



# Business Optimism Index

## Q4 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 Q4 2005**

The Business Expectation Survey for Q4 2005 was conducted in Sep 05 amidst concerns raised by rising global crude oil prices. However, market sentiment has remained optimistic, and the Sensex hit record highs during the Jul-Sep 05 quarter before finally breaching the 8,600 mark. The Sensex has risen by approximately 19% since the last Business Optimism Index (BOI) Survey in Jul 05, drawing support from the strong inflow of funds from Foreign Institutional Investors (FIIs).

The strong performance of the Indian economy during the first quarter of FY06 also boded well for the stock market. According to the latest estimates available from the CSO, the Indian economy grew by 8.1% during the first quarter of FY06 over the corresponding quarter of the previous fiscal. This performance was backed by strong performance in the manufacturing and services sectors. The manufacturing sector, in particular, witnessed a remarkable growth of 11.3% growth during Q1 FY06 as compared to the 7.9% growth registered during the corresponding quarter of the previous fiscal. The services sector grew by over 8.3%, boosted by a strong growth witnessed by the trade, hotels, transport and communication segment (12.4%). However, the agricultural sector witnessed a 2% growth during the first quarter of FY06 as compared to 3.8% during the year ago period.

The World Investment Report 2005 has pointed out that China and India were the two most attractive investment destinations among transnational corporations. According to the preliminary estimates for FY05, total FDI inflows were pegged at US\$ 3.75 bn.

However, inflationary pressures appear to be on the rise due to higher prices of fuel (petrol & diesel) and essential food items. The point-to-point Wholesale Price Index (WPI) inflation rose to 3.75% during the week ended 17-Sep-05 from 3.16% for the week ended 03-Sep-05 (though lower than the 8.15% inflation rate recorded during the corresponding period of the previous year).

Reflecting the healthy economic scenario, the Composite Business Optimism Index for Q4 2005 improved by 7.1% (73.4% y-o-y) to 187 from 174 in the previous quarter. Based on the responses received, it is observed that for Q4 2005, all six optimism indices, namely, volume of sales, net profits, selling prices, new orders, inventory levels and employees, have increased over the previous quarter.

Q4 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*

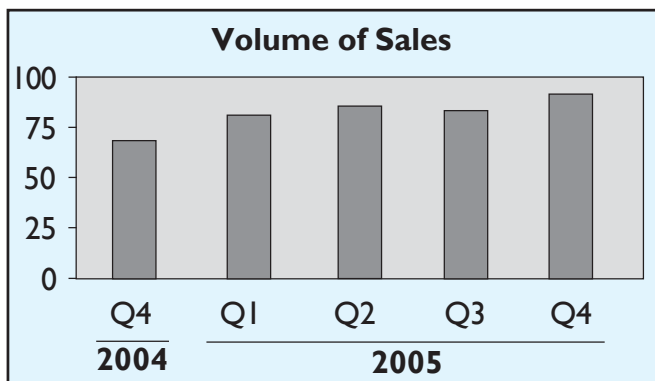
### **Extracted from September Manufacturing ISM Report on Business® (US Economy)**

Economic activity in the manufacturing sector grew in September for the 28th consecutive month, while the overall economy grew for the 47th 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 28th consecutive month in September based on the ISM data. The PMI made a strong move to the upside as New Orders and Production rose significantly. This move was supported by slower deliveries and growing order backlogs. While energy prices and the impact from Hurricane Katrina are major concerns, the manufacturing sector has regained significant momentum." The PMI for September registered 59.4%, an increase of 5.8 percentage points when compared to August's reading of 53.6%. ISM's New Orders Index grew in September with a reading of 63.8%. The index is 7.4 percentage points higher than the 56.4% registered in August, and September is the 29th consecutive month the index has exceeded 50%. ISM's Production Index is

63.1% in September, 7.2 percentage points higher than the 55.9% reported in August. September is the 29th consecutive month of growth in the index. ISM's Employment Index registered growth in September for the third consecutive month. The index registered 53.1% in September compared to 52.6% in August, an increase of 0.5 percentage point.

