



Key Macro Highlights

- ✔ Cumulative positivity rate of COVID-19 cases declined to 7.6% as on Oct 27, 2020 from 9.0% as on Aug 10, 2020
- ✔ Merchandise exports increased by 6.0% (y-o-y) in Sep 20, highest since Apr 19
- ✔ Foreign Exchange Reserves stood at US\$ 555.1 bn on Oct 16, 2020 - highest ever
- ✔ The pace of contraction in the Index of Industrial Production reduced to -8.4% (y-o-y) in Aug 20 from -57.3% (y-o-y) in Apr 20
- ✘ Fiscal Deficit increased to Rs 8.7 tn during Apr-Aug 2020 from Rs 5.5 tn during Apr-Aug 2019, reaching 109% of the budgeted target
- ✘ Bank credit to industries grew by 0.5% (y-o-y) in Aug 20, lowest in over two years
- ✘ Retail inflation increased by 7.3% in Sep 20, an eight-month high
- ✘ New investments in projects stood at around Rs 0.7 tn during Q2 FY21, the same level as in Q1 FY21

D&B Optimism Index for India for Q4 2020

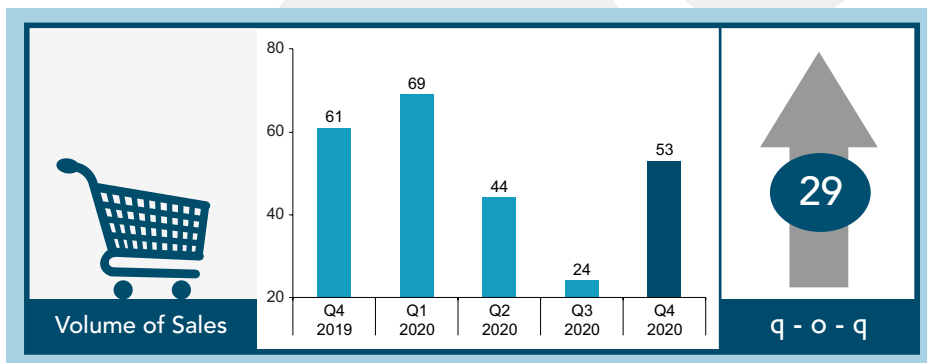
The survey for Business Optimism Index (BOI) was conducted during the month of September and October 2020, when businesses turned overtly optimistic in the hope of increase in sales and recording profitability during the festive season compared to the last quarter. The increase in traction in most of the high frequency indicators support the underlying sentiment. The sentiment was further boosted, as business will be able to function more seamlessly with greater number of economic activities being allowed under 'Unlock 4.0 and 5.0' that came into effect from September 1st and October 1st, 2020 respectively.

Growth in electricity consumption at an all India level turned positive in the month of September 2020 from its year ago level from the negative growth recorded since the month of April when the nation-wide strict lockdown was implemented. Demand for electricity for many states turned positive or improved indicating increase in economic activities. Bi-monthly average data for the Google Mobility Index for Workplace shows that at the end of October, more than 60% people had started moving back to their workplace compared to their baseline period (Jan 3–Feb 6, 2020), in major states of India except for Bangalore, Mumbai and Chennai which have higher caseloads. Foreign investors have shown optimism in the growth prospects of India. FDI in July were the highest ever for the five month period. India also managed to clock a positive and higher growth in exports at 5.3% in September 2020 after a gap of six months. Besides improvement in GST collections, a 26% increase in passenger vehicle sales, 15% rise in revenue of railway freight traffic and increase in power generation shows signs of recovery. Measures taken by the RBI to lower the cost of borrowing and improve the monetary policy transmission supported the business sentiment.

The construction sector has received a huge boost from the Government as well the RBI's initiative to allocate money to increase the capital expenditure of the Centre and the states. This is reflected in the optimism of the businesses in the construction sector for four parameters covered in survey including sales, net profit levels, new orders and selling prices for the period Oct-Dec 2020. This recovery could nonetheless be fragile as the core sector as well as Index of Industrial Production remains in the negative territory. Bank credit continues to moderate, the September data being the lowest since June 2017. It is to be noted that while the manufacturing sector such as consumer durables will get some relief from the pent-up and festival related demand, most the services sector does not benefit from pent-up demand and are most affected by social distancing and are contact-intensive. The survey revealed that the optimism of businesses in the services sector have remained subdued and has been least optimistic amongst other sectors for parameters such as new orders, net profits and selling prices for the period Oct -Dec 2020. The tentative signs of demand evidenced across the various indicators, however, might largely reflect the pent up demand which might weaken if the virus is not controlled soon. Even as the daily count of new infected cases reported in October have fallen from its high level in July, however, the ongoing festival season with social gatherings might reverse this current downward trend.

