



Business Optimism Index stands at

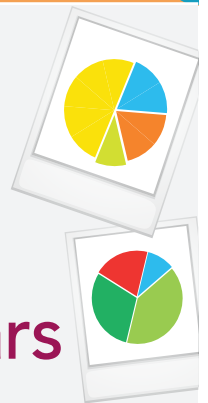
56.4

Optimism for **new orders** and **selling price** is the **lowest** in over **18 years**



Optimism for **net sales** and **net profits** is the lowest in nearly

3 years and **2 years** respectively



Consumer durables and Consumer non-durables sector is the **least optimistic on selling price**



Key Macro Highlights

- ✔ Effective corporate tax rates slashed to around 25% from around 35%.
- ✔ Merchandise trade deficit declined to US\$ 10.9 bn in Sep 19, a 7-month low.
- ✔ Net investments in mutual funds during Q2 FY20 is the highest in four-and-half years.
- ✔ The RBI reduced the policy repo rate by 25 basis points to 5.15% in Oct 19 from 5.40%, marking the 5th consecutive repo cut since Feb 19.
- ✘ The Index of Industrial Production contracted by 1.1% in Aug 19, lowest since Dec 12.
- ✘ Capacity utilisation of manufacturing companies declined to 73.6% in Q1 FY20, lowest in 7 quarters
- ✘ Core Wholesale Price Index inflation contracted for the 3rd consecutive month and stood at -1.2% in Sep 19, lowest since Aug 16.
- ✘ Bank credit to Micro & Small companies contracted by 2.1%, lowest since Mar 17.

D&B Optimism Index for India for Q4 2019

The survey for Dun & Bradstreet Business Optimism Index for Q4 2019 was conducted during the month of September and October 2019 at a time when several macroeconomic parameters indicated a pronounced economic slowdown. The RBI joined a bandwagon of international agencies by slashing India's growth forecasts further for FY20 than what was outlined only two months ago. Given the synchronized global slowdown, concerns remain heightened amongst policy makers and businesses about further downward trend in the growth level.

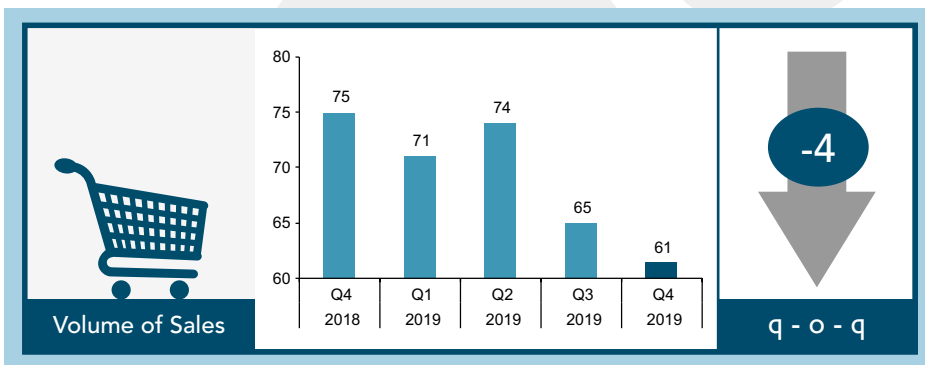
Reflecting the deteriorating sentiment of businesses, the D&B Business Optimism Index for Oct-Dec 2019 registered a sharp decline compared to the last quarter as well as the quarter a year ago. That the optimism of corporates pan-India for new orders and selling price for Oct-Dec 2019 was the lowest in nearly 18 years raises concern about how deep-rooted the slowdown in demand is. The contraction in the inflation for manufactured products well reflects this trend, portraying the view that the producers are finding it difficult to raise the prices or pass on the price increase to the consumers given subdued demand. Growth rates in the demand indicators such as vehicle sales, domestic air passengers, petroleum consumption and rural wages are way below their mid-term growth trend. Further, floods in various parts of the country have impacted the rural demand which was already subdued. The fears of weak demand conditions were further reinforced by sharp contraction in capital goods (-21% y-o-y in Aug-19) and consumer durables (-9.1% y-o-y in Aug-19) segments under Industrial Production Index (IIP). On the supply side, the growth rates of eight core industries and the IIP are dropping. The recent contraction in IIP is the first one after Jun-17. Consequently, the capacity utilization of manufacturing companies has fallen, albeit steeply to 73.6% in Q1 FY20, lowest in 7 quarters. The 10-year avg capacity utilization between FY09

to FY18 remains at 75%. The lower level of capacity utilization will delay the fresh capex plans. Bank credit growth remained weak for Micro & Small and deteriorated recently for the Medium sector too. Bank credit to Micro & Small companies contracted by 2.1%, lowest since Mar 17. Bank credit to priority sector has also weakened, while export credit growth continued to contract for 29 months in a row.

