

Key Macro Highlights

- ✔ GST revenue collections stood at around Rs 1.2 tn in Dec 20, highest ever since the launch of GST in 2017
- ✔ Retail inflation eases to 4.6% (y-o-y) in Dec 20, compared to 7.6% (y-o-y) in Oct 20
- ✔ Commercial paper issuances increased by 56.4% (m-o-m) in Dec 20 and stood at Rs 1.9 tn compared to 1.2 tn in Nov 20
- ✔ Positivity rate of COVID-19 cases declined to 1.9% as on Jan 16, 2021 from 5.4% as on Nov 1, 2020
- ✘ The Index of Industrial Production (IIP) declined by 1.9% (y-o-y) in Nov 20 compared to a growth of 4.2% (y-o-y) in Oct 20
- ✘ Bank credit to industries contracted by 0.7% (y-o-y) in Nov 20, declining for two straight months
- ✘ India's rank in Human Development Index slips to 131 in 2019 from 132 among 189 countries
- ✘ Fiscal deficit increased to Rs 107.6 tn during Apr-Nov 2020 from Rs 80.8 tn during Apr-Nov 2019, reaching 135% of the budgeted target

D&B Optimism Index for India for Q1 2021

The survey for Business Optimism Index (BOI) was conducted during the month of December 2020 when the nascent signs of recovery in the economic activity and the positive news of deployment of vaccines from January 2021 have uplifted the optimism level of businesses. Consumer demand seems to be reviving, start-ups have been witnessing increased funding, government has been announcing big-ticket infrastructure projects and capital flow surges signaling the return of risk appetite of investors have fueled the optimism level of businesses for Q1 2021.

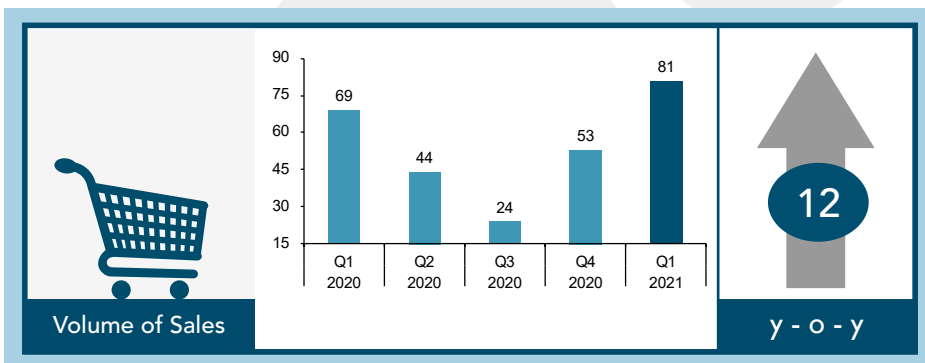
Business optimism index turned positive for Jan-Mar 2021 after recording the steepest decline during July to September 2020 and a negative growth throughout 2020 on a y-o-y basis. The Business Optimism Index which predicts economic activity three months ahead of actual occurrence of GDP has indicated GDP growth to turn positive during the period January to March 2021. This is in line with the 1st advanced estimates of GDP for FY21 released by the government which predicts GDP to record only a slight decline of 0.1% during H2 FY21, meaning GDP to register a positive growth rate during Q4 FY21.

Currency in circulation a leading indicator of heightened economic activity has improved compared to the year ago level signaling a turnaround in the economic activity. Demand for passenger vehicles and two wheelers continue to grow post festive season, with auto makers raising vehicle prices, indicating reviving consumer demand. The fact that both consumer demand is picking up and businesses are clocking higher transactions are validated by the GST collections which touched a record high during December 2020. Bank credit is also gradually picking up, growing by 6.1% on 18th December compared to average of 5.3.% growth recorded during Aug to Nov 2020. Our survey captures this revival in optimism amongst businesses. Optimism for net sales and net profits for Q1 2021 is the highest since Q1 2015 and for new orders it is the highest since Q3 2014.

