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D&B Business Optimism Index

India | Q3 2018

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Business Optimism Index increases by 11.7% (y-o-y)

Optimism for selling prices is the **lowest in 6 quarters**

Business Optimism Index stands at **81**

Services sector is the least optimistic on level of selling price

79% of the respondents in the Basics Goods sector expect net profits to increase

Consumer Non-Durables sector is the **most optimistic** on volume of sales and new orders

Consumer Durables sector is the **least optimistic** on net profit and hiring employees

Key Macro Highlights

- GDP grew by 7.7% (y-o-y) in Q4 FY18, highest since Q2 FY17
- Gross Fixed Capital Formation grew by 14.4% (y-o-y) in Q4 FY18, highest since Q2 FY17
- GST revenue collection for Jun 18 was ₹ 95.6 bn, higher than May 18 and much higher than the average collection in FY18 (₹ 89.8)
- Output of consumer durable goods sector grew by 4.3% in May 18, higher than the average growth of 0.8% in FY18

- Merchandise trade deficit widened to US$ 16.6 in Jun 18, highest in over five years
- In Jun 18, Core WPI inflation stood at 4.8% - highest in the 2011-12 series - and Core CPI inflation stood at 6.4% - highest since Aug 14
- The RBI hiked the repo rate by 25 bps to 6.25%
- The rupee touched an all-time low of 69.12 against the US dollar on July 20, 2018. Foreign exchange reserves declined for 12 of the past 13 weeks and were valued at US$ 405.1 bn as on July 13, 2018

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D&B Optimism Index for India for Q3 2018

The survey for Dun & Bradstreet Business Optimism Index for Q3 2018 was conducted during the month of June 2018 when domestically inflationary pressures increased, rupee depreciated strongly, trade deficit increased and globally, central banks provided an insight into their outlook for monetary policy through the rest of 2018, trade tensions escalated and global crude oil prices remained elevated.

The month of June started with release of the positive data on India's GDP. The 7.7% Q4 FY18 GDP growth data pointed towards a strong growth momentum. However, the developments which followed during the month intensified the downside risks to growth. There were both internal and external headwinds to growth. Factors that supported the government's fiscal consolidation process i.e. benign inflation and current account deficit are changing its course. Rupee remained weak and oil prices remained elevated. Trade deficit widened. These factors posed risk to the current account deficit which had soared to 1.9% of GDP in FY18 from 0.6% in FY17. Along with this expected spending by the government ahead of the general election due next year, domestic household inflation expectations and input cost flared inflationary pressures.

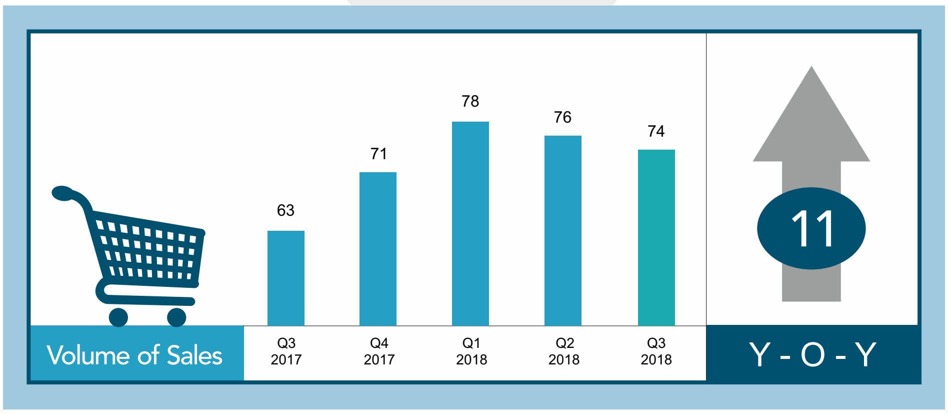
The FDI flows to India also weakened and FII inflows remained volatile in the wake of the recent turmoil in the global financial markets. Currently, even as the credit growth has improved, the stress in the banking sector continues. The SCBs are troubled with rising non-performing assets, which has also affected their profitability as the provisioning for bad loans has increased.

The external factors which posed risks to the domestic economy emanated from geopolitical issues, a disorderly tightening of global financial conditions, and escalating international trade tensions. A synchronised normalisation of global monetary policy globally led by US is expected to impact the currencies, bonds and capital flows of emerging markets like India.

