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# Dun & Bradstreet Business Optimism Index

India | Q3 2008

July 2008

## D&B Business Expectations Survey

### *Outlook for Q3 2008 - Key Highlights*

- Composite Business Optimism Index down 11.2% q-o-q
- Demand conditions expected to remain subdued
- Optimism Index for Net Profits moderate for 6th consecutive quarter
- All 6 Optimism Indices register decreases

Dun & Bradstreet is pleased to send you the latest D&B Optimism Index for India. It is recognised as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity.

#### Methodology

For the purpose of conducting the survey, a sample is selected randomly from Dun & Bradstreet's commercial credit information file. The sample selected for the survey includes companies belonging to the basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the service sectors. In short, the sample selected is a microcosmic representation of India's business community.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year:

1. Volume of sales
2. Net profits
3. Selling prices
4. New orders
5. Inventories
6. Employees

The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

#### Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index in Q4 2002. The purpose of the Composite Business Optimism Index is to capture the aggregate behaviour of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for

the period under review are expressed as a proportion of positive responses in the base period (Q2 1999). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year. The D&B Optimism Index has been widely appreciated by business decision makers. We trust that you too will find it a useful tool in your day-to-day decision-making. Please do give us your feedback in this regard.

#### D&B Optimism Index for India for Q3 2008

The D&B Business Optimism Index for Q3 2008 was conducted in June 2008, at a time when inflation seemed to be the prime concern of both the corporate and the household sector. With soaring food, mineral and fuel prices, WPI inflation crossed 11% in the month of June. Surging international crude oil prices and the resultant increase in under recoveries of the oil companies prompted the Government to increase the domestic prices of petrol diesel and LPG during the month of June. Rising fuel costs further placed upward pressure on freight costs resulting in an increase in transportation costs of commodities, both food as well as non-food. Prices of minerals and agro commodities also increased due to strong supply constraints in both domestic as well as international markets. As a result, the input costs for manufacturers have risen. However, given that demand conditions prevailing in the economy are somewhat subdued, manufacturers may not be able to pass on the total increase in input costs to their customers. This may place pressure on firms' profit margins going forward. In response to mounting inflationary pressures, the RBI further tightened its monetary stance. Monetary tightening measures have increased the cost of borrowing for the banks inducing them to increase lending rates. During the month of June, a few banks announced increases in their Prime Lending Rates (PLR).

Sentiment in the domestic stock markets was also bearish during most of June on concerns of high inflation and its possible impact on economic growth. With equity markets in a bearish mode, a few corporates have been postponing plans of raising fresh capital through IPOs during the last few months. Thus with rising input costs, hardening interest rates, moderate demand and bearish equity markets, some corporates have deferred their fresh capacity expansion plans. Industrial Production and GDP figures further corroborate the impact of high interest rates on economic growth. IIP grew by 6.4% (on an average) during the first four months of 2008 as compared with 12% during the same period last year. India's GDP grew by merely 8.8% in Q4 FY08 as compared to 9.7% in Q4 FY07. The economy is expected to witness a slowdown in growth during FY09 as compared to the previous fiscal, given the possible implications of firming interest rates and high inflation.

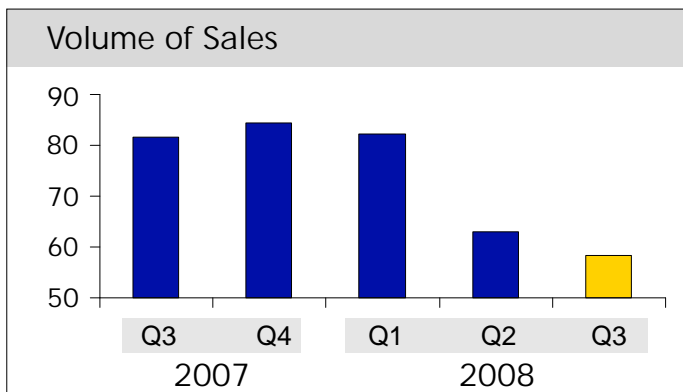
Reflecting the prevailing business sentiment, the Composite Business Optimism Index stands at 136.5 points, a fall of 11.2% over the last quarter. On a y-o-y basis, the BOI has declined by 18%. Based on the responses received, it was observed that all the six optimism indices – volumes of sales, net profits, selling prices, new orders inventory levels and employee levels have declined as compared with the previous quarter. Although optimism amongst respondents from all sectors was lower as compared with previous quarters, optimism was particularly low among respondents in the consumer durables sector and the basic goods sector. Demand for many consumer durables (such as electronic goods, automobiles etc) tends to be interest sensitive; thus the lowered optimism amongst respondents in this segment may be due to expected lower demand following the increase in interest rates during the last month. Higher input costs may have dampened optimism amongst companies from the basic goods sector. Q3 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

