



Decide with Confidence

# Dun & Bradstreet Business Optimism Index

India | Q2 2010

April 2010

## D&B Business Expectations Survey

### *Outlook for Q2 2010 - Key Highlights*

- Composite Business Optimism Index increases by as much as 52.3% (y-o-y)
- Optimism for Volume of sales stands at 74%, an increase of 51 percentage points as compared to Q2 2009
- Optimism Index for Selling Prices registers an increase of 36 percentage points (y-o-y)

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 q-o-q changes.

#### **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 Q2 2010

D&B Business Optimism Index survey for Q2 2010 was conducted during the month of March, following the Union Budget 2010-11. While the overall sentiment during this period continued to remain positive on account of substantial pick-up in economic activity, concerns over high inflation and hike in interest rates were looming large. Despite a partial roll back of some of the stimulus measures announced at the time of the economic crisis, business sentiment remained largely intact given the calibrated approach of the government towards lowering fiscal deficit without hampering the economic growth. The focus of the budget on infrastructure and social sector, which would drive and maintain the growth momentum, has been widely appreciated. While an increase in excise duty (if not passed through to consumer) and MAT might have some impact on the profitability, higher disposable income of individuals due to broadening of tax slabs is likely to offset the adverse impact, though partially.

Economic activity has continued to improve and is reflected in the strong industrial performance and resilient services sector growth. However, GDP growth moderated to 6.0% during Q3 FY10 as compared to 7.9% in Q2 FY10 on account of negative growth in agriculture as well as 'community, social & personal services'. The gradual reduction in government consumption expenditure seems to have played a role in dragging the growth figures for 'community, social & personal services'. Given that the government expenditure would witness further cutback, improvement in private consumption and investment would be vital for sustainability of the growth momentum. In fact in the past few months, resurgence in private demand conditions has been instrumental in fueling the strong growth witnessed in the manufacturing sector. Further, sustained pick up in bank credit growth, strong capital goods production, reviving exports, buoyant stock markets, surging FII inflows also point towards high optimism about domestic economic activity. Although a host of factors point towards a stronger recovery, a major threat in the form of mounting inflationary pressures still persists.

The headline inflation surged to a near double digit level of 9.89% (y-o-y) during Feb-10 as compared to 8.56% during Jan 10. Further, increasing raw material prices (such as crude oil) domestically as well as globally is likely to fuel the cost-push inflation. The increase in fuel prices will have a cascading effect on prices of other commodities, thereby stoking inflationary pressures in the economy. With an aim to anchor inflationary expectations and suppress demand side pressures if any, the RBI increased repo and reverse repo rate by 25 bps each on March 19, 2010. Tightening monetary policy coupled with up-tick in credit growth is likely to add upward pressure on interest rates.

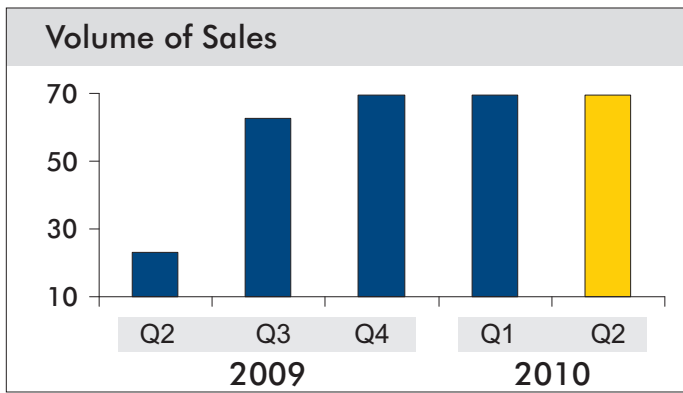
Reflecting the prevailing business sentiment, Composite Business Optimism Index stands at 142.8 during Q2 2010, a substantial improvement from an all time low level of 93.8 registered during Q2 2009. On a q-o-q basis, BOI increased by 3.8% during Q2 2010, as against a decline of 3.9% (q-o-q) during the Q1 2010. While the survey results indicate that overall business sentiment remains optimistic, some cautiousness on account of high inflation, expected hardening of interest rates is visible from relatively lower optimism with regards to Volume of Sales, New Orders, Net Profits and Employee level during Q2 2010 as compared Q1 2010. Relatively lower optimism regarding profit expectations could be attributed to the rising raw material prices, hike in excise duty (incase not passed on to consumer) and MAT, which might have some impact on the profitability. With rapidly rising raw material prices the optimism regarding selling prices has improved. On a y-o-y basis, however, the Resultant Optimism for all the six parameters have witnessed substantial improvement. Amongst the sectors, intermediate and capital goods sectors were relatively more optimistic. Robust growth in industrial activity as well as the increased emphasis on infrastructure development seems to have supported the sentiment in intermediate as well as capital goods sector. Q2 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 March Manufacturing ISM Report on Business® (US Economy)**

