the highest level since February 2014. While manufacturing firms followed closely, they were helped by last month's low base in which dissatisfaction hit a two-year high. Construction firms struck a downbeat note in September following a neutral reading in August.

There was also a bounceback in companies' short-term outlook for business conditions after having soured to an 18-month low in August. The Future Expectations Indicator rose 9.3% to 54.3 in September from 49.7 in the previous month. That being said, the indicator averaged just 52.4 in Q3 compared with 56.8 in Q2, the second lowest quarter in the survey's history.

Firms reported that loans were more widely available this month after credit was squeezed in August, which looks to have underpinned overall business sentiment.

There was evidence that the considerable depreciation of the rouble in recent months appears to be increasingly filtering through to inflation. Companies reported that their input costs had hit a four-month high in September and a higher proportion than ever before expected they would have to raise their own prices in the next three months.

In spite of the increase in input prices, our panel judged the exchange rate to be more favourable to their business operations than ever before, although this hasn't had a significant impact on Export Orders to date.

Overall business sentiment continues to run ahead of the two key activity measures, Production and New Orders. Production fell slightly on the month while New

Orders increased a little, but both were barely above the 50 breakeven mark.

Companies continued to run down their stock levels in September, albeit at a slower pace than last month, while the time taken to deliver raw materials was unchanged after having shortened for the previous seven months.

10 out of the 15 current conditions indicators in the MNI Russia Business Survey rose in September and two saw no change, while seven of the 15 Future Expectations indicators improved on the month.

## Overview

	Jul-15	Aug-15	Sep-15	Highest Since	Lowest Since	3-Month Average	Monthly Change	Monthly % Change
<b>MNI Russia Business Indicator</b>								
Current Conditions	51.3	52.3	53.0	Jul-14	-	52.2	0.7	1.3%
Future Expectations	53.2	49.7	54.3	Jun-15	-	52.4	4.6	9.3%
<b>Production</b>								
Current Conditions	50.5	51.8	50.3	-	Jun-15	50.9	-1.5	-2.9%
Future Expectations	50.0	48.5	48.2	-	Dec-13	48.9	-0.3	-0.6%
<b>New Orders</b>								
Current Conditions	51.3	49.5	50.5	Jul-15	-	50.4	1.0	2.0%
Future Expectations	49.7	49.5	49.2	-	Dec-13	49.5	-0.3	-0.6%
<b>Export Orders</b>								
Current Conditions	51.3	50.6	50.0	-	Mar-15	50.6	-0.6	-1.2%
Future Expectations	50.0	50.0	50.7	Jun-15	-	50.2	0.7	1.4%
<b>Productive Capacity</b>								
Current Conditions	50.0	50.0	50.0	Aug-15	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Aug-15	-	50.0	0.0	0.0%
<b>Order Backlogs</b>								
Current Conditions	49.5	49.5	50.3	Feb-14	-	49.8	0.8	1.6%
Future Expectations	48.8	49.0	49.0	Aug-15	-	48.9	0.0	0.0%
<b>Employment</b>								
Current Conditions	50.3	49.8	50.3	Jul-15	-	50.1	0.5	1.0%
Future Expectations	49.8	50.5	49.0	-	Feb-15	49.8	-1.5	-3.0%
<b>Inventories</b>								
Current Conditions	60.1	46.6	47.3	Jul-15	-	51.3	0.7	1.5%
Future Expectations	48.6	48.6	47.9	-	Sep-14	48.4	-0.7	-1.4%
<b>Input Prices</b>								
Current Conditions	50.0	50.3	51.3	May-15	-	50.5	1.0	2.0%
Future Expectations	50.5	52.0	54.3	Sep-13	-	52.3	2.3	4.4%
<b>Prices Received</b>								
Current Conditions	50.0	51.8	52.3	Jun-15	-	51.4	0.5	1.0%
Future Expectations	53.6	57.7	59.4	series high	-	56.9	1.7	2.9%
<b>Financial Position</b>								
Current Conditions	50.5	52.3	51.8	-	Jul-15	51.5	-0.5	-1.0%
Future Expectations	55.3	60.4	59.1	-	Jul-15	58.3	-1.3	-2.2%
<b>Interest Rates Paid</b>								
Current Conditions	50.0	50.0	50.0	Aug-15	-	50.0	0.0	0.0%
Future Expectations	50.0	50.0	50.0	Aug-15	-	50.0	0.0	0.0%
<b>Effect of Rouble Exchange Rate</b>								
Current Conditions	50.0	59.1	62.4	series high	-	57.2	3.3	5.6%
Future Expectations	50.0	52.3	54.8	series high	-	52.4	2.5	4.8%
<b>Supplier Delivery Times</b>								
Current Conditions	49.5	49.8	50.0	Jan-15	-	49.8	0.2	0.4%
Future Expectations	49.7	49.7	50.0	Feb-15	-	49.8	0.3	0.6%
<b>Availability of Credit</b>								
Current Conditions	53.5	48.2	56.8	Jun-14	-	52.8	8.6	17.8%
Future Expectations	53.1	48.9	49.4	Jul-15	-	50.5	0.5	1.0%

# The MNI Russia Business Sentiment Indicator rose 1.3% to 53.0 in September from 52.3 in August.

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This month's outturn lifted the indicator just above the series average of 52.4 and meant that Q3 came in at 52.2 compared with the 49.7 recorded in Q2.





# Economic Landscape

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While the Central Bank of Russia failed to surprise, leaving the key rate unchanged at its September meeting, the future for the Russian economy is less certain as official data has taken a turn for the worse amid the recent external volatility.



While the Central Bank of Russia failed to surprise, leaving the key rate unchanged at its September meeting, the future for the Russian economy is less certain as official data has taken a turn for the worse amid the recent external volatility. Both consumer and producer inflation accelerated in August as the depreciation of the rouble filtered through, with the risk that it will rise further. There was, however, one small silver lining to the rouble weakness as it helped to encourage the manufacture of tradeable goods, lifting up industrial production slightly. Still, output was held back by consumer-oriented products which have suffered on the back of the drop in real wages which fell further into negative territory in August even as unemployment remained stable. Accordingly, spending remained anaemic in August with retail sales declining at the same rate as last month and car sales suffering a double-digit contraction. While the Economy Ministry's GDP estimate for August is not due till later this month, it is expected to suggest that the Russian economy is still contracting at a rapid pace, signalling that the recovery is far from near.

