

## Business Optimism Index for India fell by 6.1% q/q in Q1 2026



The decline in overall optimism was driven by a sharp deterioration in sentiment among medium-sized enterprises, where optimism fell by 17.9%, followed by a more modest decline of 3.8% among large enterprises.

Business optimism regarding the Global Macroeconomic Environment rose by 6 percentage points (pps) q/q, driven by easing inflation, and the conclusion of key free trade agreements with the EU and UK. These developments are set to open new export avenues for Indian firms, strengthening external demand prospects at a time when domestic consumption remains strong.



Optimism on Export Orders rose by 7.0 pps q/q, signalling resilience despite persistent global tariff pressures. The improvement was led by the textiles, mining, and electricals sectors.

Business optimism in textiles remains the highest across sectors at 119.4 despite a slight 1% q/q dip. Recent conclusion of free trade agreement (FTA) negotiations with the UK (July 2025) and EU (January 2026) are boosting sentiment by lowering export costs and expanding market access. The US Supreme Court's mid-February decision striking down the legal basis for earlier reciprocal tariffs is set to reinforce this optimism by enabling more predictable duties on Indian textile exports. However, sentiment is now tempered by heightened caution due to the ongoing Middle East war, which poses risks to freight costs, supply chains, and overall export logistics. A majority of Indian businesses surveyed cite supply chain disruptions (69.1%), elevated trade protectionism (65.9%), and volatile exchange rates (60.5%) as the main risks to their operations, all of which are weighing on profit margins.