Economic activity in the manufacturing sector expanded in March for the eighth consecutive month, and the overall economy grew for the eleventh 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, CPSM, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The manufacturing sector grew for the eighth consecutive month during March. The rate of growth as indicated by the PMI is the fastest since July 2004. Both new orders and production rose above 60 percent this month, closing the first quarter with significant momentum going forward. Although the Employment Index decreased 1 percentage point to 55.1 percent from February's reading of 56.1 percent, signs for employment in the sector continue to improve as the index registered a 10 percent month-over-month improvement, indicating that manufacturers are continuing to fill vacancies..."

Manufacturing growth accelerated in March as the PMI registered 59.6 percent, an increase of 3.1 percentage points when compared to February's reading of 56.5 percent, indicating continuing recovery in the sector at a faster rate of growth. ISM's New Orders Index registered 61.5 percent in March, 2 percentage points higher than 59.5 percent registered in February. ISM's Production Index registered 61.1 percent in March, which is an increase of 2.7 percentage points from the February reading of 58.4 percent. Manufacturers' inventories registered 55.3 percent in March, which is an increase of 8 percentage points from the February reading of 47.3 percent. The ISM Prices Index registered 75 percent in March, 8 percentage points higher than the 67 percent reported in February. ISM's Employment Index registered 55.1 percent in March, which is 1 percentage points lower than the 56.1 percent reported in February.

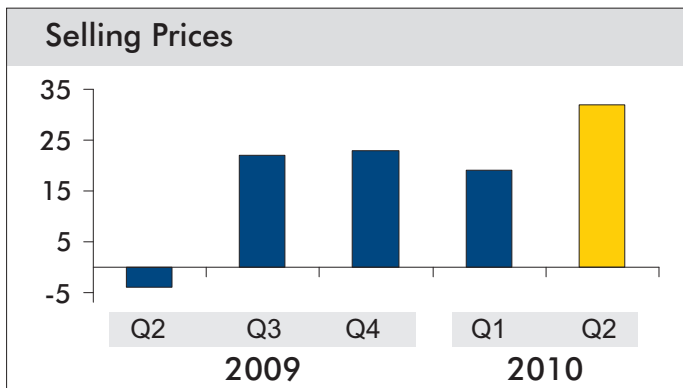
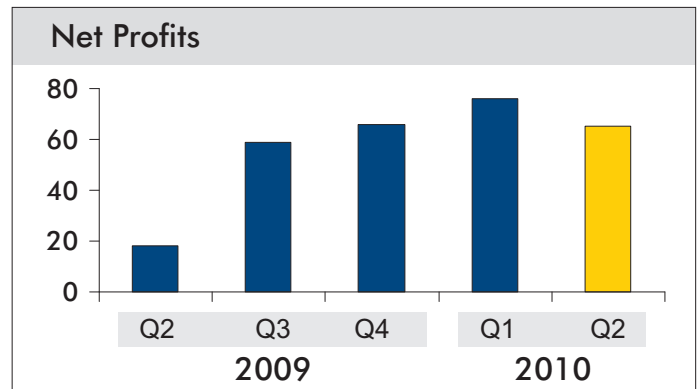


### Volume of Sales

According to majority of the BOI respondents, demand conditions are likely to witness further improvement; almost 79% of the respondents expect an increase in volume of sales during Q2 2010. While 16% of the respondents anticipate no change in the volume of sales, around 5% of the respondents expect a decline in sales during Q2 2010. The resultant Optimism for Volume of sales stands at 74%, a substantial increase of 51 percentage points over Q2 2009. Nonetheless, it is lower compared to Q1 2010. Amongst the sectors, intermediate goods sector and capital goods sector were relatively more optimistic with regards to this parameter.

### Net Profits

Profit expectations of the corporates remained moderate, with 71% of the respondents expecting an increase in their net profits during Q2 2010. While 5% of the respondents expect net profits to decline in Q2 2010, about 24% of the respondents anticipate net profits to remain unchanged. The resultant Optimism for Net Profits stands at 66%, lower compared to Q1 2010. However, it has witnessed a substantial increase of 48 percentage points compared to Q2 2009. Amongst the sectors, capital goods sector seemed relatively less optimistic regarding this parameter. Surging raw material prices coupled with increase in MAT could have dampened their profit expectations.

