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# Dun & Bradstreet Business Optimism Index

India | Q1 2008

January 2008

## D&B Business Expectations Survey

### *Outlook for Q1 2008 - Key Highlights*

- Composite Business Optimism Index down 12.6% q-o-q
- Intermediate and Consumer Non Durables sectors highly optimistic
- Consumer Durables sector less optimistic on most parameters

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. 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 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 Q1 2008

The D&B Business Expectations Survey for Q1 2008 was conducted in the month of December 2007, with the Indian economy looking strong on growth prospects, despite a slowdown in growth witnessed during the second quarter of FY08. As per recently released data, the Indian economy grew by 8.9% during Q2 FY08 as compared with a growth rate of 9.3% recorded during the previous quarter. The industrial and services sectors continued to display resilient performances, growing by 9.8% and 10.4% respectively. The manufacturing sector, however, grew by just 8.6%, a significant slowdown from the previous quarter, when growth stood at 11.9%. High interest rates, a result of the monetary tightening measures taken by the RBI, are expected to have played a major role in dampening the growth witnessed in this sector. The impact of a tight monetary policy is also evident from the declining contribution of private final consumption expenditure to GDP; from 59% in Q1 FY08 to 55% in Q2 FY08.

The appreciation of the rupee has also impacted export realisations, evident from the increasing divergence in exports in terms of dollars and in terms of rupees. Exports (in rupee terms) grew by around 8% during the Apr-Nov 07 period as

compared with around 15% during the year-ago period. Even in terms of dollars, exports witnessed a slowdown, from 26% in Apr-Nov 06 period to 22% during the Apr-Nov 07 period. With a slowdown in exports growth and high non-oil imports, the current account deficit for H1 FY08 increased to US\$ 10.7 bn from US\$ 10.3 bn in the year-ago period.

In the current scenario of high interest rates, a strong rupee and slowing exports growth, economic growth is expected to moderate to some extent during H2 FY08. Reflecting the Indian economic scenario, the Composite Business Optimism Index stands at 168.9 points, a decline of 12.6% on a q-o-q basis. On a yearly basis, the Composite Business Optimism Index declined by 13.2%. However, a part of this decline can be explained by the fact that a greater proportion of respondents expect no change from the current situation rather than a significant deterioration. Based on the responses received, it was observed that 5 of the 6 optimism indices – namely, volume of sales, net profits, new orders, inventory levels, and employee levels have registered decreases as compared with the previous quarter. Only one of the 6 optimism indices – selling prices – increased by one percentage point as compared with the previous quarter. Amongst the sectors, the consumer non durables and the intermediate goods sectors, were the most optimistic on most parameters. Optimism amongst respondents from the intermediate goods segment indicates a likely increase in production of goods from other sectors in subsequent quarters. The consumer durables sector, however, seemed less optimistic; a reduction in demand for consumer durables during the post festive season and the impact of high interest rates on consumer spending may have dampened the sentiment amongst respondents in this segment.

Q1 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*

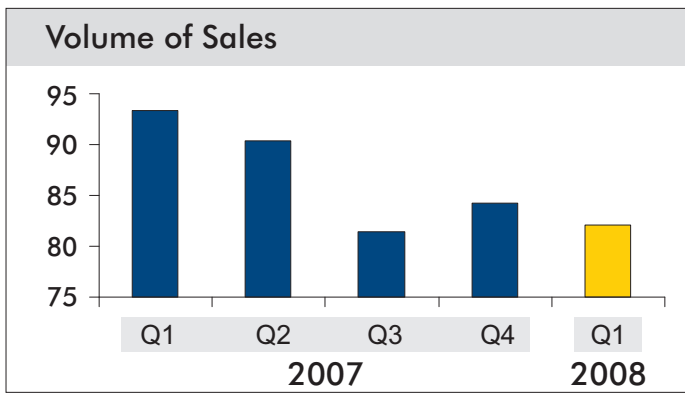
#### **Extract from December Manufacturing ISM Report on Business ® (US Economy)**