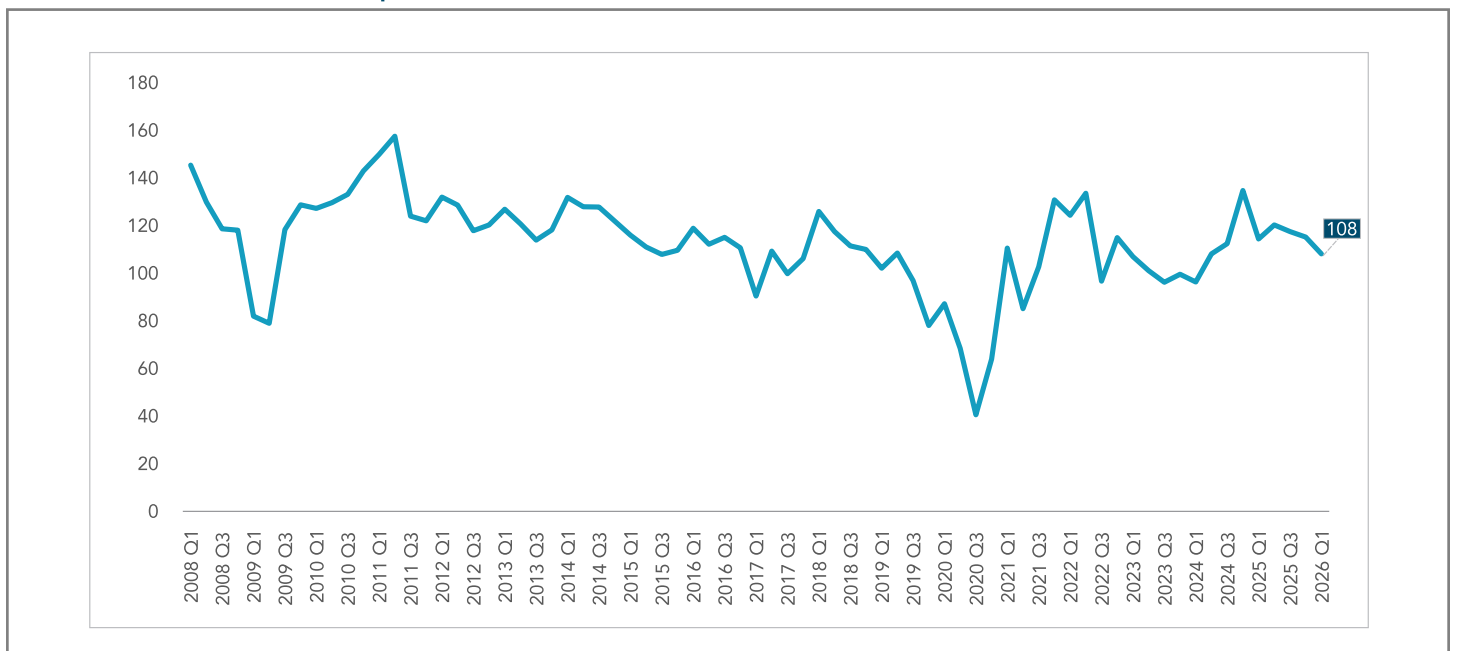


About 48.0% of Indian businesses identified technological advancement and AI adoption as the primary growth driver for 2026, well above the global average (of 34.0%), underscoring the strong willingness and readiness of India firms to adapt to rapid technological change.

## Key Macro Highlights

- 👍 The RBI kept the repo rate unchanged at 5.25% in February 2026, pausing its easing cycle after 125 bps cuts since early 2025 amid strong growth, low inflation, and geopolitical uncertainty.
- 👍 Retail inflation rose to 3.2% in February from 2.7%, with a new CPI base year (2024) reducing food-and-beverage weight, making inflation less sensitive to food-price swings.
- 👍 Industrial production grew 4.8% y/y in January 2026, slower than December's 8%, driven by gains in manufacturing, mining, and utilities.
- 👍 India revised its GDP base year to 2022–23, improving data accuracy; real GDP growth for 2025–26 is projected at 7.6%, up from 7.1% in 2024–25.
- 👍 Recent FTAs with the UK and EU, along with a US Supreme Court ruling enabling more predictable tariffs, are boosting export competitiveness and market access.
- 👎 Escalating tensions in Iran have intensified risks across key maritime corridors, with tankers increasingly avoiding the Strait of Hormuz and triggering volatility in crude markets as fears of supply disruptions push freight rates and oil prices higher.
- 👎 Effective January 2026, Mexico has imposed duties ranging from 5.0% to 50.0% on more than 1,400 tariff lines from non FTA partners, including India - with tariffs affecting key Indian exports (especially automobiles, auto components, electronics, organic chemicals and pharmaceuticals) and eroding their price competitiveness. Reiterating these external headwinds, Optimism on Export Orders remain comparatively subdued in chemicals and electrical manufacturing in Q1 2026, relative to other sectors.
- 👎 Foreign portfolio investors withdrew approximately Rs.360bn from Indian equities in January 2026, citing a volatile currency. Moreover, a Securities Transaction Tax hike announced during the FY27 Budget has further dampened investor sentiment.
- 👎 The Indian rupee emerged as the worst performing currency in Asia in 2025, breaching INR 90/USD and depreciating further in March 2026 to trade near record lows around INR 92/USD. While a weaker currency may support export competitiveness, the continued depreciation risks inflating import costs, thereby feeding into domestic production costs.
- 👎 The unemployment rate edged up to 4.9% in February 2026, from 5% in January. At the same time, the labour-force participation rate also hovered around 41.6% (from 41.8% in January).

## D&B Business Optimism Index (BOI)



## D&B Optimism Index for India for Q1 2026

### Employment Sentiment Slump Drives Decline in India's Business Optimism in Q1 2026

The Dun & Bradstreet Business Optimism Index (BOI) eased to 108.11 in Q1 2026, marking a 6.1% q/q decline. The moderation was driven largely by an 17.9% drop in optimism among medium enterprises and a 3.8% decline among large firms, reflecting rising caution around near-term hiring plans and inventory management amid global trade uncertainty and input-cost pressures. The sustained and sharp depreciation of the rupee against the US dollar has intensified external-sector risks. While a weaker currency can support export competitiveness, the continued slide risks elevating import costs and feeding into domestic production prices. Businesses cited supply-chain disruptions (69.1%), trade protectionism (65.9%), exchange-rate volatility (60.5%), and tighter domestic monetary conditions (59.6%) as key risks weighing on operations through 2026.