Manufacturers' inventories declined in September for the sixth consecutive month as ISM's Inventories Index registered 49.6%, indicating a faster rate of liquidation when compared to August. Imports of materials by manufacturers grew during September as the Imports Index registered 53.4%. The index also registered 53.4% in August, indicating that imports are growing compared to last month but at the same rate. The 10 industries reporting growth in import activity for September are: Wood & Wood Products; Electronic Components & Equipment; Miscellaneous\*; Transportation & Equipment; Furniture; Primary Metals; Fabricated Metals; Paper; Instruments & Photographic Equipment; and Chemicals.

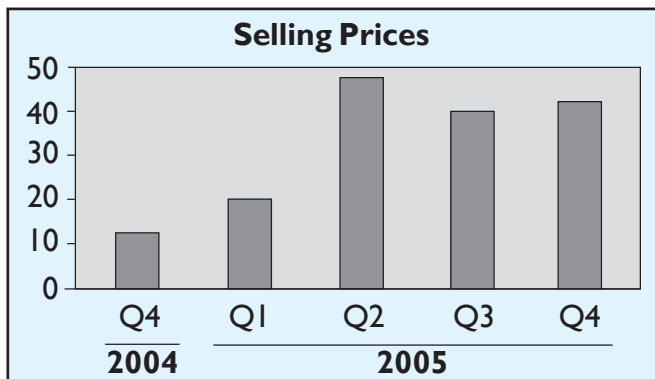
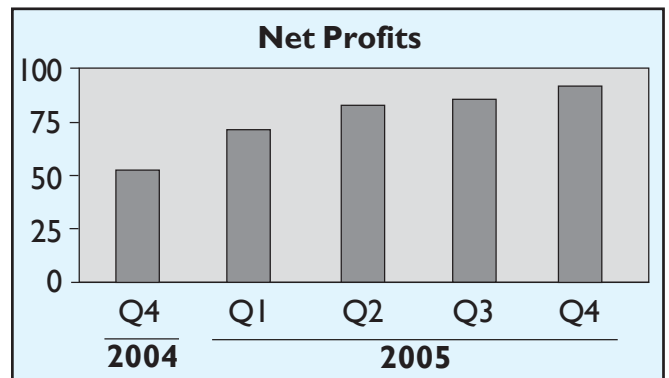


## Volume of Sales

Demand conditions are expected to be strong in Q4 2005 with 93% respondents expecting an increase in volume of sales, compared to 87% in the previous quarter. While 6% of the respondents expect sales to remain stagnant in the forthcoming quarter, only 1% anticipate a decline in sales. The resultant Optimism Index for Volume of Sales stands at 92%, as compared to 84% in the previous quarter. Amongst the sectors, the services, consumer non-durables and the basic goods segments were the most optimistic about growth in sales volume followed by the capital goods and intermediate goods sectors. The consumer durables sector was least optimistic on this parameter.

## Net Profits

The Corporate sector is also optimistic on profitability for the Oct-Dec 05 quarter. While about 93% of the respondents anticipate an increase in profitability, only 6% expect profitability to be stagnant and only 1% expect net profits to decline. The resultant Optimism Index for Net Profits for Q4 2005 stands at 92%, resulting in an increase of 6 percentage points over the previous quarter. The Optimism Index was seen to be the highest in the services sector for the fourth consecutive quarter while the intermediate goods segment seemed least optimistic on this parameter.

