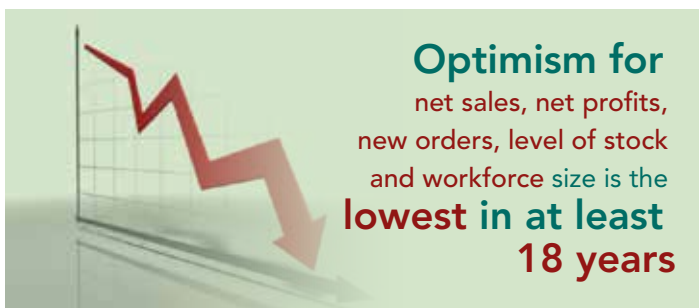




Business Optimism Index declined by 40.6% (q-o-q)



Business Optimism Index stands at 29.4, a record low




Optimism for net sales, net profits, new orders, level of stock and workforce size is the lowest in at least 18 years



Optimism for selling price is higher by 4 percentage points as compared to Q1 2020









% of respondents who expect an increase in:



	Consumer Durable Goods	Other sectors*
Selling Price	77	5
Net Sales	73	20
New Orders	58	20
Net Profits	42	25
Inventory	42	6
Workforce size	15	17

*Basic goods, Capital goods, Intermediate goods, Consumer Non-Durable goods, Construction, Services

Key Macro Highlights

-  Merchandise trade balance turned surplus (US\$ 793 mn) in June 2020 for the 1st time in over 18 years. Domestic retail fuel prices are at the record high as on Jul 24, 2020.
-  Foreign Exchange Reserves continued to increase and stood at US\$ 516.4 bn as on Jul 10, 2020 - highest ever.
-  Sales of two wheelers increased to 75% of pre-pandemic levels in Jun 20, up from 3% in Apr 20.
-  Google Mobility Index for workplace increased to 62% of pre-pandemic levels in Jul 20, up from 9% during lockdown 1.0 (Mar 25, 2020 to Apr 14, 2020).
-  COVID-19 cases crossed 1.3 mn on Jul 24, 2020. New cases are being recorded at an increasing rate.
-  Bank credit to industries grew by 1.7% in May 20 compared to 6.4% in May 19.
-  Retail inflation increased by 6.1% in Jun 20 as compared to 3.2% in Jun 19.
-  Domestic retail fuel prices are at a record high as on Jul 24, 2020. Diesel is expensive than petrol by Rs 1.21 in Delhi.

D&B Optimism Index for India for Q3 2020

The survey for Business Optimism Index (BOI) was conducted during the month of June 2020 when India entered its 5th phase of lockdown due to the steady rise in the number of caseloads. India became the third worst-hit country by 6th July from being the 11th highest affected country on 16th May i.e. within a period of around 50 days. Even as India started 'Unlock Phase 1' from the beginning of June 2020, the spurt in the rise in cases in different states had led to staggered easing of restrictions. Nation-wide strict lockdown was extended till end-June in the containment zones where positive cases have been confirmed. The plethora of containment and non-containment zones, demarcated by local authorities, has been near-impossible to track in real time. This has led to uncertainty amongst businesses and the various stakeholders in the supply chain who had planned to resume their operations.

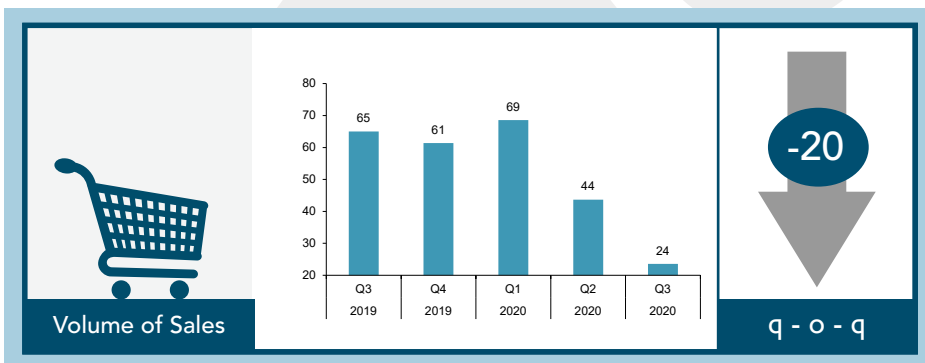
Given that the extent of COVID-19 led disruption has been much worse than earlier anticipated, India is expected to record a severe contraction in economic activity. The D&B growth estimate is a negative growth of 4.5%. Data shows that the extended period of lockdown had severely curtailed production activities. During the first full month of the lockdown in April 2020, industrial production, measured by Index of Industrial Production (IIP) fell steeply by 55%. This trend has continued during May; however, the pace of contraction has reduced as various economic activities were allowed in phases and data collection improved. The automobile industry, one of the worst hit sectors has reported a 75% decline in sales for the quarter ending June 2020.