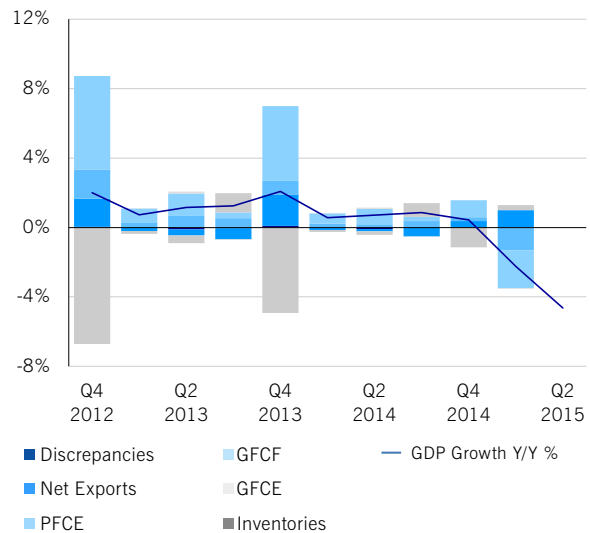
Given greater risks to inflation, the central bank chose to maintain the key interest rate at 11% at its meeting on September 11. The move was anticipated by ourselves and brought to an end five consecutive cuts which have brought the key rate down by a total of 600 basis points. With official data pointing to a deterioration in domestic demand over the past few months, there is greater urgency for borrowing costs to come down to a more manageable level. The weakness of the rouble and the possibility of a hike in US rates, however, make it difficult for the central bank to cut further for now. As such, we expect that the CBR will leave the key rate unchanged at its next meeting on October 30.

### Russia's recession deepens

Data released by the Federal Statistics Service (Rosstat) showed that the economy shrank 4.6% on the year in the second quarter of 2015 following a contraction of 2.2% in the first quarter.

While the statistics agency has yet to release data on an expenditure basis, it has provided an industrial breakdown. A sharp decline in the wholesale and retail sector led the slowdown in Q2, with output in the sector down 9.9% year-on-year following a contraction of 7.6%

### Economic Growth



Source: Rosstat

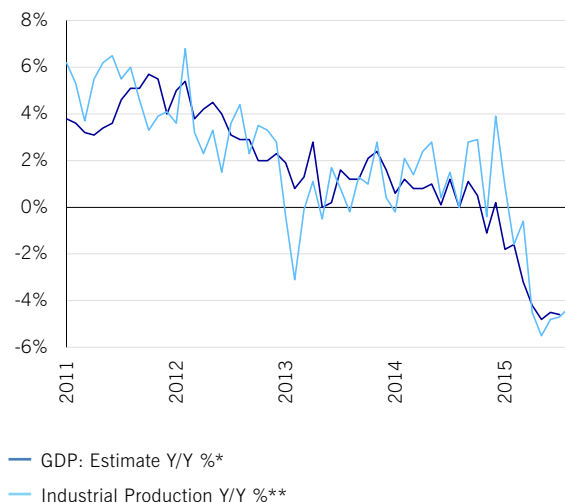
in Q1. Meanwhile, the decline in the manufacturing sector accelerated to 4.8% on the year after having shrunk just 0.6% in Q1, in stark contrast to the latter half of 2014 when it provided some measure of support for the economy. Western capital restrictions continued to weigh down on the financial sector, with the industry contracting 5.2% year-on-year following a decline of 3.9% in Q1. One of just a handful of industries to see growth was the agricultural sector, which expanded 2.1% on the year in Q2 as the food ban helped provide a helping hand to domestic farmers, although this was below growth of 2.9% in Q1.

Latest monthly figures from the Economic Development Ministry suggest that GDP fell 4.6% on the year in July following a 4.2% decline in June. Given the slump in oil prices over the past few months, the economy ministry recently revised down its forecast for GDP in 2015 to -3.3% from -2.8% previously, although maintained that the downturn had bottomed out.

### Output lifted slightly by exports

Industrial production declined by a seasonally adjusted 0.3% on the month in August after remaining unchanged in July, while year-on-year growth increased slightly to -4.3% from -4.7% in the previous month.

### Industrial Production and GDP



Source: \*Ministry of Economic Development, \*\*Rosstat

There was evidence that the depreciation in the rouble over recent months provided some support to the industrial sector this month 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 switched to Russian suppliers in order to take advantage of the more 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 as their wages deteriorated further.

Manufacturing output was down 6.8% on the year following a 7.1% fall in the previous month. Still, there were double-digit falls in six of the 14 manufacturing industries, led by a 21.3% slump in the production of non-categorised goods. Conversely, mining and quarrying output was 0.8% above the same month a year earlier following growth of 0.2% in July. All six industries within the sector posted positive annual growth for the first time since March, led by extraction of unclassified materials which were up 3.4% in August and closely followed by a 3% expansion in the mining of coal and peat. Year-on-year growth in utilities output fell 0.8% in July following a decline of 1% in the previous month. Thermal energy production and distribution grew 1.1% on the year in August following a 0.1% fall in July,

while electricity production contracted just 0.1% after suffering a 0.6% decline 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. The move was anticipated by ourselves and ended 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 before the emergency hike in December last year which was made in a desperate effort to support the rouble which was rapidly depreciating.

The CBR between a rock and a hard place. On 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 must normalise the key rate in order to leave the economy in a position in which it can emerge from recession should the external environment present an opportunity to do so.

Officials are due to meet next on October 30, with any decision on borrowing costs likely to be determined by how economic data, oil prices and the exchange rate all develop in the run-up to the meeting. Given the continued pressure on oil prices and the rouble, as well as the likelihood of a Fed rate lift-off, we doubt that the central bank will find room to ease the benchmark rate further at the October meeting.

### Trade surplus lowest since August 2012

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 July, Russia's trade surplus declined by 34% on the year to \$11.2 billion from \$13.8 billion in June.

Exports declined by 39% on the year to \$28.2 billion in July from \$30.3 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.

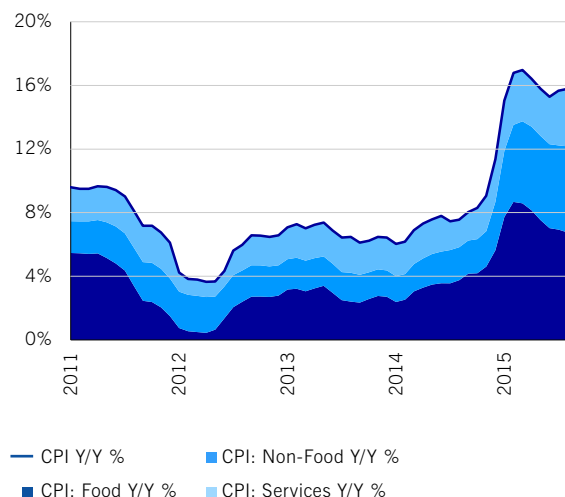
Imports, meanwhile, fell by a more pronounced 41.9% on the year to \$17 billion in July from \$16.5 billion in June. Since the rouble has weakened considerably over the past year, the cost of imports has risen sharply. Consequently, imports have reduced as companies have looked increasingly to domestic suppliers.

#### Rouble depreciation pushes up inflation

Consumer price inflation accelerated to 15.8% on the year in August, stoking fears that last month's rise to 15.6% on the back of an annual hike in utility tariffs may not have been a one-off following what appeared to be a gradual trend in easing price growth.

