dun & bradstreet

D&B Business Optimism Index

India | Q3 2019

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Business Optimism Index decreases by **10.7%** (q-o-q)

Business Optimism Index stands at **70**

Optimism for selling price is the lowest in **nearly 17 years**

Optimism for workforce size REMAINS FLAT for 3 quarters

Optimism for new orders is the lowest in over 10 years

Capital goods sector is the most optimistic on volume of **sales and net profits**

Services sector is the least optimistic on selling price

Key Macro Highlights

- Bank credit to industries grew by 6.9% in Apr 19, highest since Jan 15.
- On May 23, 2019, the BSE SENSEX crossed 40,000 and the NIFTY 50 crossed 12,000 for the first time.
- Global Brent price (US$/bbl) decreased to 59.76 in Jun 19, lowest in 5 months.
- The RBI in its 2nd Bi-monthly Monetary Policy for FY20 reduced the policy repo rate by 25 basis points to 5.75% from 6.0%, marking the 3rd consecutive repo cut since Feb 19.

- In Q4 FY19, real GVA grew by 5.7% (y-o-y) and Real GDP rose by 5.8% (y-o-y), both lowest in 20 quarters.
- Growth in Private Final Consumption Expenditure moderated to 7.2%, lowest in 5 quarters; growth in Gross Fixed Capital Formation sharply plunged to 3.6%, lowest in 14 quarters.
- Merchandise trade deficit expanded to US$ 15.4 bn in May 19, a 6-month high.
- Sale of passenger vehicles fell 21% in May 19, the steepest fall in 18 years.

D&B Optimism Index for India for Q3 2019

The survey for Dun & Bradstreet Business Optimism Index for Q3 2019 was conducted during the month of June 2019 – an eventful month where on the political front, election was at peak, results were out and same government voted to power. On economic front, the concerns of deepening of domestic growth slowdown were accentuated. Data release showed GDP growth during Q4 FY19 at a 20-quarter low. Slacking consumption, high unemployment rate, stress over NBFCs, issues in sectors such as the automobile, FMCG and aviation, tight liquidity conditions, subdued corporate earnings along with global headwinds has led to fall in the optimism level of India Inc.

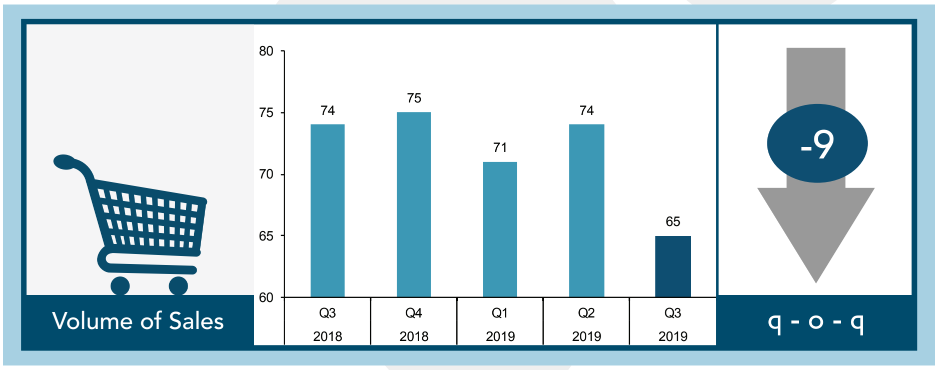
The slowdown in growth has continued post the fourth quarter dismal performance of the economy; GDP for Q4 FY19 grew at a 20-quarter low. Concerns over slowdown in rural demand have extended over to a slack in demand in urban areas as well. Investment demand has also slowed down. New investment by both the private and government, in the June 2019 quarter is a multi-quarter low. The growth in Gross fixed capital formation for Q4 FY19 is the lowest in 14 quarters. The government's finances have remained constrained over lower tax mobilization and election related spending while private sector investment might have been weighed over credit, liquidity, demand and governance issues in corporates. The RBI has cut its benchmark rate by 75 bps, during Feb to Jun 2019, but this has not yet translated into cheaper credit as expected. During Jan to May 2019, less than 50% of private sector banks have reduced their marginal cost of lending rates. Despite improving bank credit growth, credit to micro and small firms grew by less than 1% in FY18 and FY19 after two consecutive years of decline. Bank credit to exporters have remained weak for 5 years; growing negatively by 45% during FY19. Liquidity shortage prevails, notwithstanding the RBI infusing liquidity through open market purchases and foreign exchange swaps. The problems in the NBFC sector has added to the tightening of liquidity. Downgrading of a few NBFCs and Housing Finance Companies and mismatch between their assets and liabilities have led to liquidity tightening which in turn have led to further subdued lending to the MSME and housing segment.