The extended period of lockdown has added to the concerns amongst businesses. Longer the restrictions greater will be the loss in income and employment opportunities, leading to a delayed recovery in consumer demand. Further, in the absence of cash-in-hand benefits under the government's stimulus package, demand for goods and services is expected to remain depressed. Financial position of firms remained not so strong before the

pandemic. Even before the pandemic nearly halted firm level activities, 71% of Indian firms were under the "Slightly Greater Than Average Risk" category, as per Dun & Bradstreet's business credit scores derived from the 2019 financial performance. This is because companies had recorded inconsistent growth trends, reported losses, faced liquidity issues and working capital challenges. This situation is expected to have further deteriorated due to the impact of COVID-19. Besides, muted credit disbursements might have also affected the optimism levels. Various measures had been taken to support flow of capital to businesses which included infusion of liquidity in the banking system, extension of moratorium period and easing of working capital loans. However, as per the data available till May 2020, bank credit to industries remained subdued. Credit growth remained in the negative zone for a quite a few industry groups; food processing (7 months), textiles (18 months), leather (10 months), glass and glassware (11 months), engineering (6 months), gems & jewellery (15 months). Further, firms availing the moratorium i.e. deferent of payment of loans will have increased repayment pressures owing to build up interest expenses which would lead to cash flow constraints. The India China border conflicts have also added to the uncertainty in the business environment. Both countries engaged in conflicts in June 2020 which poses a threat to their future trade, economic and cultural relations. The Business Optimism of firms for Q3 2020 thus stood at a record low. The optimism levels for net sales, net profits, new orders, level of stock and workforce size is the lowest in at least 18 years.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q3 2020 decreased by 40.6% on a q-o-q basis. Based on the responses received, on a q-o-q basis it was observed that all six optimism indices have decreased. Amongst the sectors, consumer durables sector is the most optimistic on volume of sales, new orders, net profits and level of selling prices and basic goods is the least optimistic on all six parameters.

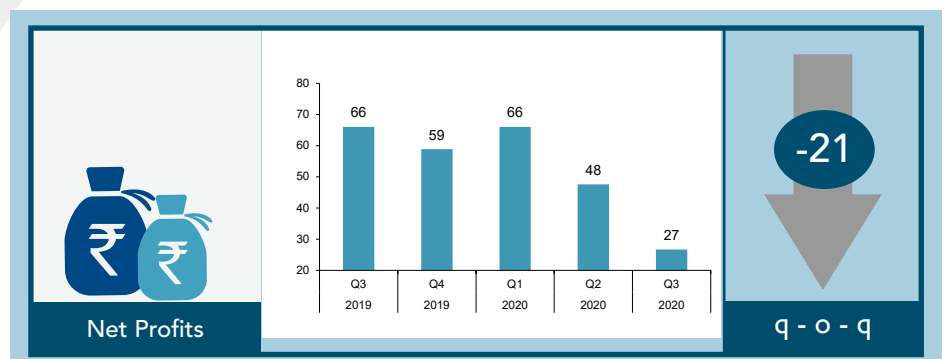
Optimism on Sub-indices



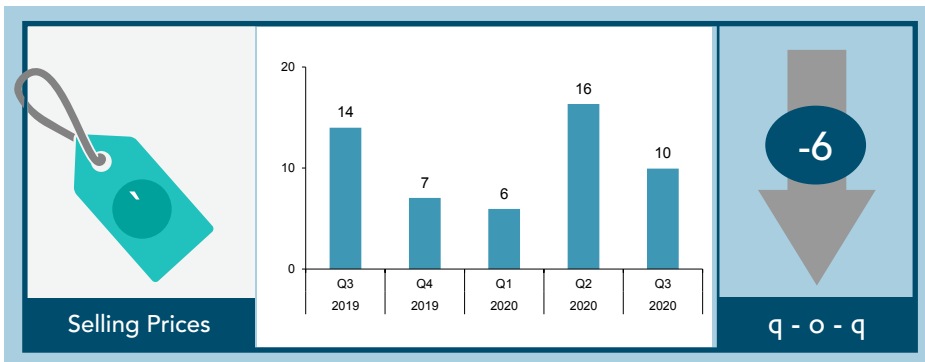
Note: All q-o-q figures are in percentage points

Around 24% of the respondents expect volume of sales to increase in Q3 2020 compared to 44% in Q2 2020, a decrease of 20 percentage points. While around 52% expect it to remain unchanged, around 24% expect the volume of sales to decline. The consumer durable goods sector is the most optimistic, while the basic goods sector is the least optimistic on this parameter.