Progressive unlocking and normalisation of supply disruptions are reflected in the E-way bill generation which recorded the highest growth since April 2019. The Dun & Bradstreet's commerce disruption tracker also shows around 41% of businesses remain disrupted as on 4th December compared to 90% by mid-July. As per our survey, respondents from the construction sector has shown the highest optimism about increasing the employee size, which is an increase from the previous two quarters, a sign that informal sector employment might be picking up. The government has announced a few infrastructure projects with respect to industrial corridors. Private investments continued to rise in the third quarter with manufacturing taking a lead as reported by an independent firm that tracks investment projects.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q1 2021 increased by 26.8% on a y-o-y basis. Based on the responses received, on a y-o-y basis it was observed that five of the six optimism indices have increased. Amongst the sectors, basic goods sector is the most optimistic on new orders, level of selling price and inventory level and capital goods is the least optimistic on volume of sales, net profits and employees.

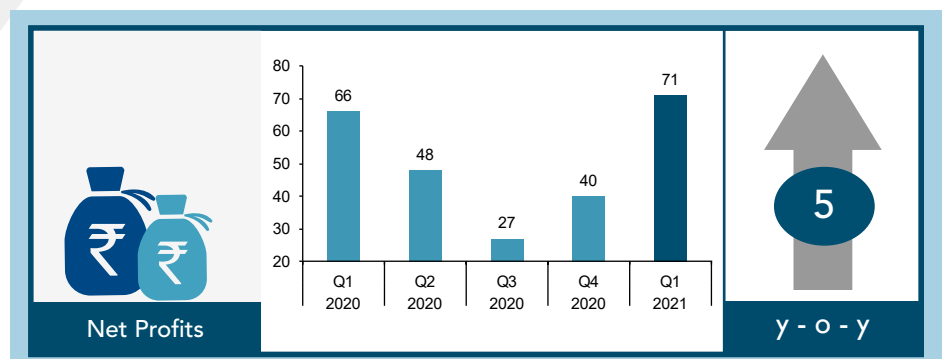
Optimism on Sub-indices



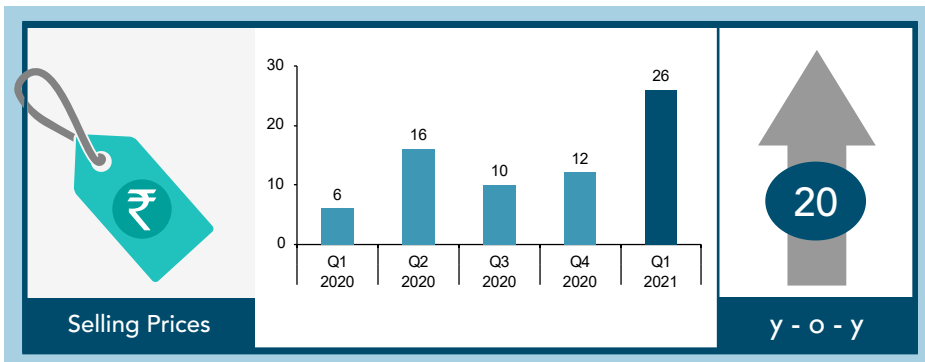
Note: All y-o-y figures are in percentage points

81% of the respondents expect volume of sales to increase in Q1 2021 compared to 69% in Q1 2020, an increase of 12 percentage points. While 11% expect it to remain unchanged, 8% expect the volume of sales to decline. The consumer non-durable goods sector is the most optimistic, while the capital goods sector is the least optimistic on this parameter.

Around 71% of the respondents expect an increase in net profits in Q1 2021, compared to 66% in Q1 2020, an increase of 5 percentage points. Around 21% expect net profits to remain unchanged, while around 8% expect it to decrease. The intermediate goods sector is the most optimistic, while the capital goods sector is the least optimistic on this parameter.



