



**Dun & Bradstreet**

# Business Optimism Index

## Q3 2005

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 goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the 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 Q3 2005**

The Business Expectation Survey for Q3 2005 was conducted in Jun 05, with the Indian economy looking optimistic despite a rising trend witnessed in global crude oil prices. The Indian stock markets, both the Sensex and Nifty scaled record highs as market sentiment was boosted by strong FII inflows.

The Apr-Jun 05 quarter witnessed high volatility in the stock markets, as the BSE Sensex hit a record high on 21-Jun-05, when it closed above the 7,000 mark. The strong performance

of the Indian economy during the fourth quarter of FY05 boded well for the market to continue its upward trend. As at 30-Jun-05, the Sensex had risen by approximately 8.4% since the last BOI Survey in Mar 05. However, India's foreign exchange reserves declined by US\$ 2.31 bn and stood at US\$ 138.89 bn for the week ended 24-Jun-05 as compared to US\$ 141.2 bn as on 01-Apr-05. The fall in inflows can be mainly attributed to the revaluation of international currencies including the US dollar.

According to latest estimates released by the CSO, the Indian economy grew by 6.9% during FY05, mainly on account of a strong performance displayed by the manufacturing and services sectors. The manufacturing sector witnessed a growth of 9.2% during FY05 spurred by both domestic and foreign demand. The services sector, which accounts for approximately 50% of GDP, registered a growth rate of 8.9% driven by the high growth of 11.4% witnessed by the trade, hotels, transport & communications sector.

During the quarter ended Mar 05, the economy grew by 7%, picking up from the 6.2% growth rate registered during the quarter ended Dec 04. The agricultural sector grew by 1.8%

during the Jan-Mar 05 quarter as compared to a 0.5% decline in the previous quarter. The growth witnessed by the sector during the quarter ended Mar 05 can be primarily attributed to the robust production of the Rabi crop. Sustained export-led demand contributed to the 8.6% growth recorded by the manufacturing sector, while the services sector grew by 9.2% in the Jan-Mar 05 quarter.

The Composite Business Optimism Index for Q3 2005 seems to reflect the positive sentiment of the Indian economy, recording an increase of 5.6% to 174 from 162.5 in the previous quarter. The overall corporate sentiment seems to be fairly optimistic for the Jul-Sep 05 quarter.

In Q3 2005, three out of six optimism indices, namely inventory, employees and net profits have increased while the indices for net sales, selling prices and new orders have declined as compared to the previous quarter.

Q3 2005 Expectations for each of the six parameters and their comparison 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*

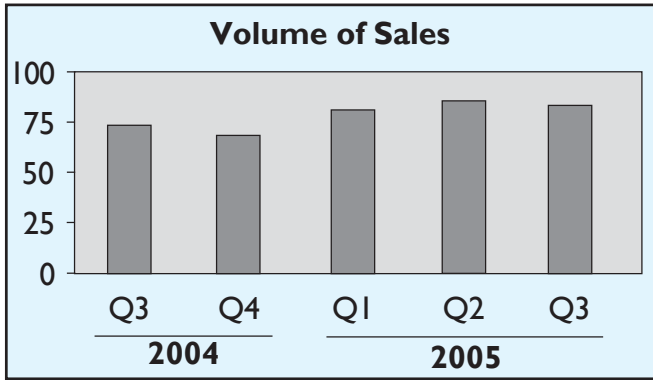
### **Extracted from March Manufacturing ISM Report on Business® (US Economy)**

Economic activity in the manufacturing sector grew in June for the 25th consecutive month, while the overall economy grew for the 44th consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

The report was issued today by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. The manufacturing sector grew for the 25th consecutive month in June based on the ISM data. The improved rate of growth in New Orders is quite encouraging, particularly when combined with a slower rate at which prices are escalating. High energy costs and the stronger dollar are still major concerns to purchasers." ISM's New Orders Index grew in June with a reading of 57.2%. The index is 5.5 percentage points higher than the 51.7% registered in May, and June is the 26th consecutive month the index has exceeded 50%. A New Orders Index above 51.1%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars).