Around 27% of the respondents expect an increase in net profits in Q3 2020, compared to 48% in Q2 2020, a decrease of 21 percentage points. Around 35% expect net profits to remain unchanged, while around 38% expect it to decrease. The consumer durable goods sector is the most optimistic, while the basic goods sector is the least optimistic on this parameter.



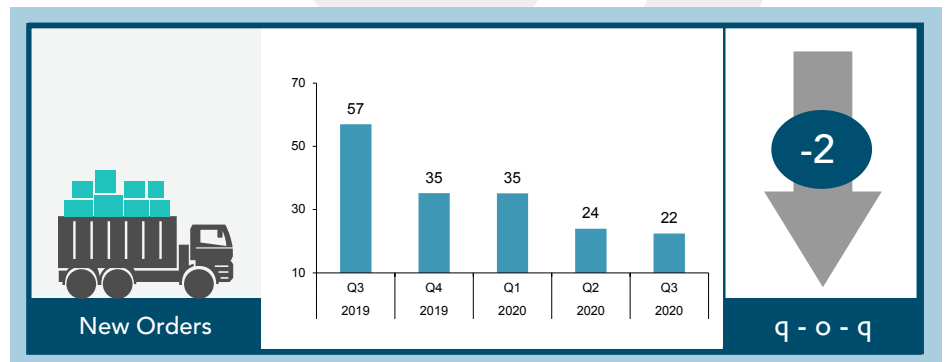
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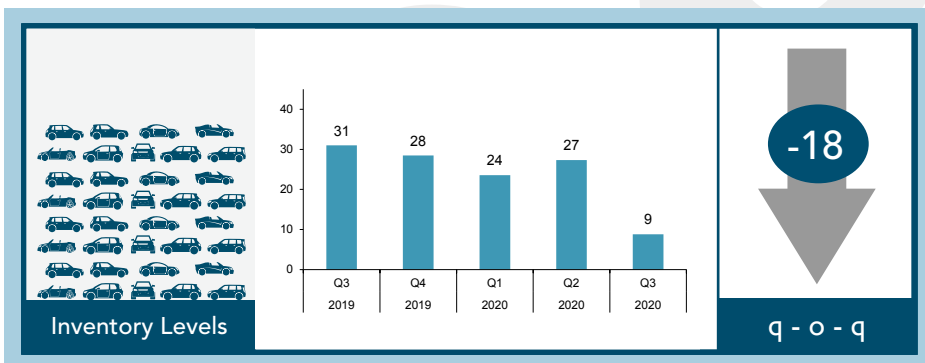
72% of the respondents expect no change in the selling price of their products in Q3 2020. 10% of the respondents expect the selling price of their products to increase during Q3 2020, while 18% expect a decline. The consumer durable goods sector is the most optimistic on this parameter, while the basic goods, capital goods and intermediate goods sectors are the least optimistic.

22% of the respondents expect their order book position to improve in Q3 2020, compared to 24% in Q2 2020, a decrease of 2 percentage points. While 49% of the respondents expect new orders to remain unchanged, 29% anticipate new orders to decrease. The consumer durable goods sector is the most optimistic, while the basic goods sector is the least optimistic.



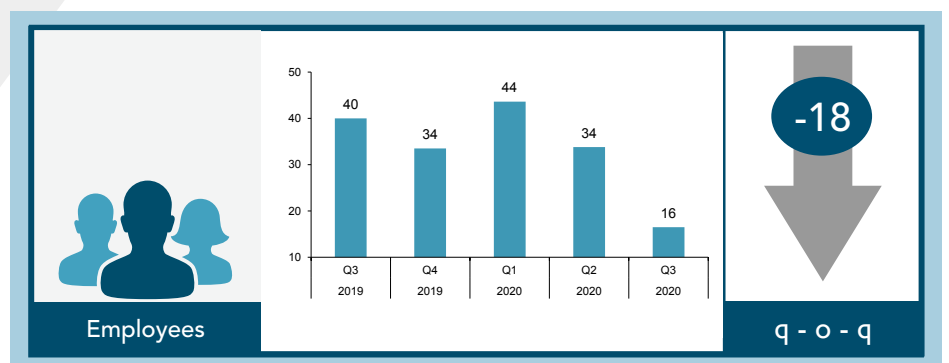
Note: All q-o-q figures are in percentage points

9% of the respondents expect their inventory level to increase during Q3 2020, as compared to 27% in Q2 2020. While 71% anticipate no change in inventory level, 20% expect inventory level to decline. The consumer durable goods sector is the most optimistic on this parameter.



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

16% of the respondents expect an increase in the size of their workforce employed during Q3 2020 compared to 34% in Q2 2020, a decrease of 18 percentage points. While 64% anticipate no change in the number of employees, 20% expect their workforce size to decline. The services 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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