The government has already taken a series of measures to revive the economy. More is needed. To set the ball rolling, both the Centre and the State governments should gear up to execute the infrastructure projects in pipeline and the ones promised by the governments. This would provide employment opportunities for the rural and urban poor. Secondly, the government should make sure that all the farmers are able to avail the Minimum Support Price (MSP) for the crops. Thirdly, it should work towards ensuring that auditing norms become more stringent and stricter laws become a deterrent for people involved in siphoning off public funds. The government measures have been supplemented by the 25 basis points cut in repo rate to 5.15% for the fourth time in Oct-19. With funding constraints easing further and the recent government measures creating conducive environment for investment activity, we expect a recovery in optimism, although delayed.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q4 2019 declined by 19.5% over the preceding quarter. On a y-o-y basis, the index registered a decline of 29.1%. Based on the responses received, on a q-o-q basis it was observed that six out of the six optimism indices have decreased. Amongst the sectors, the consumer non-durables sector is the least optimistic on volume of sales and level of selling price and the construction sector is the most optimistic on new orders received and level of selling prices.

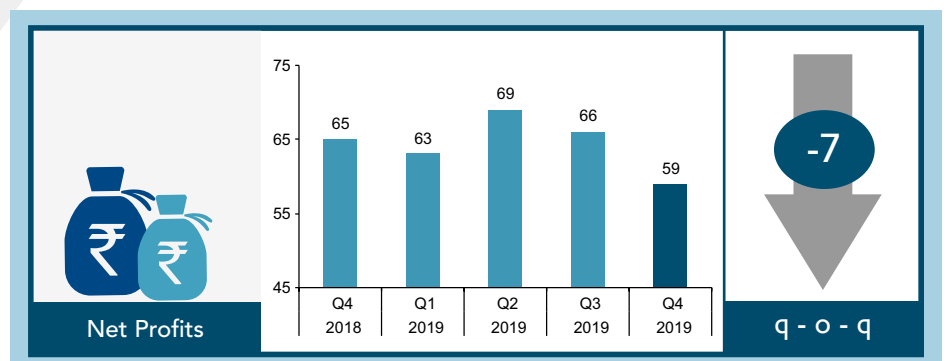
Optimism on Sub-indices



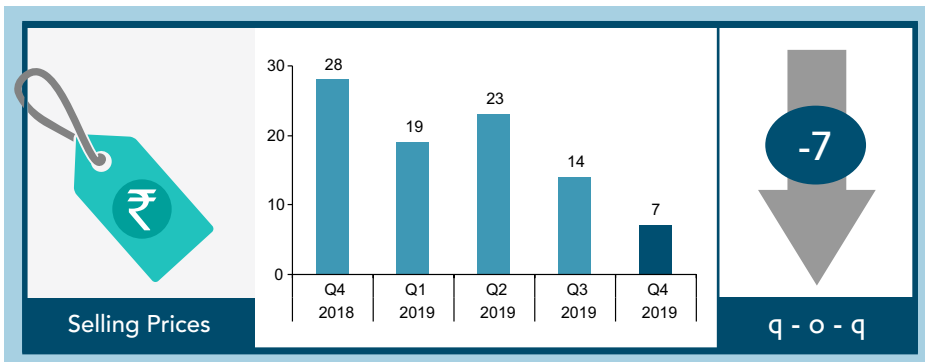
Note: All q-o-q figures are in percentage points

Around 61% of the respondents expect volume of sales to increase in Q4 2019 compared to 65% in Q3 2019, a decrease of 4 percentage points. While around 32% expect it to remain unchanged, around 7% expect the volume of sales to decline. The consumer durable goods sector is the most optimistic, while the consumer non-durable goods sector is the least optimistic on this parameter.

59% of the respondents expect an increase in net profits in Q4 2019, compared to 66% in Q3 2019, a decrease of 7 percentage points. 31% expect net profits to remain unchanged, while 10% expect it to decrease. The consumer durable goods sector is the most optimistic, while the capital goods sector is the least optimistic on this parameter.