*The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets, companies and Governments*

#### *Extract from June Manufacturing ISM Report on Business ® (US Economy)*

Economic activity in the manufacturing sector expanded in June following four months of contraction, while the overall economy grew for the 80th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The report was issued today (1-July-2008) by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The manufacturing sector showed a slight improvement in June as the PMI registered above 50 percent after four months of decline. While the PMI indicates minimal change is taking place month over month that is hardly the situation. When viewed from the manufacturer's perspective, they are experiencing higher prices for their inputs while demand for their products is slowing."

Manufacturing grew in June as the PMI registered 50.2 percent, 0.6 percentage point higher than the 49.6 percent reported in May. ISM's New Orders Index registered 49.6 percent in June, 0.1 percentage point lower than the 49.7 percentage points registered in May. ISM's Production Index increased to 51.5 percent in June, an increase of 0.3 percentage point from the 51.2 percent reported in May. ISM's Employment Index registered 43.7 percent in June, which is a decrease of 1.8 percentage points when compared to the 45.5 percent reported in May. The ISM Prices Index registered 91.5 percent in June, indicating manufacturers are paying higher prices on average when compared to May. This is the highest reading for the index since it registered 93.2 percent in July 1979. While 84 percent of respondents reported paying higher prices and 1 percent reported paying lower prices, 15 percent of supply executives reported paying the same prices as the preceding month. Manufacturers' inventories increased in June as the Inventories Index registered 51.2 percent, which is 3.2 percentage points higher than the 48 percent reported in May. This is the first month of inventory expansion following 25 consecutive months of inventory liquidation.



## Volume of Sales

Demand conditions are expected to be rather subdued during the Jul-Sep 08 quarter. While approximately 71% of the respondents expect sales volume to increase during Q3 2008, as much as 13% expect a decline in sales volumes. The resultant Optimism Index for Volume of Sales stands at 58%; this is the lowest value the index has recorded since Q3 2002. While demand is expected to be relatively moderate across most sectors, the consumer durables sector in particular was the least optimistic with as much as 20% of respondents expecting a decrease in sales volumes and another 28% expecting no change in the volume of sales during the Jul-Sep 08 quarter.

## Net Profits

Profit expectations continued to moderate for the 6th consecutive quarter. About 58% of the respondents expect an increase in profits during Q3 2008, while more than 40% of the respondents are anticipating a fall or no change in their net profits in the forthcoming quarter. The resultant Optimism Index for Net Profits stands at 43%, a decline of 12 percentage points as compared to the previous quarter. Once again, the consumer durables sector was least optimistic with less than 50% of respondents expecting to witness an increase in net profits.