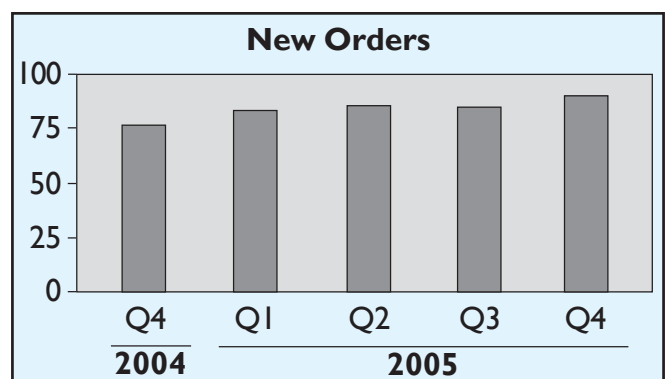


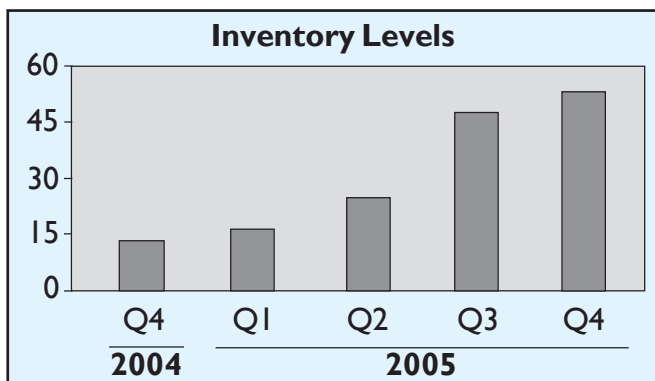
## Selling Prices

52% of the respondents expect selling prices of their products to increase in the forthcoming quarter while just over 10% anticipate a fall in prices. The resultant Optimism Index for Selling Prices for Oct-Dec 05 quarter stands at 42%, as compared to 40% in the previous quarter. The Optimism Index for this parameter was highest in the basic goods segment with 77% of respondents anticipating an increase in prices followed by the capital goods, consumer durables and intermediate goods segments. The Optimism Index for this parameter was lowest in the consumer non-durable goods segment.

## New Orders

The Indian business community seems to be extremely positive and expects to witness better days through improvements in their order book position. 92% of the respondents expect their order book position to improve, only 1% expect a decline and 7% feel that there would be no change in new orders. The resultant Optimism Index for New Orders for Q4 2005 stands at 91%. The services segment seems to be the most optimistic about new orders while the consumer durables segment is least optimistic on this parameter.



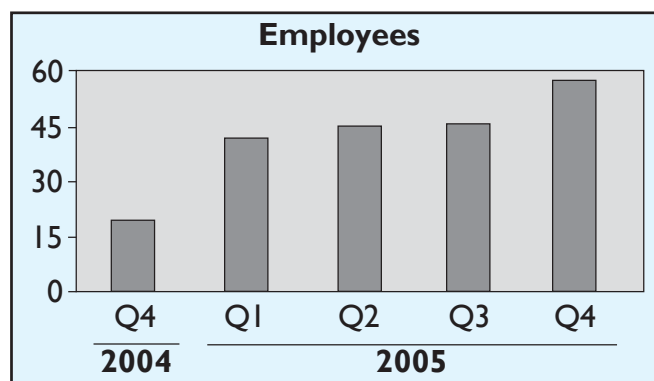


## Inventory Levels

In line with the past trend, 60% of the respondents expect their level of stock to increase while just over 7% expect their stock to decline in the forthcoming quarter. The resultant Optimism Index for Inventory levels for Q4 2005 stands at 50% as compared to 47% in Q3, 25% in Q2 and 16% in Q1. The Optimism Index was highest in basic goods segments, with 72% of the respondents expecting an increase in the level of stock. The Optimism Index for this parameter was lowest in the consumer non-durables sector, where only 52% of the respondents expect an increase in inventory levels.

## Employees

For the Oct-Dec 05 quarter, about 60% of the respondents intend to increase the number of employees, a rise by 9 percentage points over the previous quarter. Further, only 2% of the respondents expect a decline in number of employees. The resultant Optimism Index for Employees has increased to 58% as compared to 46% in the previous quarter. The Optimism Index for this parameter was highest in the services sector (70%) followed by the intermediate goods segment (63%) and consumer durables segment (60%). The Optimism Index for this parameter was lowest in the capital goods sector.



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