Global trade tensions remain heightened since March, when the US government stated that it will impose tariff on China and has escalated in the recent period, with the anticipated tariff increases by US and consequent retaliatory measures by its trading partners. This could lead to a sustained impact on trade actions globally. Theintensifying global trade war will not be in favour of developing countries like India who have long benefitted from globalization. India, in particular runs a considerable trade surplus with United States. India's proposition to impose retaliatory tariffs on US imports in the month of June 2018 following US's import tariff on steel and aluminum can have consequences if further countervailing measures are imposed by US. All in all, an improvement on the performance of the three balance sheets (i.e. external sector, the government, and the banks) is needed to sustain the growth momentum building in the economy.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q3 2018 declined by 5.2% over the preceding quarter. On a y-o-y basis, the index registered a growth of 11.7%. Based on the responses received, on a y-o-y basis it was observed that four out of the six optimism indices have increased. Amongst the sectors, consumer non-durables sector is the most optimistic in terms of volume of sales and new orders received while consumer durables sector is the least optimistic on net profit and employees.

Optimism on Sub-indices



Around 74% of the respondents expect volume of sales to increase in Q3 2018 compared to 63% in Q3 2017, an increase of 11 percentage points. While around 20% expect it to remain unchanged, around 6% expect the volume of sales to decline. The consumer non-durable goods sector is the most optimistic, while the construction sector is the least optimistic on this parameter.

Note: All Y-O-Y figures are in percentage points

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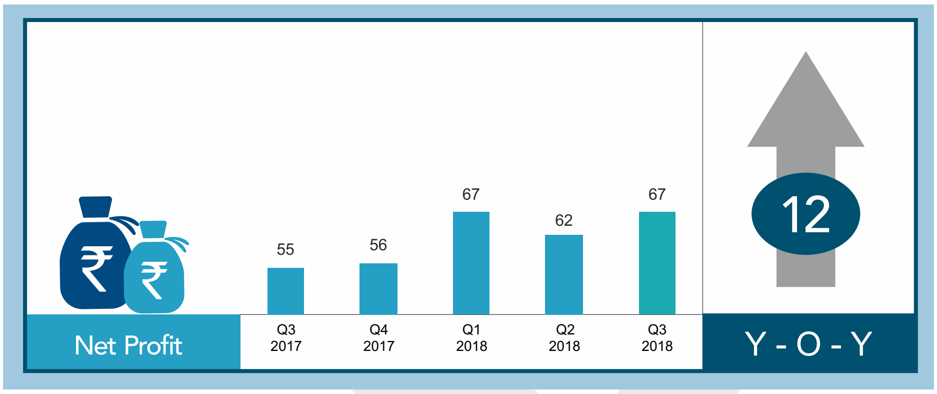
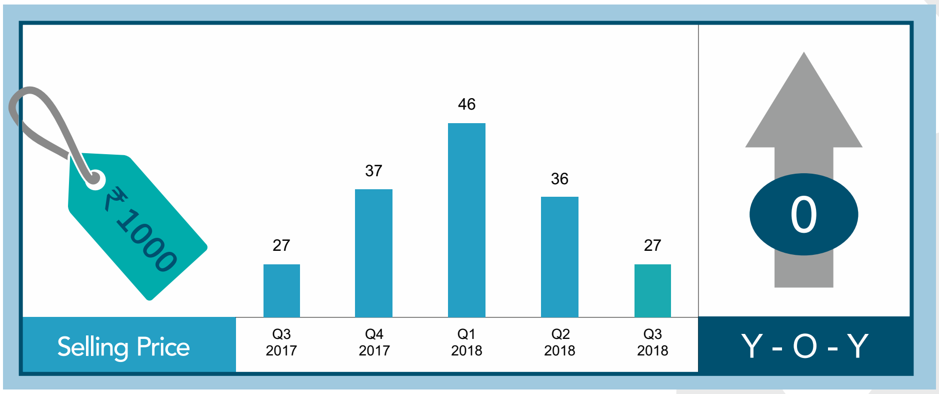
67% of the respondents expect an increase in net profits in Q3 2018, compared to 55% in Q3 2017, an increase of 12 percentage points. 24% expect net profits to remain unchanged, while 9% expect it to decrease. The basic goods sector is the most optimistic, while the consumer durable goods sector is the least optimistic on this parameter.