Economic activity in the manufacturing sector failed to grow in December following 10 consecutive months of expansion, while the overall economy grew for the 74th 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 failed to grow in December ending 10 consecutive months of growth. The recent trend has been toward slower growth. However, December was apparently a very tough month as New Orders, Production and Employment were all below the break-even mark of 50 percent. Industries close to the housing market appear to be struggling more than others, and those involved in exports seem to be doing better. Slower demand appears to be more of a problem than excessive inventories based on the respondents' comments."

Manufacturing failed to grow in December as the PMI registered 47.7 percent, a decrease of 3.1 percentage points when compared to November's reading of 50.8 percent. This is the first month that the manufacturing sector has failed to grow since January 2007. ISM's New Orders Index registered 45.7 percent in December. The index is 6.9 percentage points lower than the 52.6 percent reported in November. Five industries reported increases during December: Apparel, Leather & Allied Products; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; Computer & Electronic Products; and Primary Metals.

ISM's Production Index fell to 47.3 percent in December, a decrease of 4.6 percentage points when compared to November's reading of 51.9 percent. Manufacturers' inventories contracted again in December as the Inventories Index registered 45.5 percent, which is 1.4 percentage points lower than November's reading of 46.9 percent. This is the 17th consecutive month of inventory liquidation.

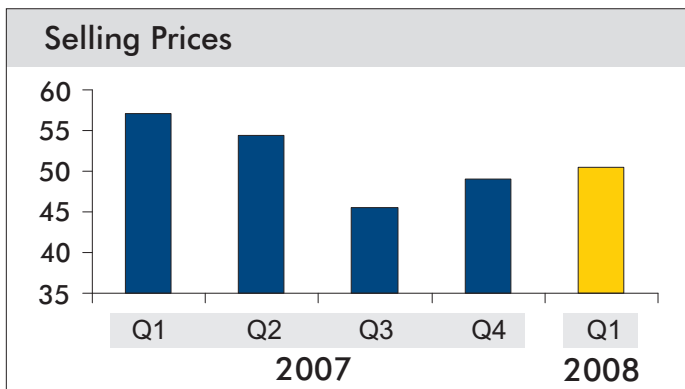
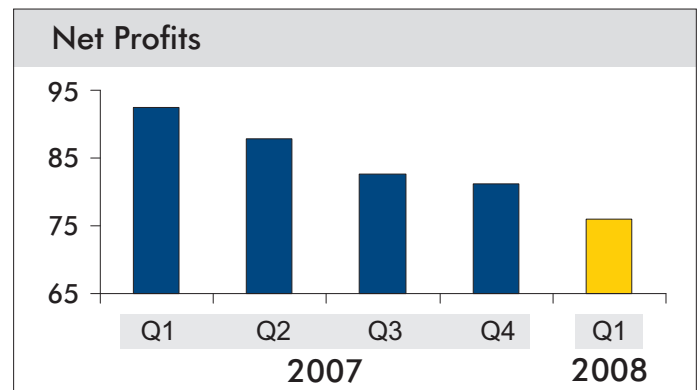


### Volume of Sales

The corporate sector expects demand to remain strong in Q1 2008. Approximately 85% of the respondents expect sales volume to increase during Q1 2008 while about 3% expect a decline in sales. The resultant Optimism Index for Volume of Sales stands at 82%, as compared with 84% in the previous quarter. Amongst the sectors, the intermediate goods and the consumer non durables segments were highly optimistic, with almost 90% of respondents in both sectors expecting an increase in sales volume. However, the consumer non durables goods sector is the least optimistic on this parameter, with just 73% of respondents expecting an increase in sales volume.