Much of the uptick in prices was driven by the weaker currency, the effect of which was most evident in service sector inflation which rose to 14.1% in August from 13.4% in July. Non-food items were also pushed higher, albeit more moderately to 14.6% from 14.3% previously, with the rouble depreciation yet to fully filter through on this side. Meanwhile, food price inflation was the only category to show a decline in August as a plentiful Russian harvest helped it to ease further to 18.1% in August from 18.6% in July. Stripping out the prices of food and fuel, which tend to be volatile, core inflation ticked up to 16.6% on the year after easing to 16.5% in July.

#### Consumer Price Inflation



Source: Rosstat

Recent volatility has prompted the Central Bank of Russia 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 13.7% on the year in August from 13.1% in July. Similarly to consumer prices, the weakening of the rouble was the main culprit. Inflation in the manufacturing sector, which accounts for almost 70% of the index, was up a touch to 14.3% on the year following a rise of 14.2% in July. Prices in the mining and quarrying sector were similarly up just slightly to 14.6% year-on-year in August from 14.5% in July, while inflation in the utilities sector accelerated to 9% compared with 5.4% previously.

#### Labour market remains poor

Unemployment remained at 5.3% in August following last month's surprise drop from 5.4% in June. 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 9.8% on the year in August after declining by 9.2% in July. 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 two 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 spending deteriorates

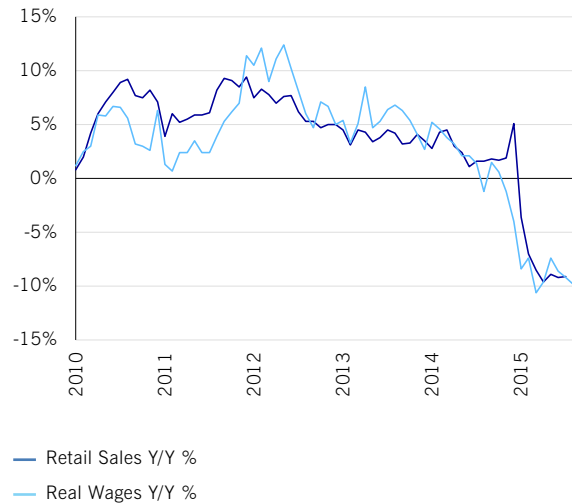
Combined with the prohibitively high rate of inflation, falling wages have left Russian households with very little purchasing power. This is reflected in retail sales which were 9.1% below the level seen a year earlier in August, matching the July decline (revised down from -9.2% previously). Sales of non-food items were down



8.3% on the year in August following a contraction of 9.3% in July (revised down from -9.4% previously) whereas food sales declined by 10% on the year after shrinking 8.9% in the previous month.

Automobile sales were down 19.4% on the year in August following a fall of 27.5% in July. 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 August, the price of a domestically manufactured car was 23.8% above one produced a year previously and the price of an imported one was 18.2% higher on the year.

#### Retail Sales and Real Wages



#### Key Monthly Economic Data

	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Aug-15
GDP Y/Y %*	-3.2	-4.2	-4.8	-4.5	-4.6	-	-
Industrial Production Y/Y %**	-0.6	-4.5	-5.5	-4.8	-4.7	-4.3	-
Consumer Price Index Y/Y %**	16.9	16.4	15.8	15.3	15.6	15.8	-
Producer Price Index Y/Y %**	13.0	15.0	13.4	13.1	13.1	13.7	-
Unemployment Y/Y %**	5.9	5.8	5.6	5.4	5.3	5.3	-
Real Wages Y/Y %**	-10.6	-9.6	-7.4	-8.6	-9.2	-9.8	-
Retail Sales Y/Y %**	-8.5	-9.6	-8.9	-9.2	-9.1	-9.1	-
Car Sales Y/Y %***	-42.5	-41.5	-37.6	-29.7	-27.5	-19.4	-
Trade Balance \$ Bn.****	15.4	15.0	15.3	13.8	10.7	-	-
Exports \$ Bn.****	32.7	31.5	30.9	30.3	27.7	-	-
Imports \$ Bn.****	17.3	16.4	15.6	16.5	17.0	-	-
MNI Russia Business Sentiment Indicator	48.8	46.0	51.3	51.8	51.3	52.3	53.0
MNI Russia Consumer Sentiment Indicator	69.2	73.0	72.8	76.4	70.8	72.5	-

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



# Indicators

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Sentiment among our panel of large Russian businesses ticked up this month and their short-term outlook for the future bounced back after having soured in the previous month.

# MNI Russia Business Indicator

## Highest Since July 2014



Sentiment among our panel of large Russian businesses ticked up this month and their short-term outlook for the future bounced back after having soured in the previous month. What is driving the more positive sentiment is unclear and it is questionable whether this upbeat attitude can be sustained given that several other key indicators pared gains made in recent months.

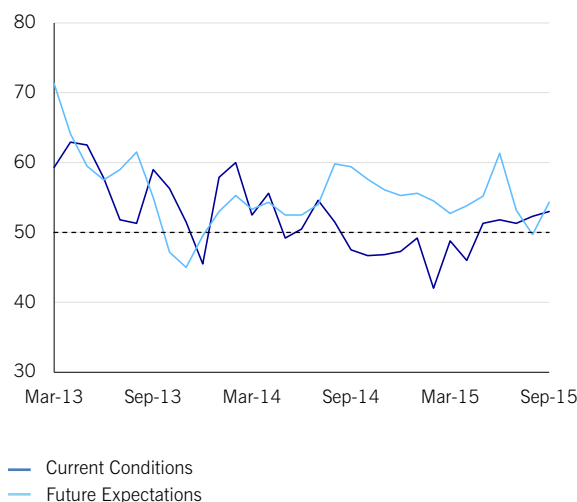
The MNI Russia Business Sentiment Indicator rose 1.3% to 53.0 in September from 52.3 in August. This month's outturn lifted the indicator just above the series average of 52.4 and meant that Q3 came in at 52.2 compared with the 49.7 recorded in Q2.

This month's improvement in sentiment was led by companies in the service sector, although this paled in comparison to their attitude in August which was at the highest level since February 2014. While manufacturing firms followed closely, they were helped by last month's low base in which dissatisfaction hit a two-year high. Construction firms struck a downbeat note in September following a neutral reading in August.

Of those surveyed, 15.5% of companies reported that the business environment had improved on the month, down from the 20% who did so in August, while 75% considered conditions to have remained the same, up from 64.6% previously. Meanwhile, the proportion of companies who thought that trading conditions had deteriorated on the month eased to 9.5% in September from 15.4% in August.

