



**Dun & Bradstreet**

# Business Optimism Index

## Q1 2004

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 include companies belonging to basic, capital goods, intermediate goods, consumer durables, consumer non-durables and service sector. 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. Net 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 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.

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 Q1 2004**

The Business Expectation Survey for Q1 2004 was conducted in Dec 03 amidst a palpable sense of 'India shining', with signs of accelerating growth, booming stock market and record foreign exchange reserves. The sentiment has

also been upbeat because of the verdict in the assembly elections that strengthened the position of the ruling coalition at the Centre and the improvement in Indo-Pak relationship. On the global front too, there have been no destabilising factors on the geo-political front and signs of economic recovery are consolidating.

Indian economy recorded a strong 8.4% growth in GDP in Q2 of FY04 compared to a growth of 5.7% in the same quarter of last year. More importantly, the growth was well distributed across sectors. Apart from a bounce-back of agriculture, services sector also contributed significantly with a healthy 9.9% growth. The industrial sector too recorded acceleration in growth to 6.2% during Apr-Nov 03, compared to 5.4% in the year-ago period. The upswing in the business cycle is also reflected in surging non-oil imports and improving credit offtake.

Though not as strong as in the previous fiscal, performance of exports has been impressive. Exports grew by 13.7% in Nov 03 and 8.8% in Apr-Nov 03. Thanks to healthy transfers from non-resident Indians and growing software exports, India recorded a current account surplus of US\$ 524 mn in Jul-Sep 03. Helped by surge in capital inflows, the foreign exchange reserves continued to swell and crossed the psychologically important US\$ 100 bn mark. Strong dollar inflows and weakening of dollar in the international market maintained the positive outlook on the rupee. However, because of the RBI intervention in the currency market that was

aimed possibly at preserving the competitiveness of exporters, rupee could gain only 0.6% against dollar during 01-Oct-03 to 12-Jan-04.

In the stock markets too, there was a party time with bullish foreign institutional investors taking stock prices to new heights. The BSE Sensex rallied strongly from 4,455 on 01-Oct-03 to 6,068 on 12-Jan-04. The stock market rally has been quite broad-based across sectors.

In line with the buoyant business sentiment, the Composite Business Optimism Index for Q1 2004 rose 12.6% to a new high of 148.8 from 132.2 in the previous quarter. In the previous quarter, the index had increased by 4.5%. The increasing trend in the index has been carried into its seventh consecutive quarter now. Over a period of last four quarters, the Composite Business Optimism Index has increased by an impressive 25.5%.

In Q1 2004, three out of six optimism indices, namely volume of sales, selling prices and employees improved and recorded their all-time peaks. The index for new orders remained stagnant while the optimism indices for net profit and inventory came off their peaks registered last quarter.

Q1 2004 expectations for each of the six parameters and their comparison with those of the previous quarters are discussed in the following pages.

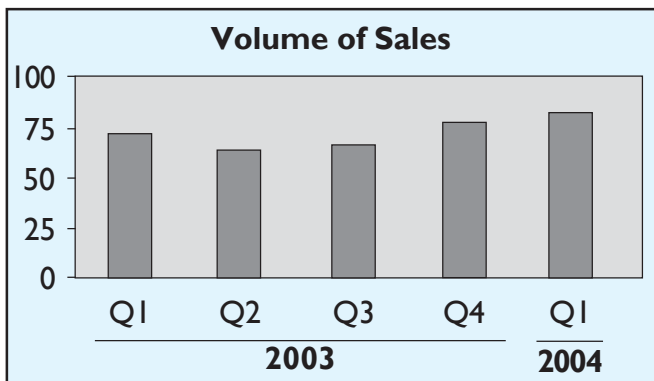
### ***Extract from OECD Economic Outlook, Dec 03***

After a drawn-out period of fits and starts, a palpable recovery has finally taken hold across the OECD. The strong momentum already achieved in Asia, North America and the United Kingdom provides ample evidence of the renewed strength of the world economy. Despite lingering domestic weaknesses, Continental Europe is also on its way to join the recovery.