Eleven industries reported increases during June: Textiles; Miscellaneous; Food; Wood & Wood Products; Rubber & Plastic Products; Instruments & Photographic Equipment; Chemicals; Industrial & Commercial Equipment & Computers; Furniture; Printing & Publishing; and Paper.

ISM's Production Index is 55.6% in June, 0.7% point higher than the 54.9% reported in May. Employment Index declined in June for the second consecutive month, the index registered 49.9% in June compared to 48.8% in May, an increase of 1.1 percentage points. Manufacturers' inventories declined in June for the third consecutive month as Inventories Index registered 47.8%, unchanged when compared to May. An Inventories Index greater than 42.3%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' figures on overall manufacturing inventories.

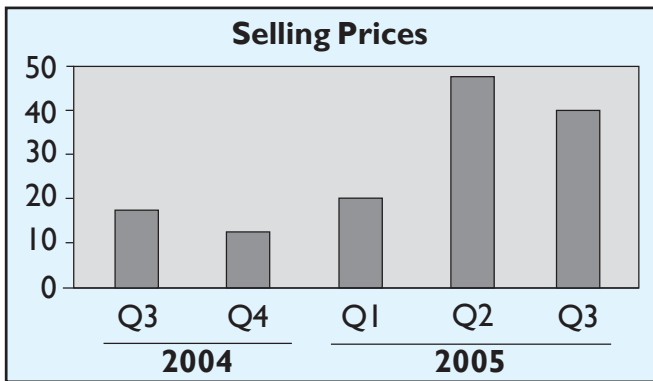
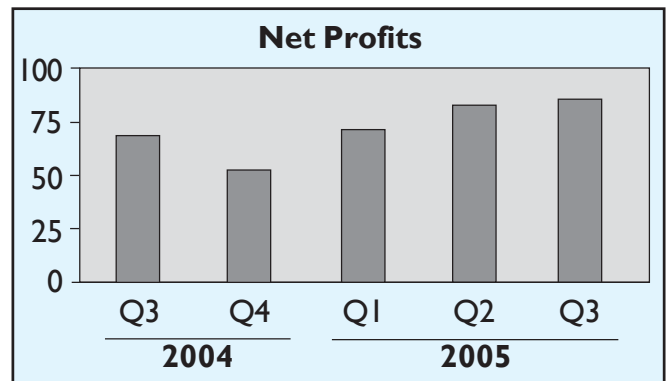


### Volume of Sales

The Indian corporate sector appears to be extremely optimistic about demand prospects for the Jul-Sep 05 quarter. 87% of the respondents expect sales volumes to surge in the quarter, whereas a very small proportion of 3% expect it to decline, while 10% respondents expect sales to remain stagnant in the coming quarter. The resultant Optimism Index for Volume of Sales stands at 84% as compared to 85% in the previous quarter. The Optimism Index was highest in the basic goods for the first time in the current year followed by the services sector, consumer durables and capital goods segments for Q3 2005.

### Net Profits

The corporate sector seems to be expecting a rise in net profit figures during the Jul-Sep 05 quarter. About 89% of the respondents anticipate an increase in profitability, while only 3% expect a decline in profits during the forthcoming quarter. The resultant Optimism Index for Net Profits for Q3 2005 stands at 86%, indicating an increase of 3 percentage points over the previous quarter. The Optimism index was seen to be the highest in the services sector for the third consecutive quarter while the consumer non-durables segment seemed least optimistic on this parameter.