After credit was squeezed last month, companies reported that loans were more widely available, leading the September improvement in sentiment. The sharp depreciation of the rouble was taken as a positive, with a record number of our panel considering the exchange rate to be favourable to their operations. Even so, the current weakness caused inflationary pressures to build

MNI Russia Business Sentiment Indicator



MNI Russia Business Indicator

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Current Conditions	47.5	46.0	51.3	51.8	51.3	52.3	53.0



once again with firm's costs rising to the highest since May, in-turn pushing up expectations for the prices to be charged to an all-time high. Furthermore, exports were unchanged on the month despite the rouble depreciation, although a rise in the overall number of orders received by our panel suggests that there could be some degree of import substitution.

Companies were also more upbeat in their outlook for the future with the Future Expectations Indicator rising 9.3% to 54.3 in September following last month's fall to 49.7, indicating that firms anticipate that business conditions will improve over the coming three months. That being said, the indicator averaged just 52.4 in Q3, down from 56.8 in Q2 and the second lowest quarter in the survey's history.

10 out of the 15 current conditions indicators in the MNI Russia Business Survey rose in September and two saw no change, while seven of the 15 Future Expectations indicators improved on the month.

#### Sectors - Overall Business Conditions

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

#### MNI Russia Business Indicator

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Future Expectations	59.4	53.8	55.2	61.3	53.2	49.7	54.3

## Orders

### Slight Uptick in Demand



While the further weakening in the rouble seemingly had no impact on exporters this month, our panel reported that the total number of orders they received had edged up in a sign that there some degree of import substitution has taken place.

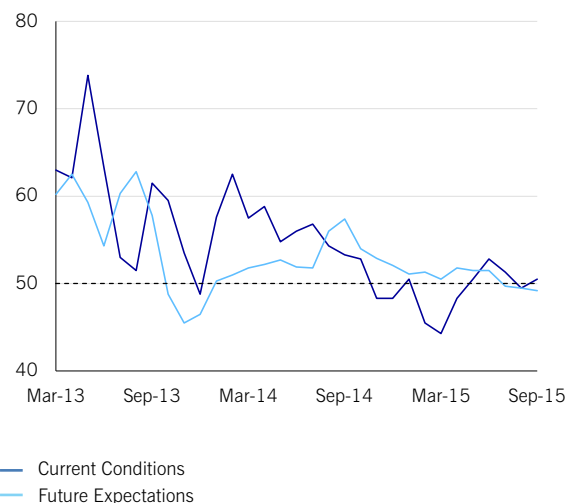
The New Orders Indicator moved back into positive territory in September, rising to 50.5 after last month's fall to 49.5 brought an end to three months of expansion. Still, companies remained pessimistic in their outlook for demand over the coming three months, with the Expectations Indicator for New Orders broadly unchanged at 49.2 in September compared with 49.5 in August.

The recent depreciation of the rouble has lowered the cost of Russian goods and services to foreign companies, providing exporters with a cost advantage over their international rivals. That being said, the benefits of the weak currency has been countered somewhat by sanctions which have prevented trade in certain goods and particular industries.

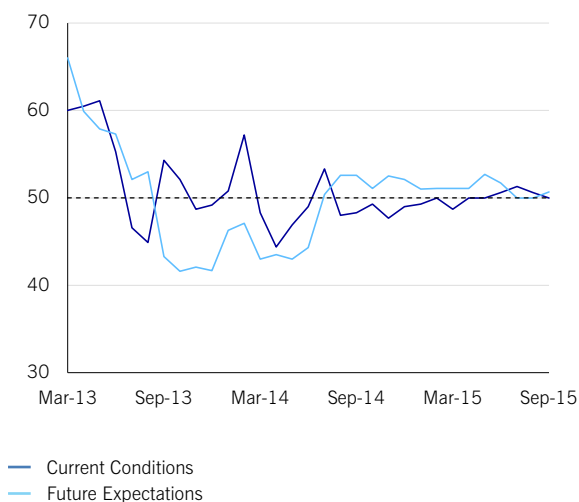
Export Orders eased slightly to 50.0 in September following a fall to 50.6 in August. While this could be a momentary hiccup, particularly as the rouble has since plunged to new depths, companies continued to be nonchalant in their outlook for exports over the coming three months with the Expectations Indicator remaining unchanged at 50.0 in August.

Given that the total number of orders received by our panel rose even as exports remained constant, it is suggestive that domestic demand grew this month albeit at a feeble rate. One possible explanation is the rouble rout, which pushed up both consumer and producer prices in August, which could have incited some

#### New Orders



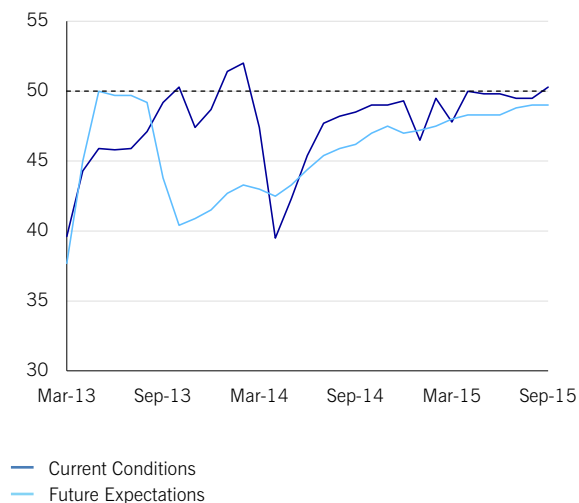
#### Export Orders



#### Orders - Current Conditions

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
New Orders	53.3	48.3	50.5	52.8	51.3	49.5	50.5
Export Orders	48.3	50.0	50.0	50.6	51.3	50.6	50.0
Order Backlogs	48.5	50.0	49.8	49.8	49.5	49.5	50.3

## 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

companies to seek out domestic suppliers in lieu of their overseas ones whose offering is likely to have become more expensive due to the less favourable exchange rate.

Firms reported that their Order Backlogs had risen only slightly in September, evidenced by the 1.6% rise in the indicator to 50.3, though significant given that it was last above the 50 mark in February 2014. Regardless, our panel did not anticipate that this month's uptick would mark a deviation from the trend, in line with their pessimistic outlook for orders for the third quarter, with the Expectations Indicator standing at 49.0 in September.

## Orders - Future Expectations

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
New Orders	57.4	51.8	51.5	51.5	49.7	49.5	49.2
Export Orders	52.6	51.1	52.7	51.7	50.0	50.0	50.7
Order Backlogs	46.2	48.3	48.3	48.3	48.8	49.0	49.0



## Output and Employment Slowdown in Production



With order books growing just slightly in September, fewer companies expanded output but an increasing number of them reported that their headcount was not sufficient for their needs.

