

Business Optimism Index decreased by around **5.0% (q-o-q)**

Business Optimism Index stands at **89.9**; barring previous quarter, it is the **highest since Q2 2018**

Optimism for **new orders in Q1 2022** is lower by **10 percentage points** from Q4 2021 and **9 basis points** from Q1 2021

Optimism for **net sales in Q1 2022** is lower by **6 percentage points** from Q4 2021 and **8 basis points** from Q1 2021

Barring previous quarter, **optimism for hiring workers** is the **highest since Q3 2011**

**Construction sector** is the **most optimistic** on all parameters except for level of selling price

## Key Macro Highlights

- Foreign exchange reserves were at US\$ 633.6 bn as on end Dec 21, sufficient to cover 11 months of merchandise imports.
- As of Dec 21, 846 million people vaccinated with at least one dose for Covid-19 out of which 603 million people fully vaccinated. 14.8 million got precaution dose.
- Gross GST revenues higher by 13% (y-o-y) to 1.3 tn in Dec 21. GST collection has been above Rs 1 trillion every month since Jul 21.

- New daily Covid-19 cases surged to 22,775 on Dec 31 from 6,356 on 27 Dec 2021.
- WPI inflation remained in double digits for nine months till Dec 2021.
- Recovery in manufacturing not broad based; y-o-y growth tapered since Sep 21 as low base effect waned.
- The index for eight core industries grew by just 3.1% in Nov 21 as compared to 8.4% in Oct 21.

## D&B Optimism Index for India for Q1 2022

The survey for Dun & Bradstreet Business Optimism Index (BOI) was conducted during the month of December 2021 when the Omicron variant was spreading faster forcing countries, including India, to place mobility restrictions. There were concerns of intensification of supply bottlenecks and inflationary pressures forcing Central Banks, especially the US FED, for early withdrawal of monetary policy stimulus. Uncertainty about the virus was high as neither the transmissibility nor the severity of the impact of the new variant was clear. This in turn weighed upon the optimism level of businesses as well as consumers. In a reflection of the emerging risks, both domestic and external, the overall business optimism level fell on a q-o-q basis by around 5.0%. Optimism level, however, was up by 12.5% from the year ago quarter. Two parameters i.e. high optimism level for both selling price and hiring employees led overall business optimism levels to record an increase from last year.

Across size of businesses, small businesses were the least optimistic across all the parameters, except for selling price, reflecting the difficult operating environment and market condition under which they are operating. Small businesses are already under pressure, their margins squeezed by the soaring input costs and cash flows impacted by the delayed payments and still subdued consumption expenditure. Data released by the Reserve Bank of India (RBI) in December 2021, showed signs of stress in the bank loans to MSMEs has emerged by September 2021 much before the outbreak of Omicron. Dun & Bradstreet's proprietary data also shows operational risks remained high in the sectors which are dominated by SMEs in September 2021 compared to the year ago period. Dun & Bradstreet Global

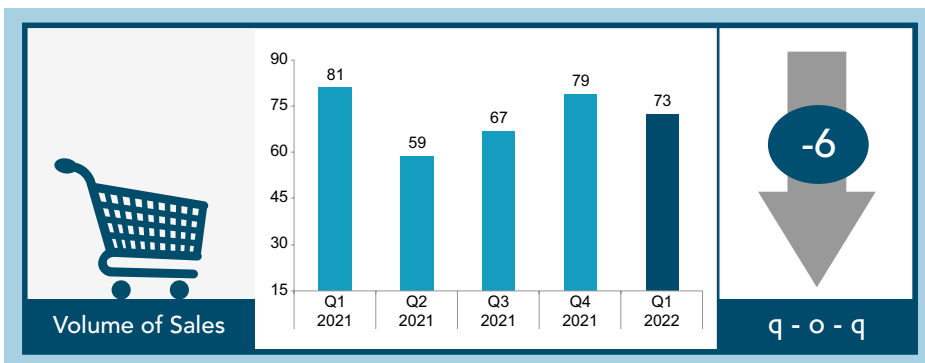
Business Ranking (GBR)<sup>TM</sup>, which predicts the likelihood that a company will go out of business, become inoperable or inactive over the next 12 months, remained elevated in sectors such as textiles, paper and print, retail and construction sectors.