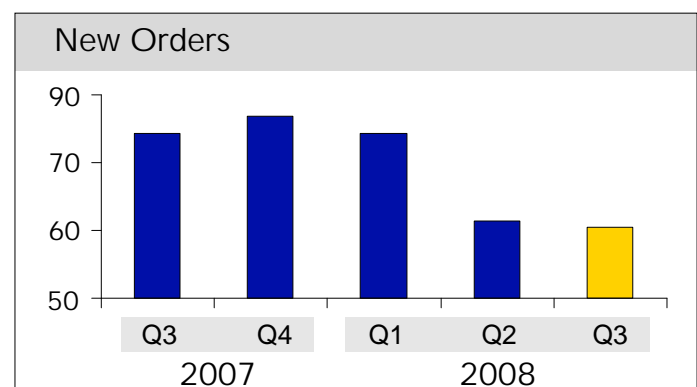


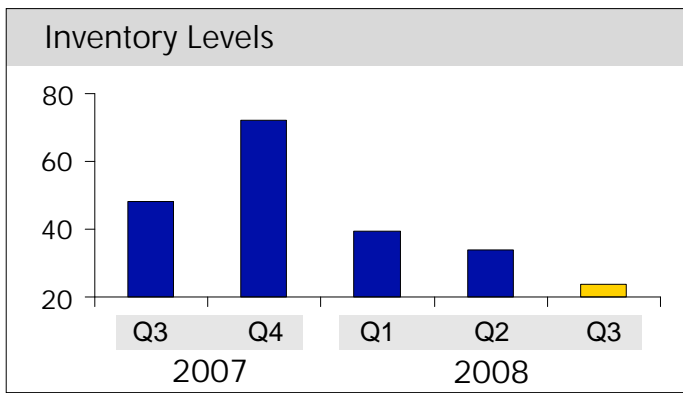
## Selling Prices

With the prevailing moderate demand conditions, a fewer number of respondents expect to be able to increase selling prices. While about 48% of the respondents expect selling prices of their products to increase, about 40% expect to witness no change and almost 12% expect decline in selling prices during Q3 2008. The resultant Optimism Index for Selling Prices stands at 36%, reflecting a decline of 9 percentage points from the previous quarter. The intermediate goods sector was less optimistic about this parameter with only 28% of the respondents from this segment expecting an increase in prices.

## New Orders

Approximately 74% of the respondents expect their order book position to improve and 10% expect a decrease in the number of new orders. The resultant Optimism Index for New Orders stands at 64% marginally lower as compared to the previous quarter. The intermediate goods sector was more optimistic with 83% of respondents expecting an increase in new orders placed during Q3 2008. This may be an indication of expectations of better demand conditions in the slightly longer term.



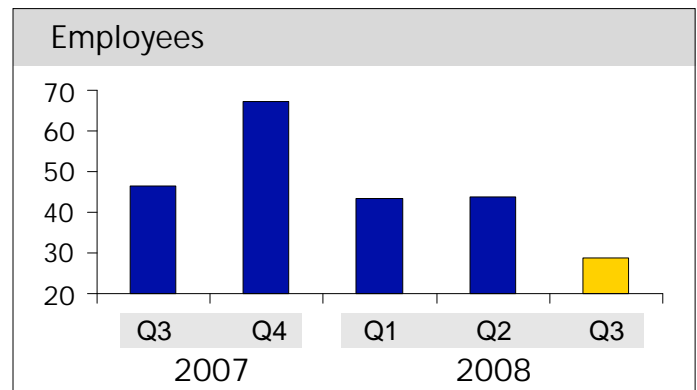


### Inventory Levels

While only 36% of the respondents expect to witness an increase in their inventory levels, as much as 12% expect their level of stock to decline in the Jul-Sep 08 quarter. However, a majority of respondents from almost all sectors anticipate no significant change from the current situation. The resultant Optimism Index for Inventory Levels stands at approximately 24%, reflecting a decline of about 10 percentage points from the previous quarter.

### Employees

The majority of respondents anticipate no change in the size of the workforce employed during Q3 2008. Approximately 59% of the respondents intend to keep the number of employees unchanged. While 35% of the respondents expect an increase in the number of employees, 6% expect a decline. The resultant Optimism Index for Employees stands at 29% for the Jul-Sep 08 quarter, a decline of around 15 percentage points as compared with the previous quarter. Among the sectors, the service sector showed a greater inclination towards increasing the number of employees.



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*For your free copy of the Business Optimism Index, write to :*

**Yashika Singh**

**Dun & Bradstreet Information Services India Pvt Ltd**

ICC Chambers, Saki Vihar Road, Powai, Mumbai 400 072

Tel : 91-22-28574190 / 92 / 94

Fax : 91-22-28572060

<http://www.dnb.com>

email: [eag@mail.dnb.co.in](mailto:eag@mail.dnb.co.in)

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