Weakness in the employment and inventory sub-indices emerged as the main drags on the headline BOI, as firms across sectors (including chemicals, mining, wholesale and retail, and automotives) adopted a more cautious operational stance. This was reflected in softer optimism around hiring, stock building, sales and cost management.

Employment sentiment saw the sharpest deterioration, falling 30 pps q/q to a seven-quarter low. Hiring optimism weakened particularly in the chemicals, mining, and wholesale and retail services sectors, where demand uncertainty, margin pressures, and volatile export conditions constrained recruitment plans. Unemployment rate however slightly eased in February 2026 at 4.9%, from 5.0% in January. Employment expectations remained strong in food manufacturing and accommodation and food services, supported by resilient domestic demand, policy- and investment-driven capacity expansion, and a continued recovery in tourism-linked activity. Separately, inventory optimism declined by 9 pps, signaling a more cautious approach to stock building as firms attempt to navigate supply chain risks and input cost volatility.

Despite the dip in the headline index, select sub-indices indicate resilience. Export-order sentiment improved by 7 pps q/q, signaling selective sectoral resilience despite global tariff pressures. Textiles, mining, and electricals led to this upturn. The textiles sector emerged as the strongest performer in export-order optimism in Q1 2026 at 91.7, supported by substantial tariff gains under recently

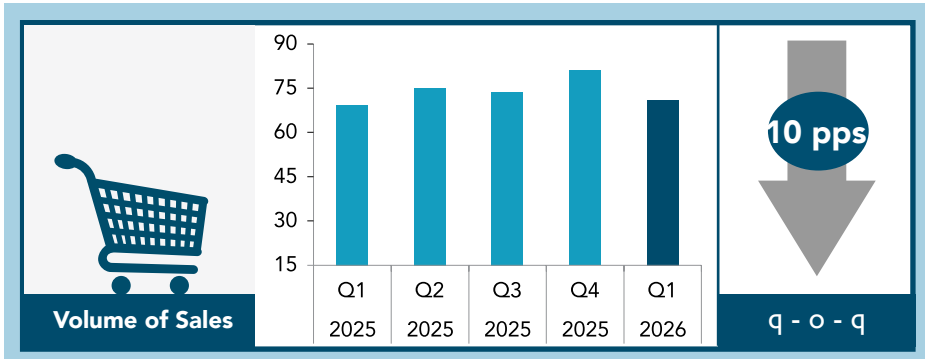
concluded FTA negotiations with the UK and the EU, which eliminate previously high duties. The US Supreme Court's February 2026 ruling striking down volatile reciprocal tariffs - now replaced with a more predictable 10% surcharge, has further strengthened market certainty for exporters. However, global geopolitical tensions tempered by caution due to ongoing Middle East war poses threat to supply chains.

Domestic macroeconomic fundamentals remain supportive. Monetary conditions are accommodative, with the RBI's cumulative 125 bps rate cuts in 2025 lowering the policy rate to 5.25%. The central bank held the repo rate steady in February against a backdrop of strong GDP growth despite inflation rising to 3.2% but within the RBI's target band, bolstering domestic demand prospects. Industrial momentum has improved, with IIP growth hitting 4.8% y/y in January 2026 (slowing from December 8.0%) led by strong manufacturing, mining and utilities performance. The revised GDP series, strengthened through improved data sources such as ASUSE, PLFS, GST and PFMS, indicates that growth has improved, with real GDP expected to rise to 7.6% in 2025–26 compared with 7.1% in 2024–25.

The BOI survey mirrors these real-sector trends, with domestic-economy optimism remaining elevated at 82% despite a marginal q/q dip, and global-macroeconomic optimism strengthening to 75% in Q1 2026, though both indicators may see shifts given heightened uncertainty from the ongoing Middle East war. Broader business optimism across sub-indices also remains firm, with optimism around selling prices having risen in Q1 2026 by 6.0 percentage points q/q, underscoring expectations of higher profitability.