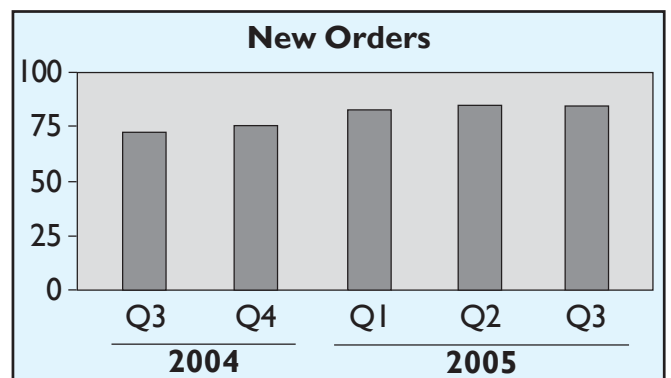


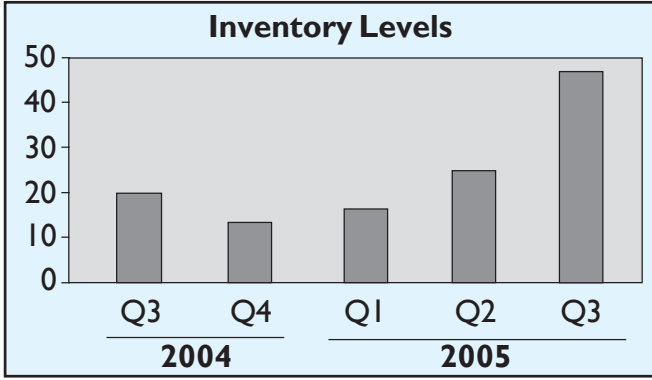
### Selling Prices

Approximately 49% of the respondents anticipate selling prices of their products to increase during the forthcoming quarter, while only 9% expect prices to decline. The resultant Optimism Index for Selling Prices for Q3 2005 stands at 40%, which is a decline of 8 percentage points from the previous quarter. It was observed that for Q3 2005, the Optimism Index was the highest in the Capital Goods sector.

### New Orders

For the third consecutive quarter, respondents were seen to be most optimistic on the New Orders parameter. While approximately 89% of the respondents expect their order book position to improve, only 4% anticipate a decline in the number of orders. The resultant Optimism Index for New Orders for Q3 2005 stands at 85%, at an identical level as the preceding quarter. For the third consecutive quarter, the Optimism Index was highest in the services sector, with just over 82% of the respondents expecting an increase in new orders.



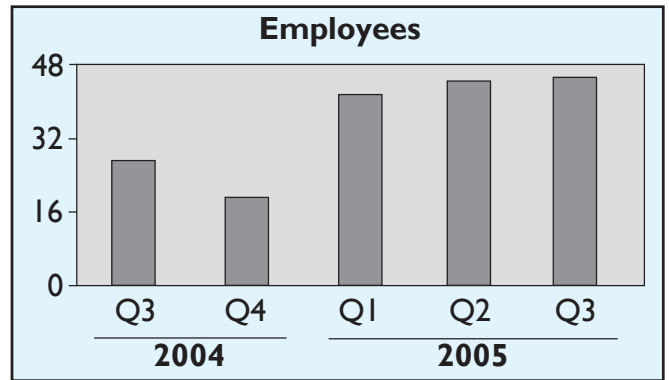


## Inventory Levels

In line with the past trend, a significant proportion of respondents (55%) intend to increase their inventory levels while about 8% are expecting their stocks to decline during the Jul-Sep 05 quarter. The resultant Optimism Index for Inventory Levels for Q3 2005 stood at 47% as compared to 25% in Q2 and 16% in Q1. The Optimism Index was highest in the capital goods segment followed by the consumer durables and basic goods sectors. While 63% of respondents in the capital goods sector anticipate a rise in inventory levels, only 42% from the basic goods sector expect their stock levels to increase.

## Employees

For the Jul-Sep 05 quarter, it was observed that about 51% of the respondents anticipate an increase in the size of their staff, a rise by 3 percentage points over the previous quarter. Further, only 5% of the respondents expect a decline in the number of employees, which is similar to the previous quarter's findings, while 44% of the respondents expect no change in the number of employees. The resultant Optimism Index for Employees for Q3 2005 stands at 46% as compared to 45% in the previous quarter. The sectors that are seriously considering adding to their manpower during the third quarter of 2005 are the capital goods (55%) and service sectors (54%).



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