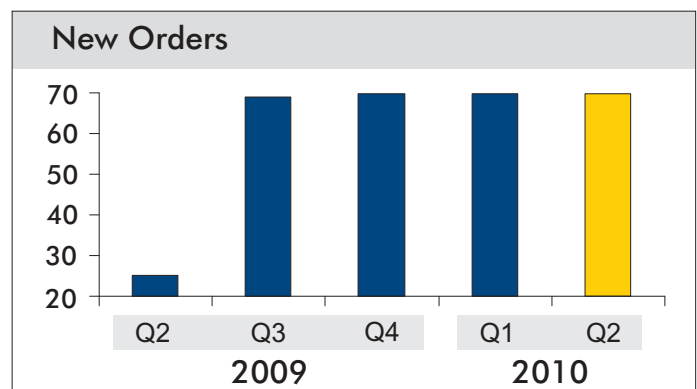


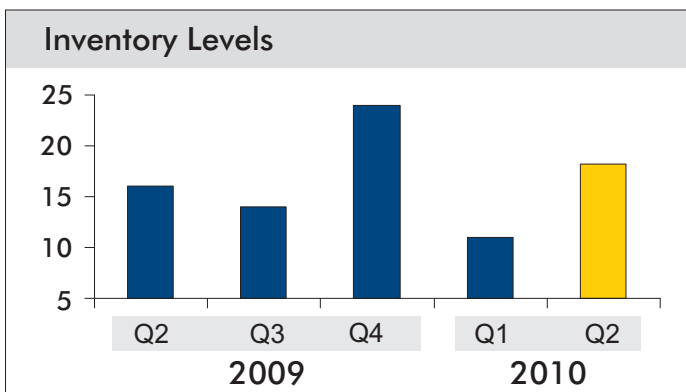
### Selling Prices

Almost 42% of the respondents expect selling prices of their products to increase during Q2 2010. While majority (48%) of the respondents anticipate no change in selling prices of their products, 10% of the respondents expect selling prices to decline during Q2 2010. The resultant Optimism for Selling Prices stands at 32% during Q2 2010 as compared to 19% in Q1 2010. It has recorded an increase of 36 percentage points on a y-o-y basis. Amongst the sectors, basic and intermediate goods sector were relatively more optimistic about this parameter.

### New Orders

Approximately 78% of the respondents expect their order book position to improve during Q2 2010 and 17% anticipate no change in the new orders received. With 5% of the respondents anticipating decline in the new orders received, the resultant Optimism for New Orders stands at 73% in Q2 2010 – lower compared to 80% during Q1 2010. However, it has recorded an increase of 48 percentage points compared to Q2 2009. The consumer durables sector is relatively more optimistic, with 94% of the respondents in this sector expecting their order book position to increase.



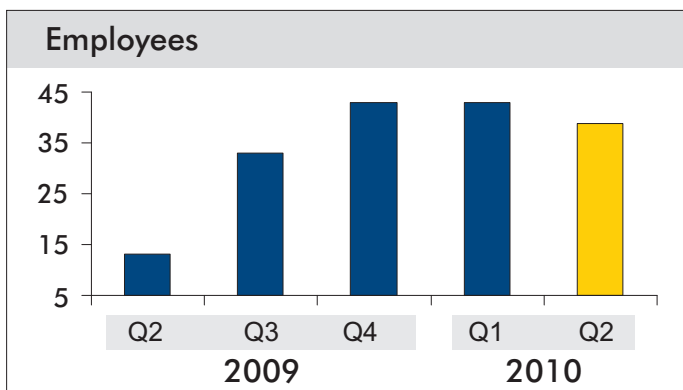


### Inventory Levels

Around 58% of the respondents expect the level of stock to remain unchanged during Apr-Jun 10 quarter, while as many as 30% of the respondents expect the level of inventory to increase. The remaining 12% of the respondents expect their level of stock to decline. The resultant Optimism for Inventory Level stands at 18%, higher by 2 percentage points over Q2 2009. It also has recorded an increase of 7 percentage points compared to Q1 2010. Among the sectors, capital goods sector was the least optimistic, with less than 15% of the respondents anticipating increase in the inventory level.

### Employees

The employment scenario is likely to remain stable in the forthcoming quarter, with 47% of the respondents expecting no change in size of workforce employed during Q2 2010. While 46% of the respondents anticipate increase in employee level, 7% of the respondents expect a decline in their workforce in Q2 2010. The resultant Optimism for Employees stands at 39% for Q2 2010, an increase of 26 percentage points over Q2 2009. Among the sectors, services sector was relatively more optimistic, with more than 50% of the respondents in these sectors expecting their workforce to increase.



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