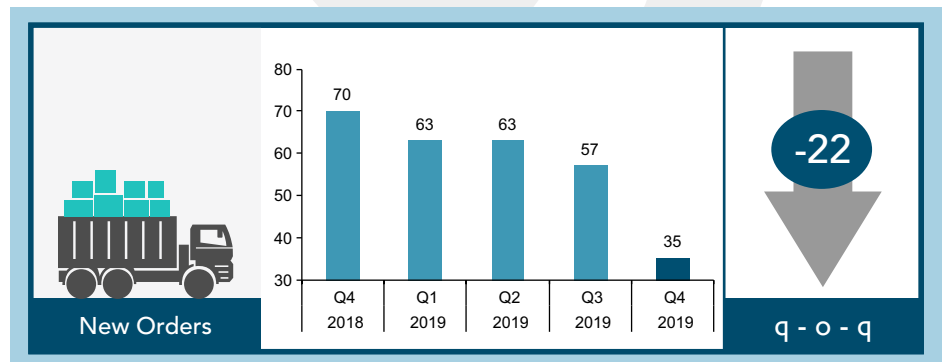
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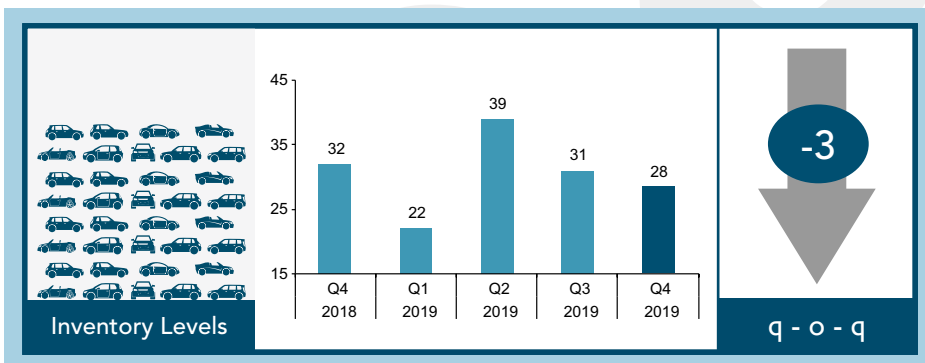
90% of the respondents expect no change in the selling price of their products for Q4 2019. 7% of the respondents expect the selling price of their products to increase during Q4 2019, while 3% expect a decline. The construction sector is the most optimistic on this parameter, while the consumer durable goods and consumer non-durable goods sector is the least optimistic.

35% of the respondents expect their order book position to improve in Q4 2019 compared to 57% in Q3 2019, a decrease of 22 percentage points. While 61% of the respondents expect new orders to remain unchanged, 4% anticipate new orders to decrease. The construction sector is the most optimistic, while the services sector is the least optimistic.



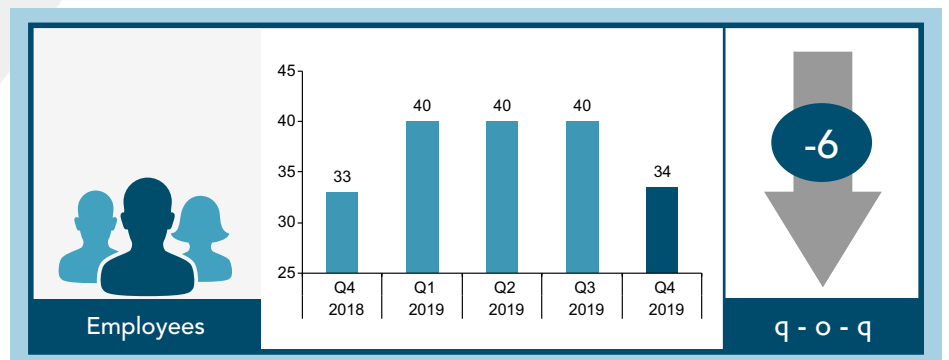
Note: All q-o-q figures are in percentage points

28% of the respondents expect their inventory level to increase during Q4 2019, as compared to 31% in Q3 2019. While 61% anticipate no change in inventory level, 11% expect inventory level to decline. The consumer non-durable goods sector is the most optimistic on this parameter.



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

Around 34% of the respondents expect an increase in the size of their workforce employed during Q4 2019 compared to 40% in Q3 2019, a decrease of 6 percentage points. While around 60% anticipate no change in the number of employees, around 6% expect their workforce size to decline. The basic goods sector is the most optimistic on this parameter.



Note: All q-o-q 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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