



Decide with Confidence

# Dun & Bradstreet Business Optimism Index

India | Q4 2011

**October 2011**

## **D&B Business Expectations Survey**

### ***Outlook for Q4 2011 - Key Highlights***

- **Composite Business Optimism Index decreases by 12.1% (y-o-y)**
- **Optimism for Volume of Sales and Net Profits stand at a nine-quarter low of 63% and 59%**
- **Optimism for New Orders decreases to 64%, compared to 70% in Q3 2011**
- **Each of the six 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 of companies belonging to basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the services sectors is selected randomly from Dun & Bradstreet's commercial credit information file. 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: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventories and 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 from 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. We trust that you will find the D&B Optimism Index as 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 Q4 2011

The D&B Business Optimism Index for Q4 2011 was conducted in September - at a time when the turmoil in the global market coincided with the mounting signs of weakness in the domestic economy. Intensifying economic, banking and fiscal problems in the Euro zone and the United States have elevated the downside risks to global growth. On the domestic front, weak macro-economic data signal a more material downshift in the pace of economic activity.

India's GDP growth moderated to 7.7% during Q1 FY12 as against 8.8% during Q1 FY11. While the agriculture sector posted a robust growth of 3.9% in Q1 FY12, growth in the services sector remained resilient at 10%. However, a closer look at the other components of the services sector reveals that the financing, insurance, real estate & business services segment, which had generally grown by double digits, has been growing below its long term average for the past two quarters. Given the slowing pace of growth, particularly in the advanced nations, the prospects of this segment to pick up any further momentum from the current level are not so promising. With corporate firms facing margin pressure owing to rising input as well as borrowing costs and restrained demand conditions, the growth of the manufacturing sector has been severely impacted. The significant low rate of growth recorded in the manufacturing sector does not bode well for the growth prospects of the Indian economy in general and employment scenario in particular.

Unrelentingly high inflation and hardening interest rates have had a perceptible impact on demand conditions, as reflected by the private consumption expenditure, which has been on a downward path since the past few quarters. Investment growth has also slowed down. The volatility of the capital goods sector in IIP continues to confound, making it increasingly impossible to gauge the investment scenario. The capital goods sector declined by nearly 15% in Jul 11 after growing by a steep 38.2% in Jun 11, indicating the volatility in the IIP index.

India's exports have recorded robust growth (54.2% during Apr-Aug 11, in Dollar terms) in recent months, supported by gradual diversification to new markets, particularly China. Although Indian exporters have been diversifying, exports to the traditional markets across US and Europe continue to account for a substantial 35% of India's total exports. The recent depreciation of the Indian rupee will therefore provide only limited room for comfort for Indian exporters as uncertain economic conditions in advanced economies could eventually translate into downside in export growth.

Inflation continues to remain the biggest drag on growth as it is eroding household real purchasing power and thereby holding back consumption. WPI inflation remained elevated at 9.8% (y-o-y) in Aug 11 with fuel costs continuing to advance at a double-digit annual pace. While monetary tightening may be required to rein in the demand side pressures, prompt government action for rectifying supply-side constraints assumes importance for any meaningful decline in inflation.

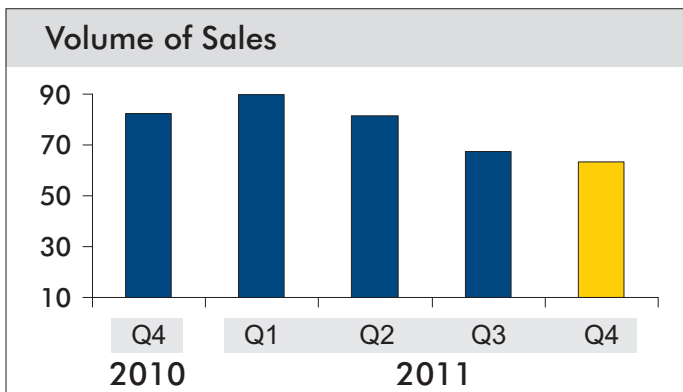
Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q4 2011 stands at 143.7 points, a marginal increase of 0.1% over the previous quarter. On a y-o-y basis, the BOI for Q4 2011 decreased by 12.1%, the largest drop recorded since Q2 2009. Based on the responses received, it was observed that four out of the six optimism indices- namely, volume of sales, net profits, new orders and employee levels have registered decreases as compared to the previous quarter. Relatively lower optimism with regard to net profits (lowest in the last nine quarters) particularly highlights the subdued business confidence of the corporates on account of high inflation and hardening of interest rates. Amongst the sectors, optimism was particularly low among respondents in the basic and intermediate goods sectors. Higher input costs and slowdown in production in most of the industries (despite the forthcoming festive season) may have dampened optimism amongst companies from these sectors. Q4 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 September Manufacturing ISM Report on Business® (US Economy)**