Overall, India enters 2026 with strong economic momentum and pockets of sectoral optimism, even as elevated external risks highlight the need for careful policy calibration to sustain growth and reiterate business optimism.

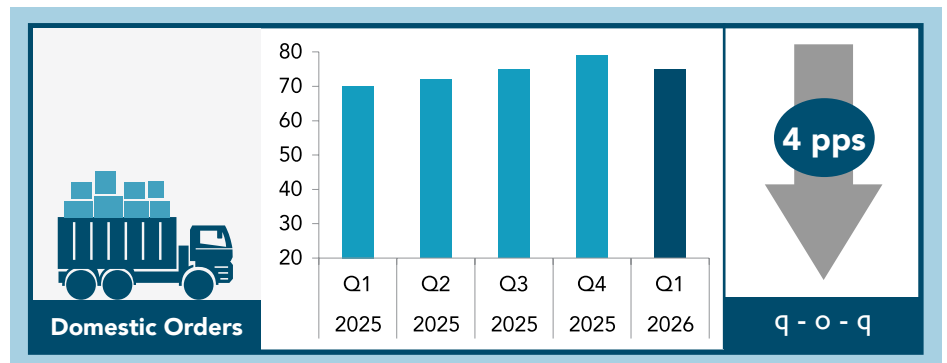
## Optimism on Sub-indices



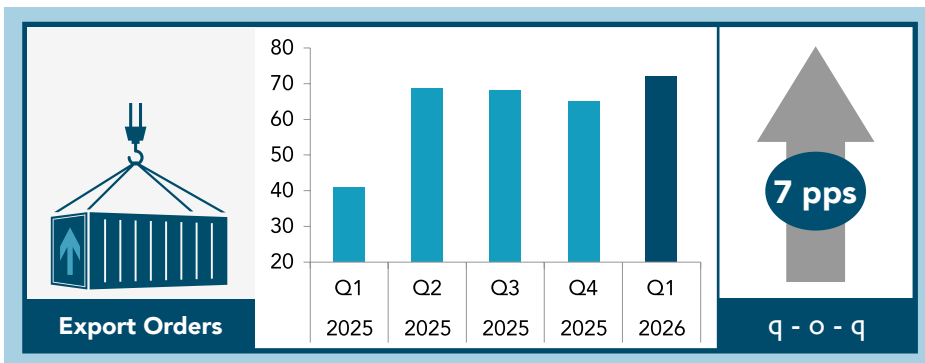
Sales-volume optimism fell to 71% in Q1 2026 from 81% in Q4 2025 amid geopolitical and policy uncertainty causing order delays. Despite this softening, sentiment is slightly stronger year-on-year. Optimism is highest in accommodation and food services, utilities, and textiles, while capital goods, construction, and metal manufacturing remain the least optimistic.

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

Domestic-order optimism eased to 75% in Q1 2026 from 79% in Q4, a 4-point q/q decline, though it remains 5 points higher y/y. Sentiment is strongest in financial and insurance services, information and communication, and real estate, while capital goods, mining, and automotive firms are the least optimistic.