In June 2019, the Jet airways entered the bankruptcy proceedings, a huge setback in the private airlines segment even as the government is dealing with managing losses in the Air India. The government's push towards electric mobility has raised concerns over disrupting the automobile industry along with its supply chain which comprises largely of MSME. Many players had already invested in upgrading to meet the BS-VI emission norms. Slowdown in demand in the automobile segment has added to the problems in the sector and also impacted sales in the FMCG segment. Thus, the business optimism survey results reveal optimism over new order at a 10-year low, selling price at a 17-year low and net sales at a 2-year low.

The slowdown in trade and rising trade barriers impose difficulties to the corporate sector. The USA's termination of the Generalized System of Preferences (GSP) designation for India might lead to loss in market for Indian exporters as they will now have to compete with other players with respect to higher prices. As per WTO, the ongoing global trade war has potential to reduce global GDP by around 2.0% by 2022, and a reduction in global trade of about 17% compared to the baseline scenario of no trade war.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q3 2019 declined by 10.7% over the preceding quarter. On a y-o-y basis, the index registered a decline of 13.1%. Based on the responses received, on a q-o-q basis it was observed that five out of the six optimism indices have decreased. Amongst the sectors, the consumer non-durables sector is the least optimistic on volume of sales, news orders received while the capital goods sector is the most optimistic on volume of sales and net profit after taxes.

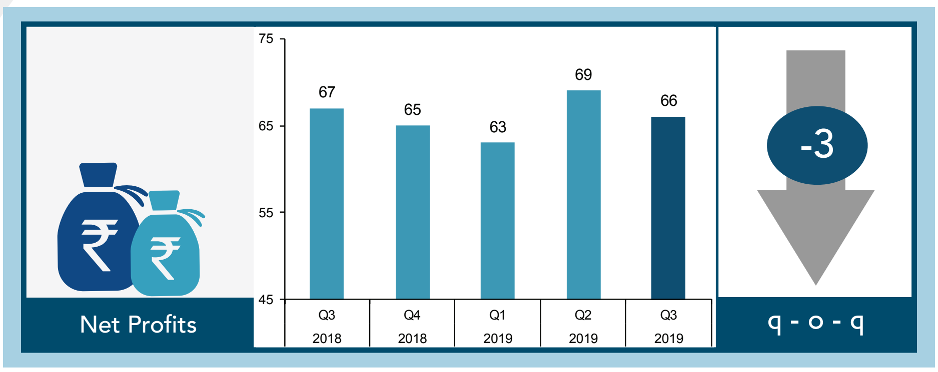
Optimism on Sub-indices



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

Around 65% of the respondents expect volume of sales to increase in Q3 2019 compared to 74% in Q2 2019, a decrease of 9 percentage points. While around 28% expect it to remain unchanged, around 7% expect the volume of sales to decline. The capital goods sector is the most optimistic, while the consumer non-durable goods sector is the least optimistic on this parameter.

66% of the respondents expect an increase in net profits in Q3 2019, compared to 69% in Q2 2019, a decrease of 3 percentage points. 26% expect net profits to remain unchanged, while 8% expect it to decrease. The capital goods sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.



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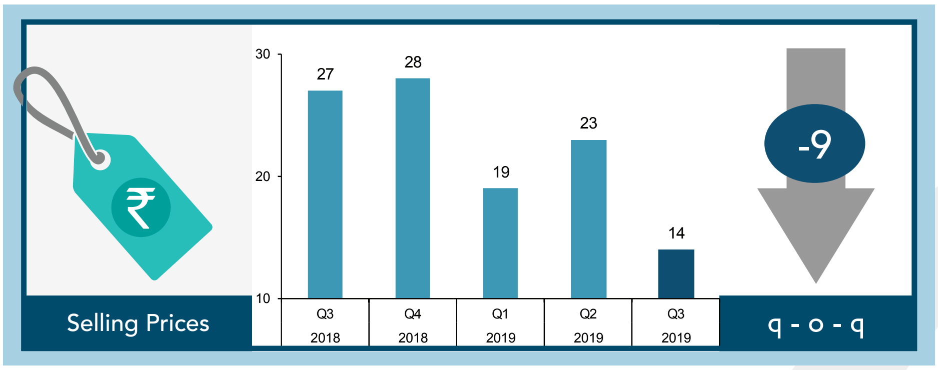
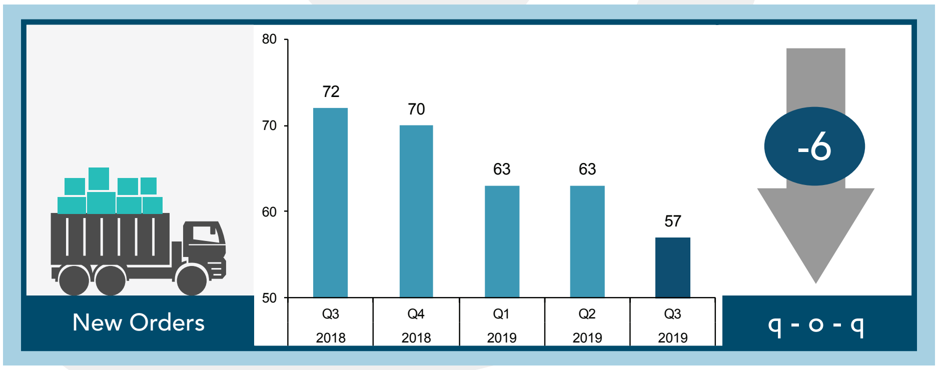