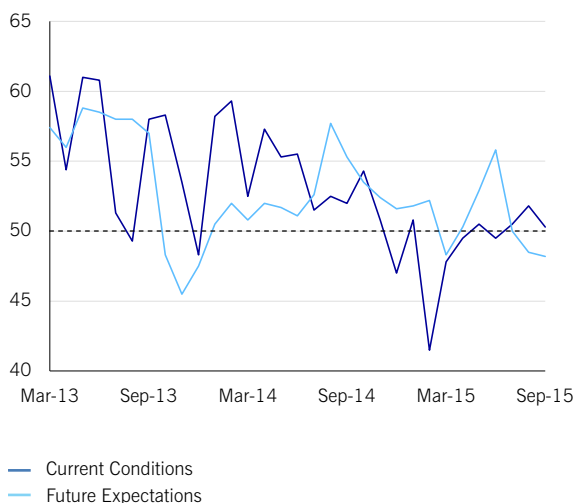
The Production Indicator fell by 2.9% to 50.3 in September after hitting a 10-month high of 51.8 in August. Companies in both the construction and services sectors reported that they scaled back output while manufacturing firms chose to keep production levels unchanged in September.

Our Production Indicator has a close correlation with official data on industrial production which declined by a seasonally adjusted 0.3% on the month in August after remaining unchanged in the previous month. While our indicator may have fallen in September, it remained above the 50 breakeven level, suggesting that there could be some further moderation in the official data. Even so, the majority of our panel kept their production stable, suggesting that output is still weak in absolute levels and will probably take some time to fully recover.

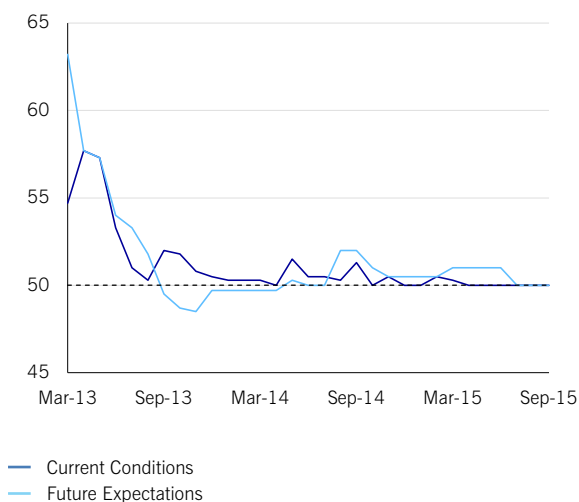
More companies anticipated that they would scale back their output over the coming three months amid pessimistic expectations for orders. Expectations for Production eased for the third consecutive month to 49.2 in September from 48.5 in August, the lowest since December 2013. Manufacturing firms were alone in anticipating that their production would remain stable, while more companies in both the construction and service sectors expected their output levels to fall in the future.

Firms considered the size of their workforce to be slightly too small for their requirements in September with the Employment Indicator rising to 50.3, matching last

### Production



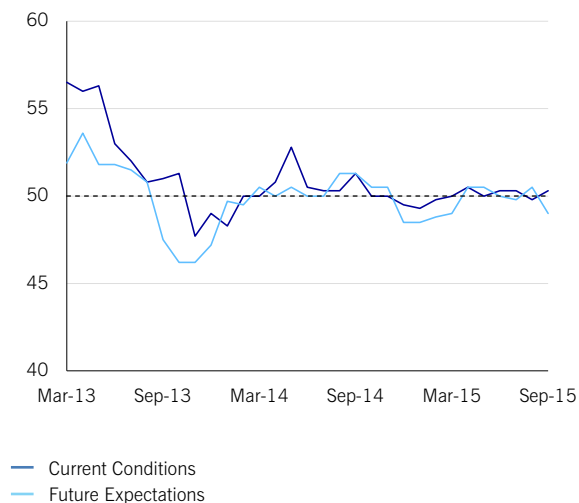
### Productive Capacity



### Output and Employment - Current Conditions

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Production	52.0	49.5	50.5	49.5	50.5	51.8	50.3
Productive Capacity	51.3	50.0	50.0	50.0	50.0	50.0	50.0
Employment	51.3	50.5	50.0	50.3	50.3	49.8	50.3

## Employment



month's fall to a seven-month low of 49.8. Regardless, companies anticipated they would have too many employees in three months' time, with the Expectations Indicator dipping into contraction to 49.0 in September from to 50.5 in August.

Firms reported that their Productive Capacity was unchanged for the sixth month in a row, with the indicator standing at 50.0 in September. Moreover, companies anticipated that they would neither expand nor reduce their capacity in the future, with the Expectations Indicator remaining at 50.0 in September for the third consecutive month.

## 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

## Output and Employment - Future Expectations

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Production	55.3	50.3	52.9	55.8	50.0	48.5	48.2
Productive Capacity	52.0	51.0	51.0	51.0	50.0	50.0	50.0
Employment	51.3	50.5	50.5	50.0	49.8	50.5	49.0

## Prices

### Inflationary Pressures Build



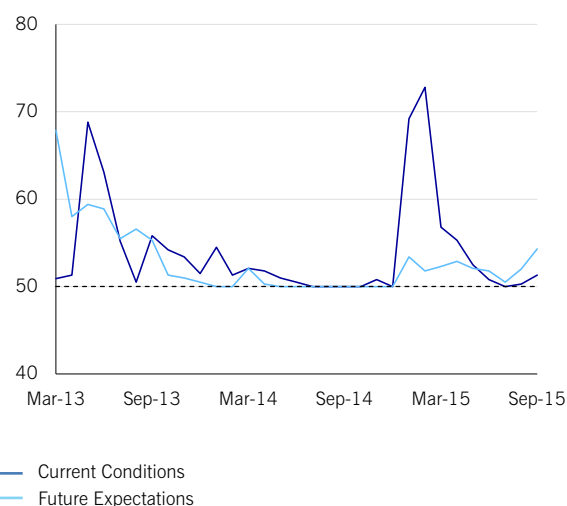
While our panel's costs may have ticked up on the back of the rouble depreciation, forcing more of them to raise prices, their assessment of the exchange rate was more positive than ever before.

Official figures showed that producer price inflation increased to 13.7% in August from 13.1% in July. Much of this was on the back of the weakening of the rouble in recent months which has been hit hard by the slump in oil prices. Inflation in the manufacturing sector, which accounts for almost 70% of the index, was up a touch to 14.3% on the year following a rise of 14.2% in July. Prices in the mining and quarrying sector were similarly up just slightly to 14.6% year-on-year in August from 14.5% in July, while inflation in the utilities sector accelerated to 9% compared with 5.4% previously.

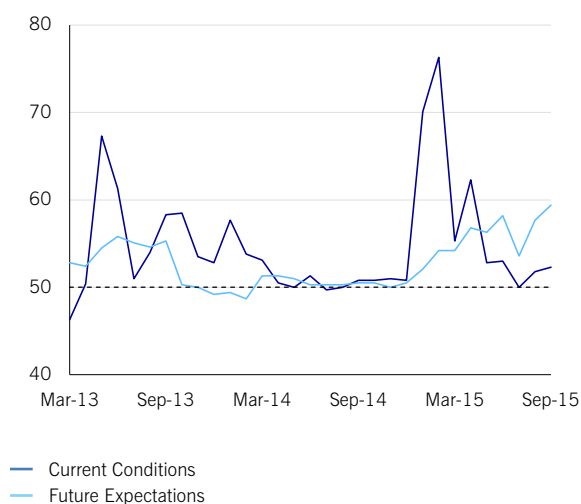
These inflationary pressures appeared to have spilled over into September as a growing number of our panel reported that their costs had risen. The Input Prices Indicator rose a full point to a four-month high of 51.3 in September from 50.3 in the previous month. Prior to August, the indicator had eased for five consecutive months before hitting a series low in July, in a tentative sign that inflation had peaked. This has now been thrown into doubt.