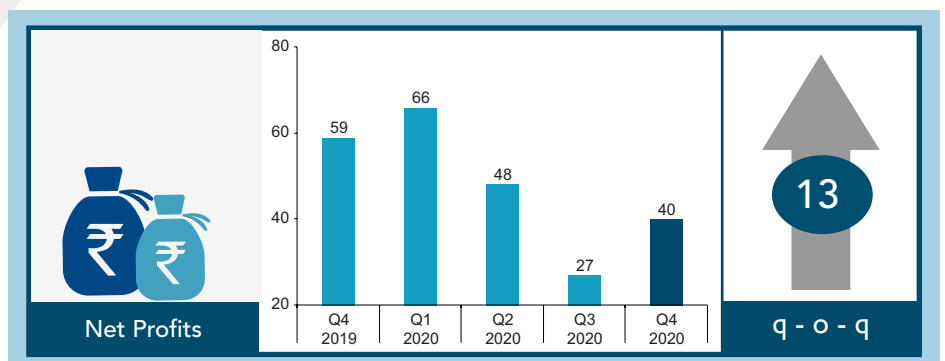
Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q4 2020 increased by 57.4% on a q-o-q basis. Based on the responses received, on a q-o-q basis it was observed that five of the six optimism indices have increased except for employees. Amongst the sectors, construction sector is the most optimistic on volume of sales, new orders, net profits and level of selling prices and services sector is the least optimistic on new orders, net profits and selling prices.

Optimism on Sub-indices



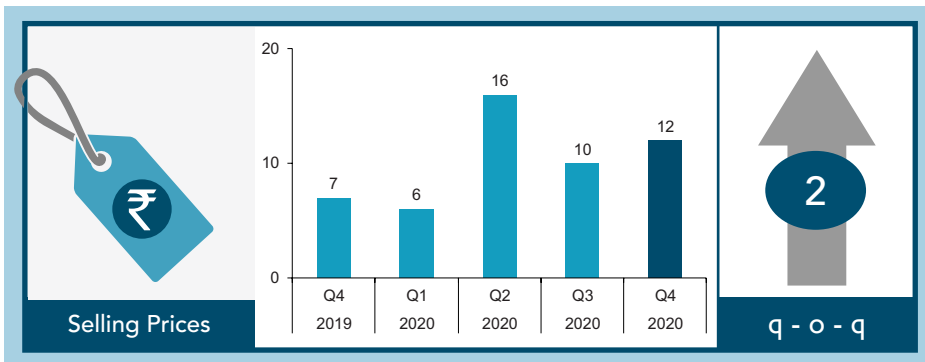
Note: All q-o-q figures are in percentage points

40% of the respondents expect an increase in net profits in Q4 2020, compared to 27% in Q3 2020, an increase of 13 percentage points. 29% expect net profits to remain unchanged, while 31% expect it to decrease. The basic goods sector is the most optimistic, while the services sector is the least optimistic on this parameter.



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

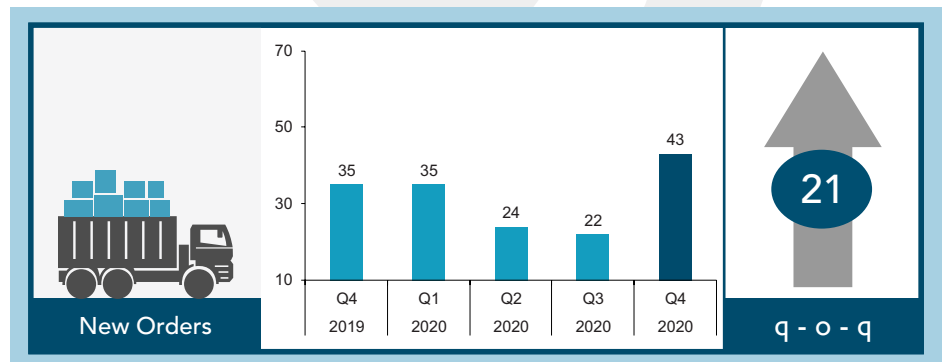
Around 53% of the respondents expect volume of sales to increase in Q4 2020 compared to 24% in Q3 2020, an increase of 29 percentage points. While around 18% expect it to remain unchanged, around 29% expect the volume of sales to decline. The construction sector is the most optimistic, while the consumer durable goods sector is the least optimistic on this parameter.