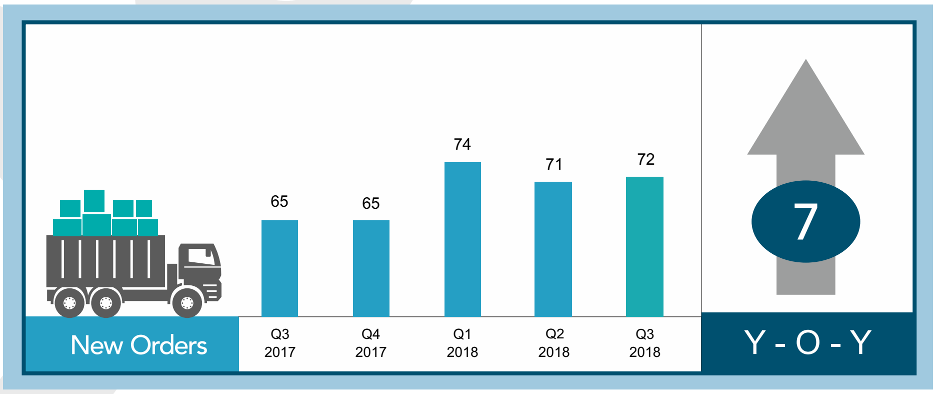
Note: All Y-O-Y figures are in percentage points



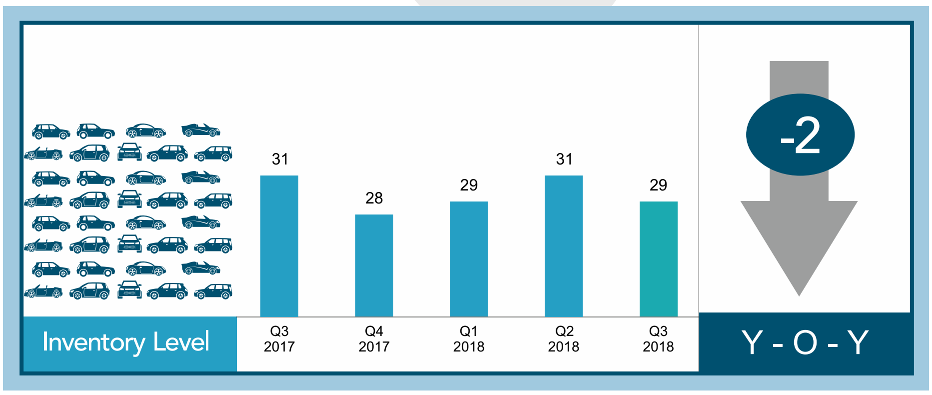
Note: All Y-O-Y figures are in percentage points

66% of the respondents expect no change in the selling price of their products for Q3 2018. 27% of the respondents expect the selling price of their products to increase during Q3 2018, while 7% expect a decline. The intermediate goods sector is the most optimistic on this parameter, while the services sector is the least optimistic.

72% of the respondents expect their order book position to improve in Q3 2018, compared to 65% in Q3 2017. While 24% of the respondents expect new orders to remain unchanged, 4% anticipate new orders to decrease. The consumer non-durable goods sector is the most optimistic, while the services sector is the least optimistic.



Note: All Y-O-Y figures are in percentage points



Note: All Y-O-Y figures are in percentage points

29% of the respondents expect their inventory level to increase during Q3 2018, as compared to 31% in Q3 2017. While 58% anticipate no change in inventory level, 13% expect inventory level to decline. The consumer durable goods sector is the most optimistic on this parameter.

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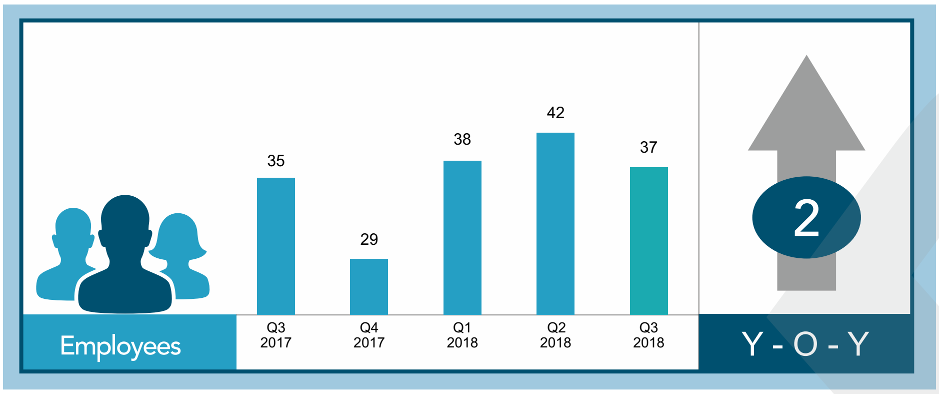

37% of the respondents expect an increase in the size of their workforce employed during Q3 2018, as compared to 35% in Q3 2017. While around 57% anticipate no change in the number of employees, the remaining 6% expect their workforce size to decline. The services sector is the most optimistic on this parameter.

Note: All Y-O-Y 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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