While the rouble has since stabilised somewhat after touching an all-time low in August, the lagged impact of currency dynamics means that there is a possibility that costs will be pushed up further over the coming months. Indeed, the Expectations Indicator rose to a two-year high of 54.3 in September from 52.0 in August, suggesting that companies anticipate that the currency weakness has yet to fully filter through.

#### Input Prices



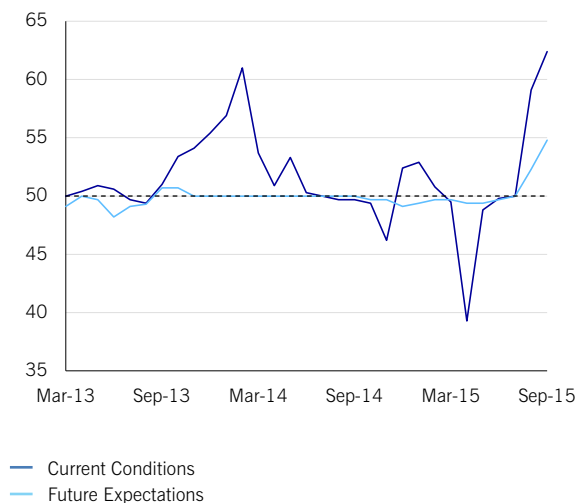
#### Prices Received



#### Prices - Current Conditions

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Input Prices	50.0	55.3	52.5	50.8	50.0	50.3	51.3
Prices Received	50.8	62.3	52.8	53.0	50.0	51.8	52.3
Exchange Rate	49.7	39.3	48.8	49.8	50.0	59.1	62.4

## Effect of Rouble Exchange Rate



Higher costs translated through to higher prices charged, reflected by the increase in the Prices Received Indicator to 52.3 in September from 51.8 in August. Companies also revised up their projections for the prices they would charge over the coming three months, with the Expectations Indicator climbing to an all-time high of 59.4 in September from 57.7 in August.

Still, our panel considered the exchange rate to be more favourable to their business operations than ever before. The Effect of the Rouble Exchange Rate Indicator rose to a record high of 62.4 in September after surging almost 20% to 59.1 in August. A value above 50 shows that more firms reported that it was helping, while a reading below 50 shows the exchange rate was hurting.

It is difficult to determine what has driven the more upbeat attitude toward the exchange rate over the past

## 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

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

During the period of rouble strengthening in the first two quarter of the year, we frequently stressed that there were downside risks to the currency given the volatility in the price of oil, an assertion that has been vindicated by the recent correction in the currency following the announcement that the Iran oil embargo will be lifted. Companies expected that the exchange rate would continue to be beneficial to their operations over the coming months, with the Expectations Indicator rising to a fresh high 54.8 in September from a previous high of 52.3 in August.

## Prices - Future Expectations

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Input Prices	50.0	52.9	52.1	51.8	50.5	52.0	54.3
Prices Received	50.5	56.8	56.3	58.2	53.6	57.7	59.4
Exchange Rate	50.0	49.4	49.4	49.7	50.0	52.3	54.8

## Money and Credit

### Greater Access to Loans



While credit was more widely available in September, fewer of our panel reported that their balance sheets had improved on the month.

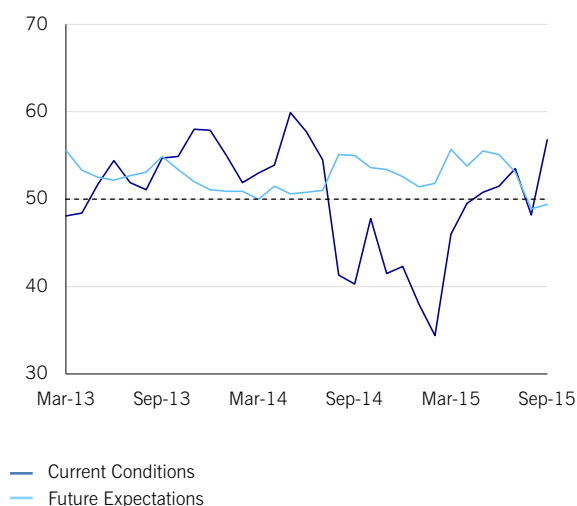
Loans to Russian companies have dried up following the imposition of capital restrictions by Western nations in response to the annexation of Crimea. Despite the difficult conditions, since the start of the year a growing number of firms had reported that they were finding new streams of lending before last month's sudden increase in emerging market volatility prompted a sharp drop in firms' financing opportunities.

Still, the subsequent recovery in the Availability of Credit Indicator to 56.8 in September from 48.2 in August suggests that the trend remains intact. Such was the magnitude of the improvement in the indicator that it led the rise in sentiment this month and left the indicator at the highest level since June 2014; just one month prior to the imposition of capital restrictions.

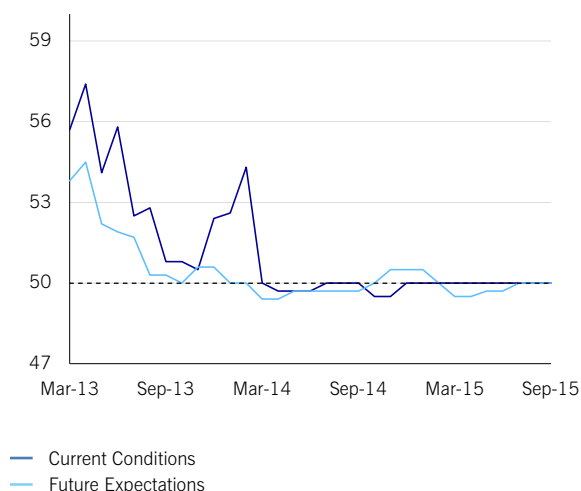
While the Central Bank of Russia was able to cut the key rate by a total of 600 basis points on the back of an easing in inflation and the recovery in the rouble during the first half of this year, pressure has since returned to the currency amid the slump in oil prices that accompanied the global stock 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 and any further rate cuts this year are now much less uncertain. Consequently, the Interest Rates Paid Indicator remained at 50.0 in September as nearly our entire panel reported that they faced the same financing costs as they did in August.