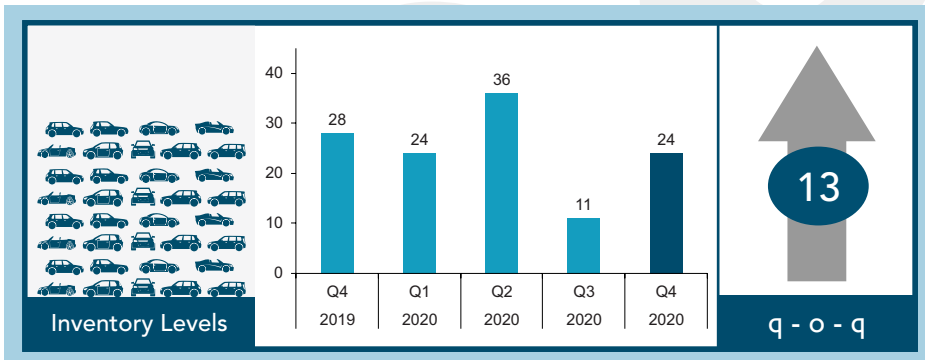
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81% of the respondents expect no change in the selling price of their products in Q4 2020. 12% of the respondents expect the selling price of their products to increase during Q4 2020, while 7% expect a decline. The construction sector is the most optimistic on this parameter, while the services sector is the least optimistic.

43% of the respondents expect their order book position to improve in Q4 2020, compared to 22% in Q3 2020, an increase of 21 percentage points. While 40% of the respondents expect new orders to remain unchanged, 17% anticipate new orders to decrease. The construction sector is the most optimistic, while the services sector is the least optimistic.



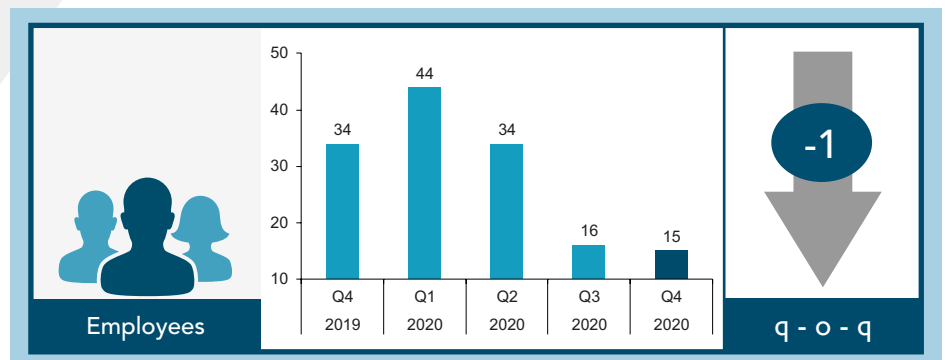
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24% of the respondents expect their inventory level to increase during Q4 2020, as compared to 11% in Q3 2020. While 64% anticipate no change in inventory level, 12% expect inventory level to decline. The construction sector is the most optimistic on this parameter.

Around 15% of the respondents expect an increase in the size of their workforce employed during Q4 2020 compared to 16% in Q3 2020, a decrease of 1 percentage points. While around 77% anticipate no change in the number of employees, 8% 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 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.

Research Team

Dr. Arun Singh | Dipshikha Biswas | Raj Kiran



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Send us your feedback at India@DNB.com
or write to Dr. Arun Singh at SinghArun@DNB.com
Dun & Bradstreet Information Services India Pvt Ltd
ICC Chambers, Saki Vihar Road, Powai, Mumbai 400 072.
Tel : 022 4941 6666
CIN : U74140MH1997PTC107813

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