Economic activity in the manufacturing sector expanded in September for the 26th consecutive month, and the overall economy grew for the 28th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The report was issued on October 3, 2011 by Bradley J. Holcomb, CPSM, CPSD, chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The PMI registered 51.6 percent, an increase of 1 percentage point from August, indicating expansion in the manufacturing sector for the 26th consecutive month, at a slightly higher rate. The Production Index registered 51.2 percent, indicating a return to growth after contracting in August for the first time since May of 2009. The New Orders Index remained unchanged from August at 49.6 percent..."

Manufacturing continued its growth in September as the PMI registered 51.6 percent, an increase of 1 percentage point when compared to August's reading of 50.6 percent. ISM's New Orders Index registered 49.6 percent in September, which represents the same rate as in August. ISM's Production Index registered 51.2 percent in September, which is an increase of 2.6 percentage points when compared to the August reading of 48.6 percent. The Inventories Index registered 52 percent in September, 0.3 percentage point lower than the 52.3 percent reported in August. The ISM Prices Index registered 56 percent in September, 0.5 percentage point higher than the 55.5 percent reported in August. This is the fifth consecutive month the Prices Index has registered below 80 percent since December 2010, and is the 27th consecutive month the index has registered above 50 percent. ISM's Employment Index registered 53.8 percent in September, which is 2 percentage points higher than the 51.8 percent reported in August.

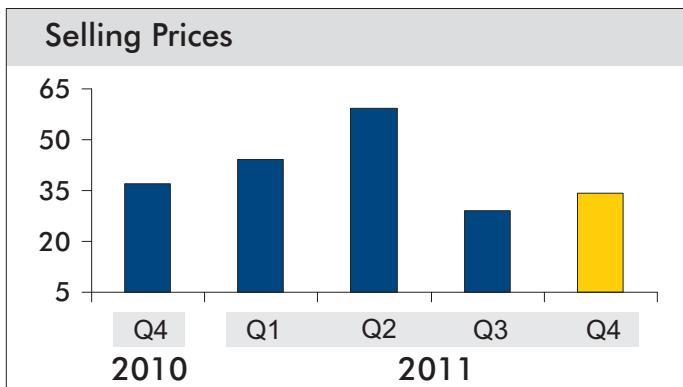
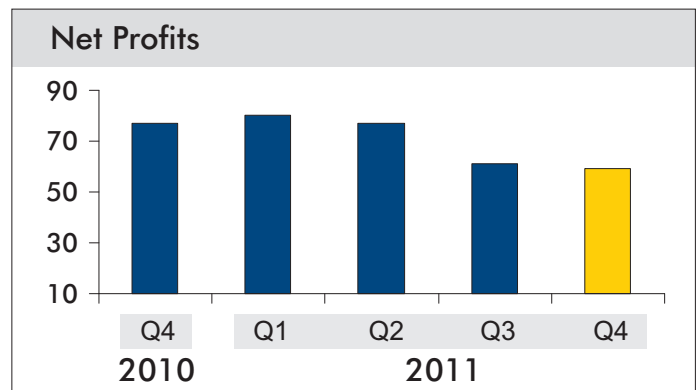


### Volume of Sales

Expectations on demand conditions for Q4 2011 are subdued compared to Q4 2010. Around 72% of the respondents expect their volume of sales to increase, while 19% anticipate it to remain unchanged. The remaining 9% expect sales volume to decline during Q4 2011. The resultant Optimism for Volume of Sales stands at 63% - a decrease of 19 percentage points compared to Q4 2010, and five percentage points lower when compared on a q-o-q basis. The resultant Optimism is the lowest in the last nine quarters. Amongst the sectors, consumer non-durables and capital goods sectors were relatively more optimistic with respect to this parameter.

### Net Profits

The subdued business confidence of the corporates is also reflected in the lower profit expectations – the resultant Optimism for Net Profits at 59% in Q4 2011 is the lowest in the last nine quarters. Around 67% of the respondents expect their net profits to increase, while 8% anticipate a decline in net profits. One-fourth of the respondents expect their net profits to remain unchanged. Amongst the sectors, the capital goods and consumer durables sectors were most optimistic, while the intermediate goods and basic goods sectors were relatively less optimistic.