Note: All q-o-q figures are in percentage points

79% of the respondents expect no change in the selling price of their products for Q3 2019. 14% of the respondents expect the selling price of their products to increase during Q3 2019, while 7% expect a decline. The construction sector is the most optimistic on this parameter, while the services sector is the least optimistic.

57% of the respondents expect their order book position to improve in Q3 2019 compared to 63% in Q2 2019, a decrease of 6 percentage points. While 37% of the respondents expect new orders to remain unchanged, 6% anticipate new orders to decrease. The intermediate goods sector is the most optimistic, while the construction sector and consumer non-durable goods sector are the least optimistic.



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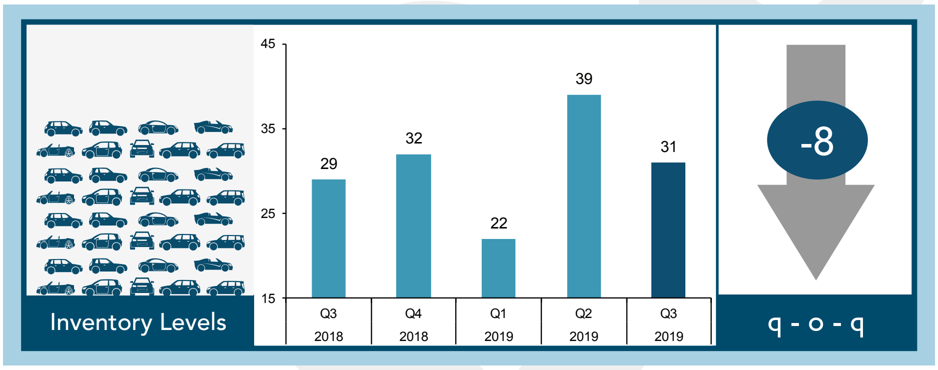
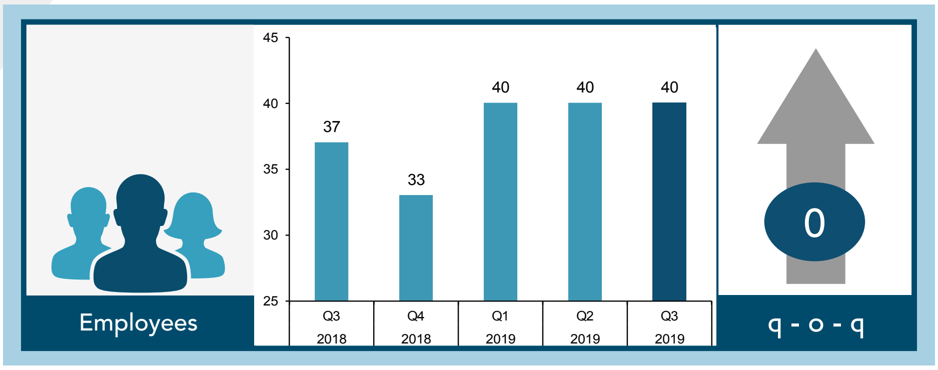


Note: All q-o-q figures are in percentage points

31% of the respondents expect their inventory level to increase during Q3 2019, as compared to 39% in Q2 2019. While 58% anticipate no change in inventory level, 11% expect inventory level to decline. The construction sector sector is the most optimistic on this parameter.

Around 40% of the respondents expect an increase in the size of their workforce employed during Q3 2019, the same level as in Q2 2019. While around 56% anticipate no change in the number of employees, around 4% expect their workforce size to decline. The services 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.

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