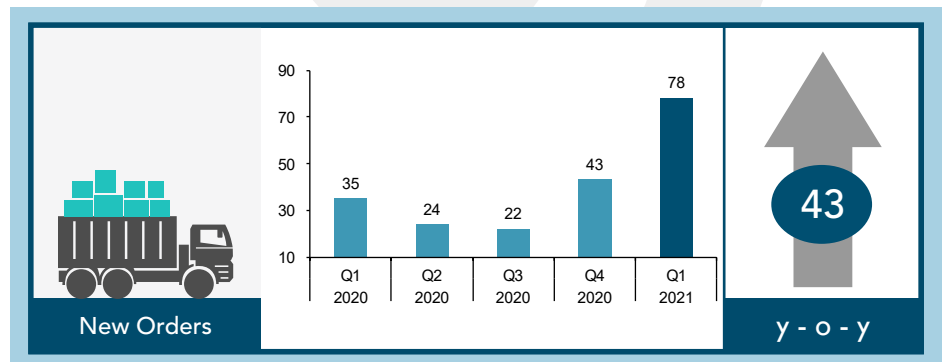
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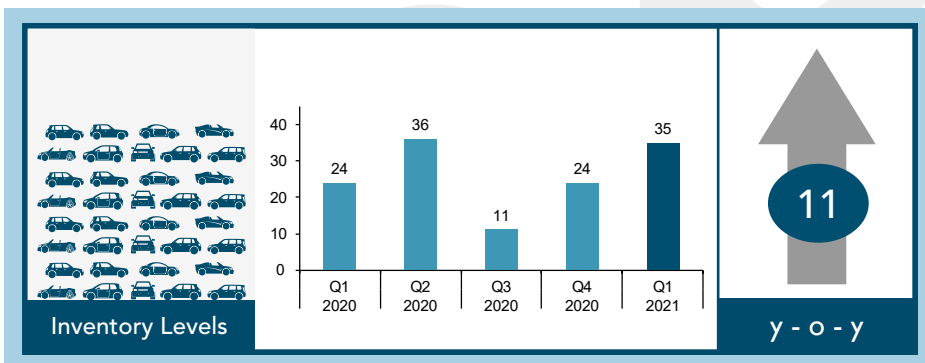
60% of the respondents expect no change in the selling price of their products in Q1 2021. 26% of the respondents expect the selling price of their products to increase during Q1 2021, while 14% expect a decline. The basic goods sector is the most optimistic on this parameter, while the services sector is the least optimistic.

78% of the respondents expect their order book position to improve in Q1 2021, compared to 35% in Q1 2020, an increase of 43 percentage points. While 16% of the respondents expect new orders to remain unchanged, 6% anticipate new orders to decrease. The basic goods sector is the most optimistic, while the services sector is the least optimistic.



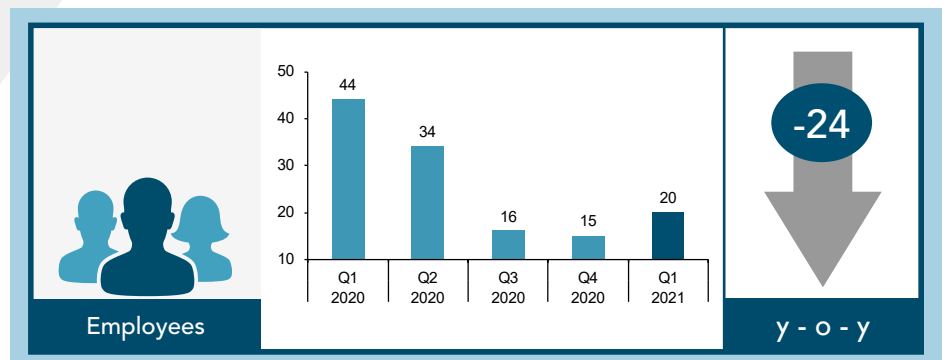
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35% of the respondents expect their inventory level to increase during Q1 2021, as compared to 24% in Q1 2020. While 59% anticipate no change in inventory level, 6% expect inventory level to decline. The basic goods sector is the most optimistic on this parameter.



Note: All y-o-y figures are in percentage points

20% of the respondents expect an increase in the size of their workforce employed during Q1 2021 compared to 44% in Q1 2020, a decrease of 24 percentage points. While 59% anticipate no change in the number of employees, 21% expect their workforce size to decline. The construction sector is the most optimistic on this parameter.



Note: All y-o-y figures are in percentage points

The D&B Optimism Index is recognised as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. Over time, this index 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 nondurables, construction and the services sectors is selected at random 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 the percentage of respondents expecting an increase.

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 individual indices except inventory. Each of the five parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of five parameters for the period under review are expressed as a proportion of positive responses in the revised base period (2011). 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.

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