Concerns that the new variant would restrain the revival in demand and slow down the recovery in the contact intensive services sector would have weighed upon the sentiment of business. Our survey showed that optimism level of the services sector was the lowest for the parameters volume of sales and selling price. Besides, monetary policy normalisation and high inflation are also likely to dent consumption demand. Optimism level for net sales and new orders were found to have fallen not only from the previous quarter but also from the year ago period.

The US Fed's early withdrawal of monetary policy stimulus has added to the risk of lower foreign investment inflows and rise in domestic interest rates. The RBI is also expected to start raising the policy repo rates this year, having already begun the process of withdrawing excess liquidity from the market last year. Net foreign direct investment (FDI) inflows have slowed down in 2021 compared to 2020; FDI inflows moderated to US\$ 9.5 bn in Q3 2021 from US\$ 24.4 bn in Q3 2020.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q1 2022 decreased by 5% on a q-o-q basis. Based on the responses received, on a q-o-q basis it was observed that four of the six optimism indices have decreased, while the other two remain unchanged. Amongst the sectors, construction sector is the most optimistic and services and consumer goods sectors are the least optimistic as per the survey.

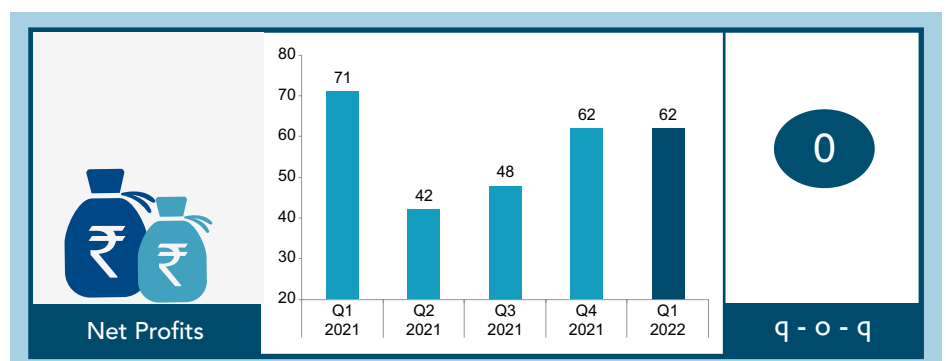
### Optimism on Sub-indices



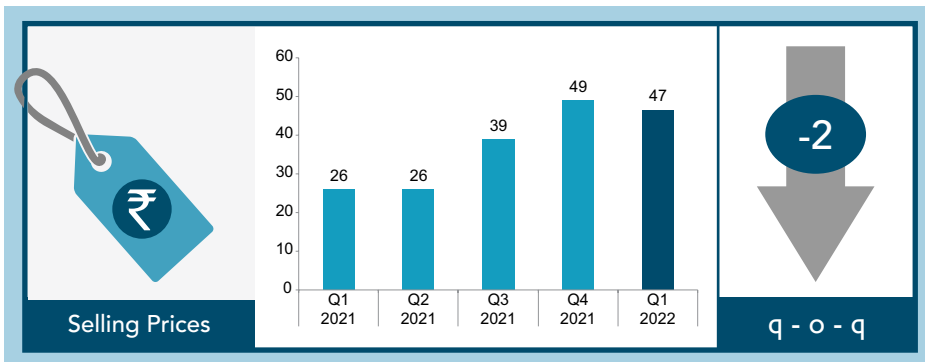
Note: All q-o-q figures are in percentage points

Around 73% of the respondents expect volume of sales to increase in Q1 2022 compared to 79% in Q4 2021, a decrease of 6 percentage points. While around 20% expect it to remain unchanged, around 7% expect the volume of sales to decline. The construction sector is the most optimistic, while the services sector is the least optimistic on this parameter.

62% of the respondents expect an increase in net profits in Q1 2022, same as in Q4 2021. 28% expect net profits to remain unchanged, while 10% expect it to decrease. The construction sector is the most optimistic, while the consumer durables goods sector is the least optimistic on this parameter.