#### Availability of Credit



#### Interest Rates Paid

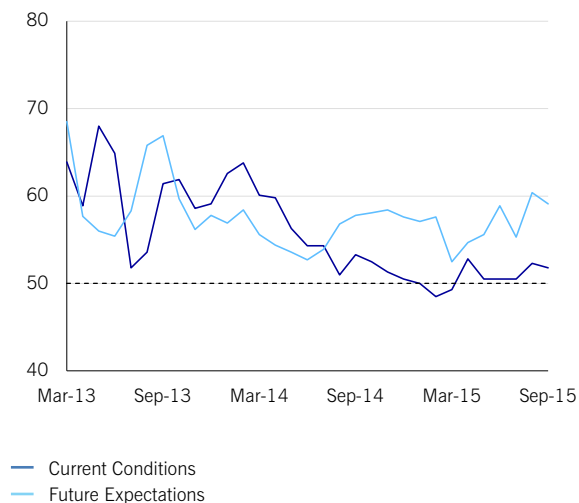


#### Money and Credit - Current Conditions

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Availability of Credit	40.3	49.5	50.8	51.5	53.5	48.2	56.8
Interest Rates Paid	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Financial Position	53.3	52.8	50.5	50.5	50.5	52.3	51.8



## Financial Position



Fewer panellists reported an improvement in the state of their finances in September, as reflected by the easing in the Financial Position Indicator to 51.8 in September from 52.3 in August. Firms were also less optimistic in their outlook for their balance sheets over the following three months, with the Expectations Indicator ticking down to 59.1 in September after climbing to an almost two-year high of 60.4 in August.

## 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

## Money and Credit - Future Expectations

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Availability of Credit	55.0	53.8	55.5	55.1	53.1	48.9	49.4
Interest Rates Paid	49.7	49.5	49.7	49.7	50.0	50.0	50.0
Financial Position	57.8	54.7	55.6	58.9	55.3	60.4	59.1

## Logistics

### Delivery Times Highest Since January



Companies continued to run down their stock levels in September, albeit at a slower pace than last month, further cementing our assertion that July's surge in inventories was unplanned. Meanwhile, the time taken to deliver raw materials was unchanged after having shortened for the previous seven months.

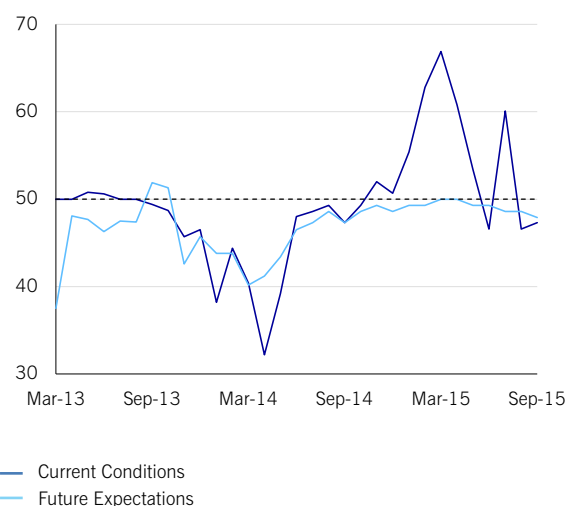
Firms became burdened with a glut of inventories during the first two quarters of this year, having been reluctant to scale back output in spite of faltering demand. While firms had started to gradually normalise their inventory levels by fulfilling new orders with their current stock rather than by increasing production, a sudden accumulation of inventories in July looked to have brought them back to square one.

Nevertheless, given that companies expected their stock levels to fall, rather than rise, we reasoned that the build-up was unplanned and a one-off, particularly as there were no fundamentals behind it. Our hunch proved to be correct as firms once again ran down their stocks in September with the Inventories Indicator rising only slightly to 47.3 after last month's decline to 46.6 offset the July surge to 60.1 exactly.

While companies in the construction sector reported that their inventories had risen slightly on the month, manufacturing companies reported that they were destocking at the same record pace that they were in August. According to our panel, this trend is set to continue with the Expectations Indicator for future stock levels falling to a one-year low of 47.9 in September from 48.6 in August.

The Supplier Delivery Times Indicator measures sentiment about the speed of supplier deliveries compared with the previous month. A reading above 50

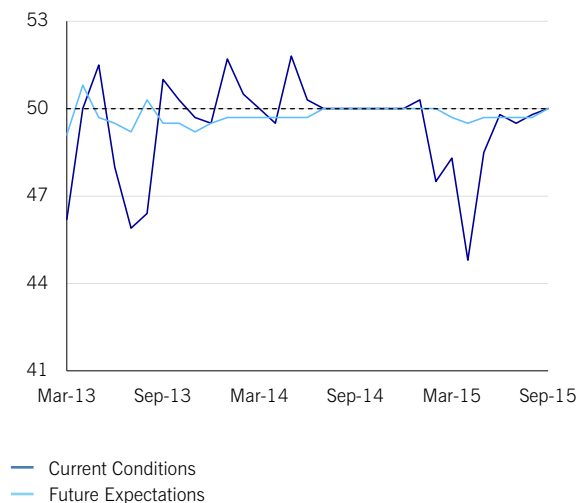
Inventories



#### Logistics - Current Conditions

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Inventories	47.3	60.8	53.4	46.6	60.1	46.6	47.3
Supplier Deliveries	50.0	44.8	48.5	49.8	49.5	49.8	50.0

## Supplier Delivery Times



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.

The time taken to deliver supplies to companies was unchanged in September following seven consecutive months of shortening, with the Supplier Delivery Times Indicator broadly stable at 50.0 compared with 49.8 in August. Moreover, companies anticipated that their suppliers' delivery times would not change over the coming months, with the Expectations Indicator rising to 50.0 in September after sitting at 49.7 for the previous four months.

## 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

	Sep-14	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Inventories	47.3	50.0	49.3	49.3	48.6	48.6	47.9
Supplier Deliveries	50.0	49.5	49.7	49.7	49.7	49.7	50.0