Since the spring, the geopolitical environment has steadied, allowing oil prices to stabilise and confidence to strengthen. In the United States, this revival of "animal spirits" has taken place in a context where the underlying stimulus provided by monetary and fiscal policies was still very powerful and where past excesses in business investment had been largely worked off. The American upswing has coincided with a marked and better-than-expected improvement in Japan, driven in large part by better investment prospects in the manufacturing sector and fast-growing markets in neighbouring Asian economies.

Looking further ahead, the most likely scenario for the next two years is one of sustained growth in the United States and progressive recovery in Europe and Japan, in a context of low inflationary pressures and with a gradual reduction in unemployment. This central scenario would be underpinned by a prolonged period of monetary ease and moderate long-term interest rates. While encouraging, this scenario is not devoid of vulnerabilities.

In a variety of countries, households remain highly indebted and may suffer large income and wealth losses, should interest rates increase abruptly. Such a back-up in interest rates cannot be ruled out, in a context where all large OECD countries are now suffering from historically wide public deficits, which will not disappear easily. The combination of large public and external deficits in the United States could be a source of exchange rate instability, given the potentially short-run nature of much of the international capital currently flowing in.

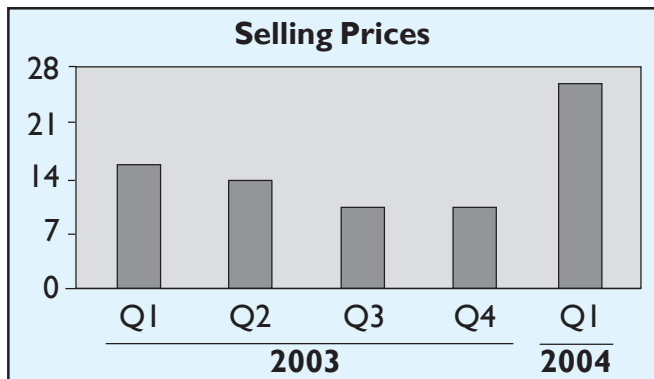
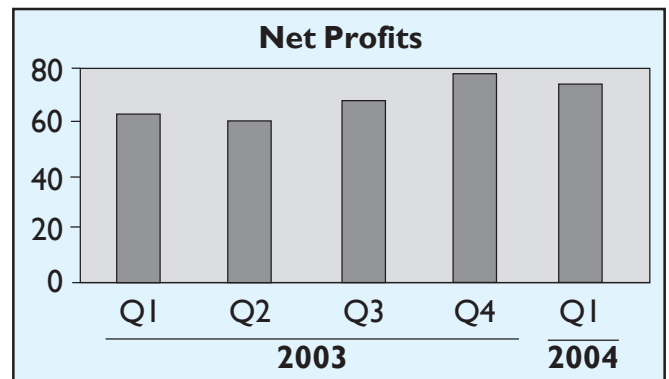


## Volume of Sales

Indian corporate sector appears to be extremely bullish about demand prospects for the Jan-Mar 04 quarter. 88% of the respondents expect sales volume to surge in the quarter, whereas a very small proportion of 6% expect it to decline and a similar percentage expect volumes to remain unchanged. The resultant Optimism Index for Net Sales at 82% is a record high for this index. Amongst the sectors, players in the consumer durable segment are extremely upbeat about the prospect for sales volume followed by services and consumer non-durable.

## Net Profits

India Inc seems to be extremely positive about their outlook on profitability as well. An overwhelming 82% of the respondents expect their profitability to surge in the first quarter of 2004. Only 9% feel that profitability would decline. The remaining 9% expect to see no change in their profitability. The Optimism Index for Net Profits is therefore at a level of 73%. The optimism could have been higher but for the depressed outlook from the players in the intermediate segment. Consumer durables, consumer non-durables and services were however extremely positive about their profit prospects in Jan-Mar 04.