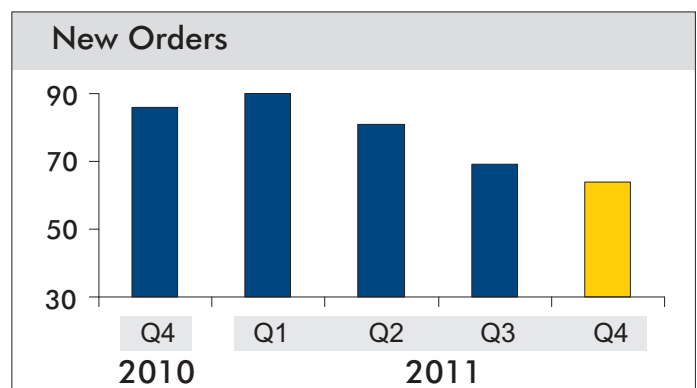


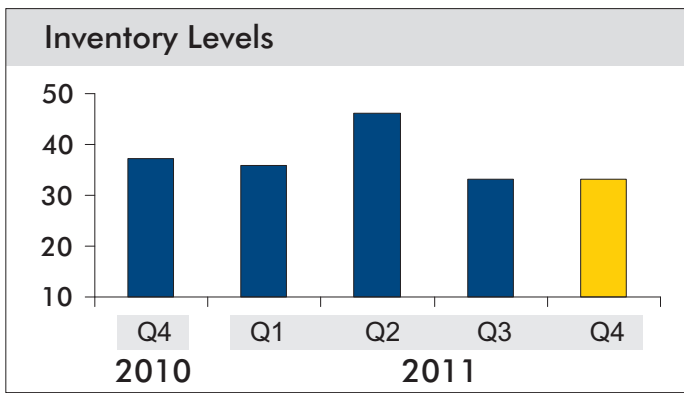
### Selling Prices

Half of the respondents expect to see no change in the selling prices of their products during Q4 2011. About 42% of the respondents expect their selling prices to increase, while 8% anticipate selling prices to decline. The resultant Optimism for Selling Prices at 34% is three percentage points lower as compared to Q4 2010. Amongst the sectors, the basic goods sector was relatively less optimistic, while the intermediate goods sector was relatively more optimistic regarding this parameter.

### New Orders

About 71% of the respondents expect improvement in their order book position during Q4 2011. While a substantial 22% of the respondents expect no change in their order book position, the remaining 7% expect new orders to decline. The resultant Optimism for New Orders stands at 64%, the lowest in over nine quarters. While on a y-o-y basis, the resultant Optimism represents a decrease of 19 percentage points, on a q-o-q basis it represents a decrease of six percentage points. Amongst the sectors, while the consumer non-durables sector is relatively more optimistic, the intermediate goods sector is less optimistic, regarding this parameter.



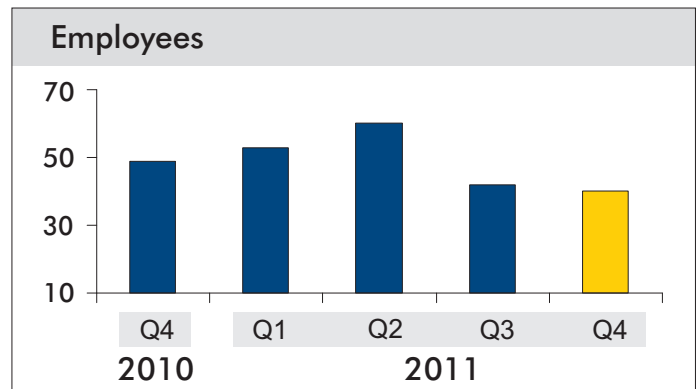


### Inventory Levels

A significant 47% of the respondents expect the level of inventory to increase during Q4 2011. While 14% of the respondents expect their level of stock to decline, the remaining 39% expect the level of stock to remain unchanged. The resultant Optimism for Inventory Level stands at 33% – an increase of three percentage points when compared to Q3 2011. Amongst the sectors, the basic goods and capital goods sectors were relatively more optimistic with regards to this parameter.

### Employees

More than half of the respondents (54%) anticipate no change in the size of their workforce employed during Q4 2011. While 43% of the respondents anticipate the size of their workforce to increase, the remaining 3% of the respondents anticipate the number of employees to reduce. The resultant Optimism for Employees stands at 40%, the lowest in the last six quarters, The Optimism was a decrease of nine percentage points when compared to Q4 2010. Amongst the sectors, the capital goods sector was relatively more optimistic, while the intermediate goods sector was less optimistic regarding this parameter.



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

**Sanketh Arouje**

**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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