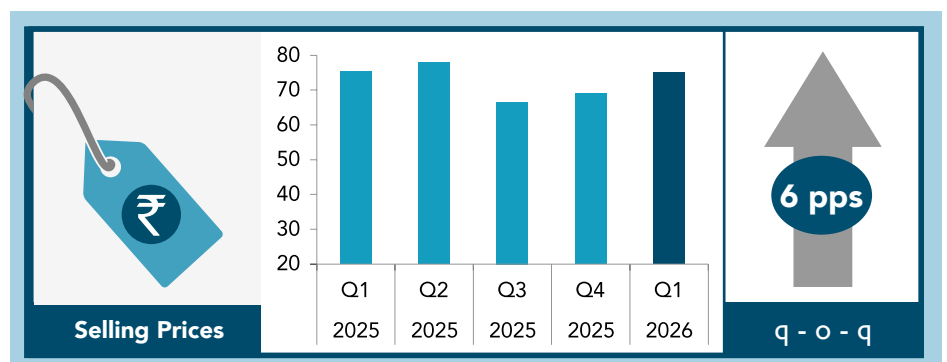
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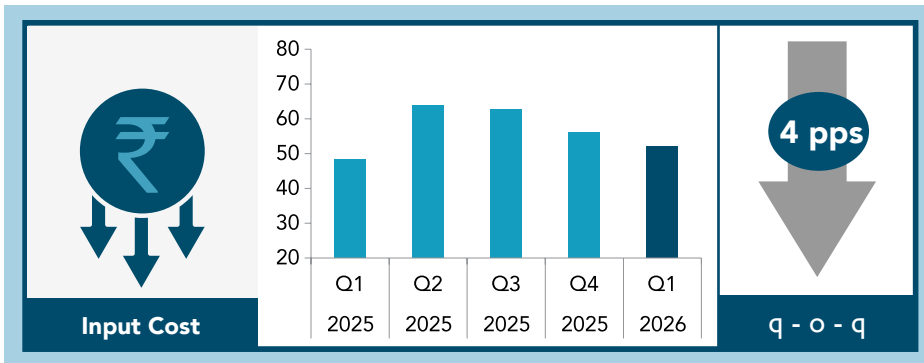
Export optimism rose sharply in Q1 2026, with 72% of firms expecting higher export orders, up 7 pps q/q and 31 pps y/y. This improvement reflects India's push to diversify trade through recent FTAs with the UK, EU, and New Zealand, though the data predates Middle East-related disruptions. Optimism is strongest in textiles, electrical manufacturing, and mining, while it remains subdued in information and communication, construction, and professional and administrative services.

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

75% of respondents expect selling prices to increase in Q1 2026, up from 69% in Q4 2025 - a q/q rise of 6 pps. On a y/y basis, this indicator remained broadly unchanged. Selling price-increase optimism is strongest in automobile manufacturing, accommodation and food services, and mining, while optimism is weakest in information and communication, construction, and professional and administrative services.



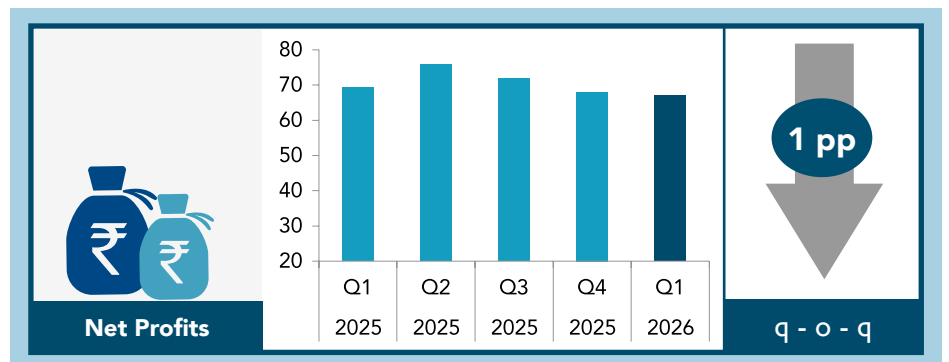
Note: All q-o-q figures are in percentage points



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

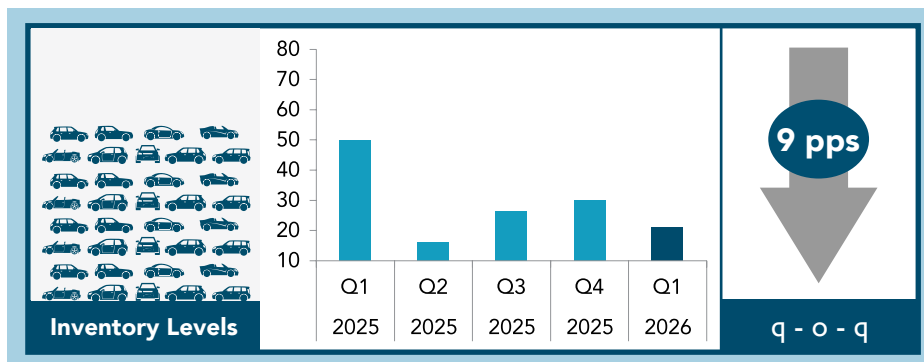
Input-cost expectations eased to 52% in Q1 2026 from 56% in Q4, reflecting reduced cost pressures amid subdued inflation. Yet expectations remain 4 points higher y/y, indicating still-elevated concerns. Worry over rising costs is greatest in real estate, accommodation and food services, and food manufacturing, while information and communication, financial services, and utilities report comparatively lower concerns.