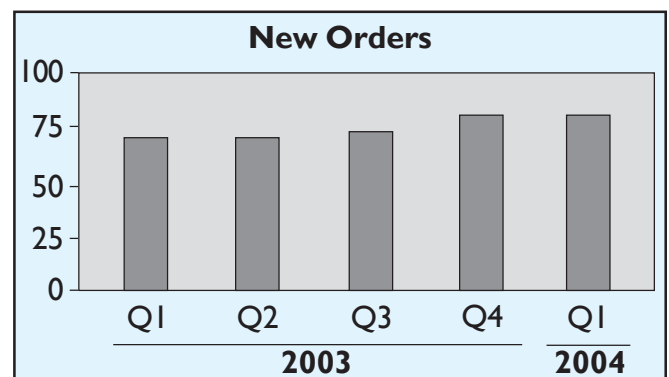


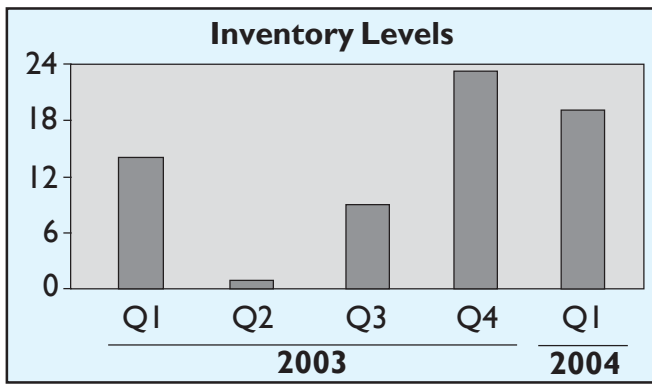
## Selling Prices

Despite competitive pressures, Indian corporate sector appears to be quite positive about charging more for what it sells. Although a large number of respondents (51%) expect no change in selling prices, 38% expect selling prices to go up, whereas only 11% expect to less for less in Q1 of 2004. The resultant Optimism Index for Selling Prices stands at 26%, which is the highest level for this index since the inception of the survey in India. Of the segments surveyed by us, manufacturers of consumer non-durables were extremely confident about their ability to charge more for their products in the Jan-Mar 04 quarter followed by the players in the service sector.

## New Orders

Indian business community expects to see better days through improvement in their order book position. 86% of the respondents expect their order book position to improve, only 5% expect deterioration and a small 9% feels that there would be no change in new orders. The Optimism Index for New Orders at 81%, although at an identical level as the preceding quarter is nevertheless an all-time high for this index. Except for basic and intermediate segments, the remaining sectors namely capital goods, consumer durables, consumer non durables and services are all very confident about adding significantly to their order book in the first quarter of 2004.



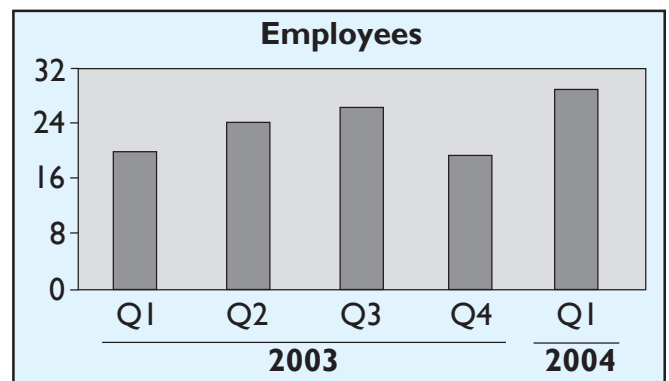


## Inventory Levels

In line with past trend, a significant proportion of the respondents (49%) expect no change in their inventory level during Jan-Mar 04. However, 35% expect to add to their inventory, whereas 16% expect inventory level to go down. The Optimism Index for Inventory, thus, stands at 19%. Producers of consumer goods, especially those belonging to the consumer non-durable segment are more optimistic on this parameter.

## Employees

Good time spells good for all, going by the response of India Inc on their hiring plans in the Jan-Mar 04 quarter. Although, 53% of the respondents have no plans to hire, 38% expect to add to the head count and a minuscule 9% have plans to fire. The Optimism Index for Employees at 29%, is an all-time high for this index in India. The sectors that are seriously considering adding to their manpower during the first quarter of 2004 are capital goods and services.



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