# Data tables

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## Historical Summary

	2014				2015								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>MNI Russia Business Indicator</b>													
Current Conditions	47.5	46.7	46.8	47.3	49.2	42.0	48.8	46.0	51.3	51.8	51.3	52.3	53.0
Future Expectations	59.4	57.6	56.1	55.3	55.6	54.5	52.7	53.8	55.2	61.3	53.2	49.7	54.3
<b>Production</b>													
Current Conditions	52.0	54.3	50.8	47.0	50.8	41.5	47.8	49.5	50.5	49.5	50.5	51.8	50.3
Future Expectations	55.3	53.5	52.4	51.6	51.8	52.2	48.3	50.3	52.9	55.8	50.0	48.5	48.2
<b>New Orders</b>													
Current Conditions	53.3	52.8	48.3	48.3	50.5	45.5	44.3	48.3	50.5	52.8	51.3	49.5	50.5
Future Expectations	57.4	54.0	52.9	52.1	51.1	51.3	50.5	51.8	51.5	51.5	49.7	49.5	49.2
<b>Export Orders</b>													
Current Conditions	48.3	49.3	47.7	49.0	49.3	50.0	48.7	50.0	50.0	50.6	51.3	50.6	50.0
Future Expectations	52.6	51.1	52.5	52.1	51.0	51.1	51.1	51.1	52.7	51.7	50.0	50.0	50.7
<b>Productive Capacity</b>													
Current Conditions	51.3	50.0	50.5	50.0	50.0	50.5	50.3	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	52.0	51.0	50.5	50.5	50.5	50.5	51.0	51.0	51.0	51.0	50.0	50.0	50.0
<b>Order Backlogs</b>													
Current Conditions	48.5	49.0	49.0	49.3	46.5	49.5	47.8	50.0	49.8	49.8	49.5	49.5	50.3
Future Expectations	46.2	47.0	47.5	47.0	47.2	47.5	48.0	48.3	48.3	48.3	48.8	49.0	49.0
<b>Employment</b>													
Current Conditions	51.3	50.0	50.0	49.5	49.3	49.8	50.0	50.5	50.0	50.3	50.3	49.8	50.3
Future Expectations	51.3	50.5	50.5	48.5	48.5	48.8	49.0	50.5	50.5	50.0	49.8	50.5	49.0
<b>Inventories</b>													
Current Conditions	47.3	49.3	52.0	50.7	55.4	62.8	66.9	60.8	53.4	46.6	60.1	46.6	47.3
Future Expectations	47.3	48.6	49.3	48.6	49.3	49.3	50.0	50.0	49.3	49.3	48.6	48.6	47.9
<b>Input Prices</b>													
Current Conditions	50.0	50.0	50.8	50.0	69.2	72.8	56.8	55.3	52.5	50.8	50.0	50.3	51.3
Future Expectations	50.0	50.0	50.0	50.0	53.4	51.8	52.3	52.9	52.1	51.8	50.5	52.0	54.3
<b>Prices Received</b>													
Current Conditions	50.8	50.8	51.0	50.8	70.1	76.3	55.3	62.3	52.8	53.0	50.0	51.8	52.3
Future Expectations	50.5	50.5	50.0	50.5	52.1	54.2	54.2	56.8	56.3	58.2	53.6	57.7	59.4
<b>Financial Position</b>													
Current Conditions	53.3	52.5	51.3	50.5	50.0	48.5	49.3	52.8	50.5	50.5	50.5	52.3	51.8
Future Expectations	57.8	58.1	58.4	57.6	57.1	57.6	52.5	54.7	55.6	58.9	55.3	60.4	59.1
<b>Interest Rates Paid</b>													
Current Conditions	50.0	49.5	49.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Future Expectations	49.7	50.0	50.5	50.5	50.5	50.0	49.5	49.5	49.7	49.7	50.0	50.0	50.0
<b>Effect of Rouble Exchange Rate</b>													
Current Conditions	49.7	49.4	46.2	52.4	52.9	50.8	49.5	39.3	48.8	49.8	50.0	59.1	62.4
Future Expectations	50.0	49.7	49.7	49.1	49.4	49.7	49.7	49.4	49.4	49.7	50.0	52.3	54.8
<b>Supplier Delivery Times</b>													
Current Conditions	50.0	50.0	50.0	50.0	50.3	47.5	48.3	44.8	48.5	49.8	49.5	49.8	50.0
Future Expectations	50.0	50.0	50.0	50.0	50.0	50.0	49.7	49.5	49.7	49.7	49.7	49.7	50.0
<b>Availability of Credit</b>													
Current Conditions	40.3	47.8	41.5	42.3	38.0	34.4	46.0	49.5	50.8	51.5	53.5	48.2	56.8
Future Expectations	55.0	53.6	53.4	52.6	51.4	51.8	55.7	53.8	55.5	55.1	53.1	48.9	49.4



## Historical Records

	2013 - Current			
	Minimum	Maximum	Mean	Median
<b>MNI Russia Business Indicator</b>				
Current Conditions	42.0	62.9	52.4	51.5
Future Expectations	45.0	71.3	55.6	55.0
<b>Production</b>				
Current Conditions	41.5	61.1	53.0	52.0
Future Expectations	45.5	58.8	52.7	52.0
<b>New Orders</b>				
Current Conditions	44.3	73.8	54.7	53.3
Future Expectations	45.5	62.8	53.2	51.8
<b>Export Orders</b>				
Current Conditions	44.4	61.1	50.8	50.0
Future Expectations	41.6	66.0	50.1	51.1
<b>Productive Capacity</b>				
Current Conditions	50.0	57.7	51.2	50.3
Future Expectations	48.5	63.2	51.4	50.5
<b>Order Backlogs</b>				
Current Conditions	39.5	52.0	47.6	48.5
Future Expectations	37.7	50.0	45.8	47.0
<b>Employment</b>				
Current Conditions	47.7	56.5	50.9	50.3
Future Expectations	46.2	53.6	49.9	50.0
<b>Inventories</b>				
Current Conditions	32.2	66.9	49.4	49.3
Future Expectations	37.5	51.9	47.0	47.9
<b>Input Prices</b>				
Current Conditions	50.0	72.8	54.1	51.3
Future Expectations	50.0	67.9	52.8	51.8
<b>Prices Received</b>				
Current Conditions	46.3	76.3	54.7	52.8
Future Expectations	48.7	59.4	52.8	52.1
<b>Financial Position</b>				
Current Conditions	48.5	68.0	55.7	53.6
Future Expectations	52.5	68.5	57.7	57.6
<b>Interest Rates Paid</b>				
Current Conditions	49.5	57.4	51.2	50.0
Future Expectations	49.4	54.5	50.4	50.0
<b>Effect of Rouble Exchange Rate</b>				
Current Conditions	39.3	62.4	51.6	50.6
Future Expectations	48.2	54.8	50.0	50.0
<b>Supplier Delivery Times</b>				
Current Conditions	44.8	51.8	49.4	50.0
Future Expectations	49.1	50.8	49.8	49.7
<b>Availability of Credit</b>				
Current Conditions	34.4	59.9	50.3	51.7
Future Expectations	48.9	55.7	52.6	52.6

## Historical Records - Quarterly

	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Quarterly Change	Quarterly % Change
<b>MNI Russia Business Indicator</b>							
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%
<b>Production</b>							
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%
<b>New Orders</b>							
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%
<b>Export Orders</b>							
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%
<b>Productive Capacity</b>							
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%
<b>Order Backlogs</b>							
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%
<b>Employment</b>							
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%
<b>Inventories</b>							
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%
<b>Input Prices</b>							
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%
<b>Prices Received</b>							
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%
<b>Financial Position</b>							
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%
<b>Interest Rates Paid</b>							
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%
<b>Effect of Rouble Exchange Rate</b>							
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%
<b>Supplier Delivery Times</b>							
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%
<b>Availability of Credit</b>							
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%

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