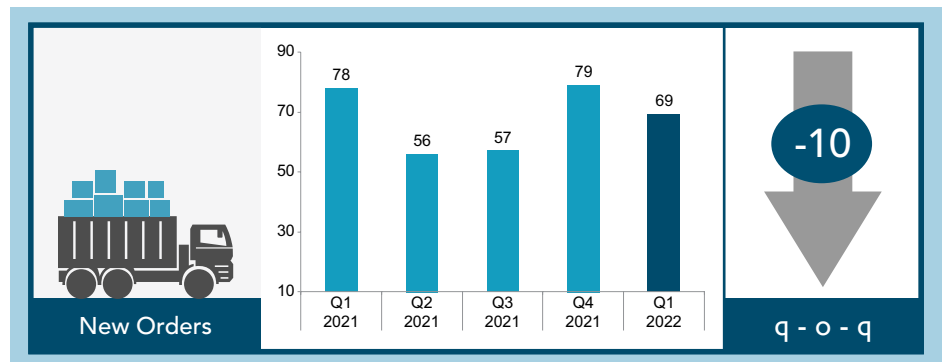
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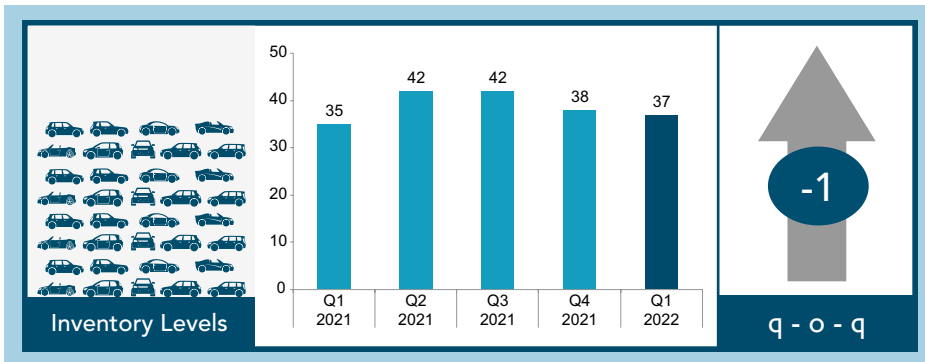
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48% of the respondents expect no change in the selling price of their products in Q1 2022. 47% of the respondents expect the selling price of their products to increase during Q1 2022, while 5% expect a decline. The capital goods sector is the most optimistic on this parameter, while services and basic goods sector is the least optimistic.

69% of the respondents expect their order book position to improve in Q1 2022, compared to 79% in Q4 2021, a decrease of 10 percentage points. While 27% of the respondents expect new orders to remain unchanged, only 4% anticipate new orders to decrease. The construction sector is the most optimistic, while the consumer non-durable goods sector is the least optimistic.



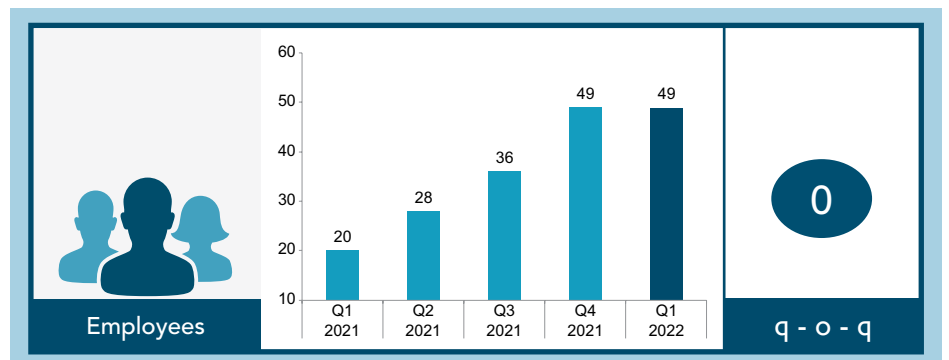
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37% of the respondents expect their inventory level to increase during Q1 2022, compared to 38% in Q4 2021, a decrease of 1 percentage point. While another 47% anticipate no change in inventory level, 16% expect inventory level to decline. The consumer non-durable sector is the most optimistic on this parameter.

49% of the respondents expect an increase in the size of their workforce employed during Q1 2022, the same as in Q4 2021. While 48% anticipate no change in the number of employees, 3% expect their workforce size to decline. The construction sector is the most optimistic on this parameter.



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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 04 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, 01 is the period between January and March, 02 is the period between April and June, 03 is the period between July and September and 04 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.

## Research Team

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