### Net Profits

About 80% of the respondents anticipate an increase in profitability while about 4% expect their net profits to fall in the forthcoming quarter. Approximately 16% of respondents have indicated that they expect no change in net profits for the quarter. The resultant Optimism Index for Net Profits stands at 76%, a decrease of 5 percentage points as compared with the previous quarter. The intermediate goods and the services segments were most optimistic on this parameter while the consumer durables segment was once again the least optimistic with regards to this parameter.



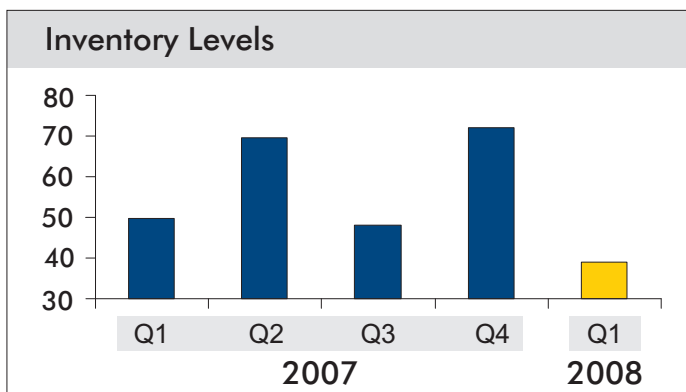
### Selling Prices

While about 54% of the respondents expect selling prices of their products to increase, 4% expect prices to decline and about 42% of the respondents surveyed expect no change in selling prices. The resultant Optimism Index for Selling Prices stands at 50% as compared with 49% in the previous quarter. More than 55% of respondents from the basic goods, consumer non durables and services segments expect to witness an increase in selling prices. Only 33% of respondents from the intermediate goods segment, however, expected to witness an increase in prices during the Jan-Mar 08 quarter.

### New Orders

Approximately 85% of the respondents expect their order book position to improve, a marginal 2% expect a decrease in the number of new orders. The resultant Optimism Index for New Orders stands at 83%, a decrease of 3 percentage points as compared to the previous quarter. The consumer non durables segment and the services sector were most optimistic with the percentage of respondents expecting an improvement in order book positions at 89% and 88% respectively.



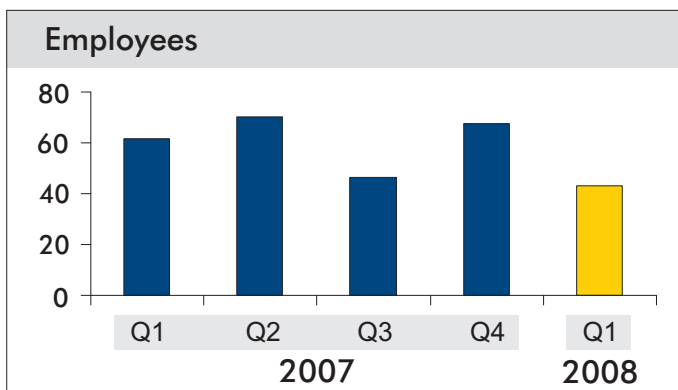


### Inventory Levels

While about 50% of the respondents expect their level of stock to increase, about 39% expect to witness no change in their inventory levels during the Jan-Mar 08 quarter. As much as 11% expect their level of stock to decline during Q1 2008 as compared with less than 3% during the previous quarter. The resultant Optimism Index for Inventory Levels stands at approximately 39%. The consumer durables segment was least optimistic with just 38% of respondents expecting an increase in inventory levels.

### Employees

For the Jan - Mar 08 quarter, approximately 45% of the respondents intend to increase the number of employees. A marginal 2% of the respondents expect a decline in the number of employees. However, a majority of respondents anticipate no significant change from the current situation. About 52% do not expect to witness any change in employee levels as compared with 30% in the previous quarter. The resultant Optimism Index for Employees stands at 43% for the Jan - Mar 08 quarter. Among the sectors, the consumer non durables sector and the services sector showed a greater inclination towards increasing the number of employees.



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