Net-profit optimism slipped to 67% in Q1 2026 from 68% in Q4, and is 2 points weaker y/y. Despite subdued inflation and robust activity, sentiment has softened as skilled-labour-intensive sectors face rising wage costs. Optimism is strongest in textiles, automobile manufacturing, and finance and insurance, while construction, information and communication services, and professional and administrative services remain least optimistic.



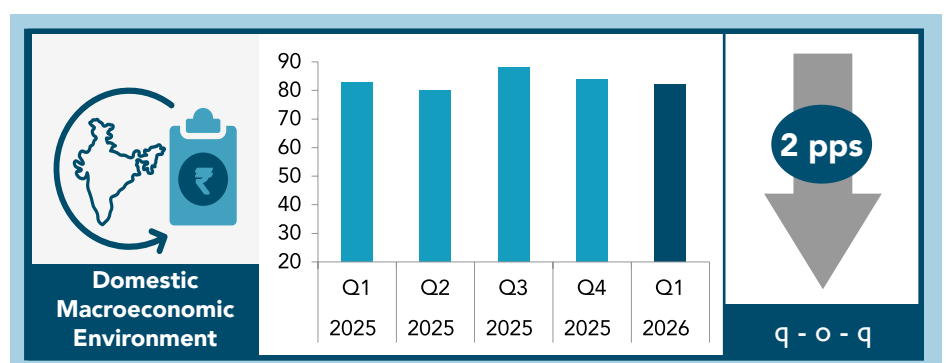
Note: All y-o-y figures are in percentage points

Inventory-level optimism fell to 21% in Q1 2026, dropping 9 points q/q and 29 points y/y as firms adopt more cautious stock strategies amid global policy and trade uncertainty. Expectations reflect stagnant demand rather than anticipated sales growth. Optimism is highest in transportation and storage, textiles, and wholesale and retail trade, while automobiles, electricals, and accommodation and food services are least optimistic.

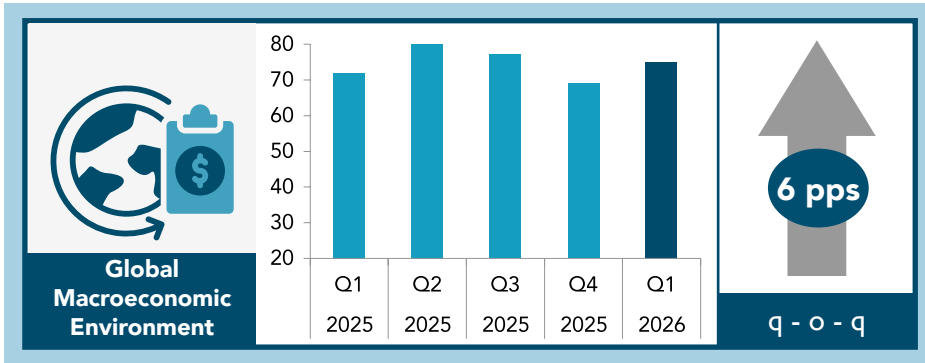


Note: All y-o-y figures are in percentage points

Domestic-macroeconomic optimism stands at 82% in Q1 2026, slightly below 84% in Q4, reflecting modest q/q and y/y declines. Sentiment remains broadly strong, led by real estate, accommodation and food services, and financial and insurance activities, while capital goods manufacturing, wholesale and retail trade, and the metals sector show comparatively weaker optimism.



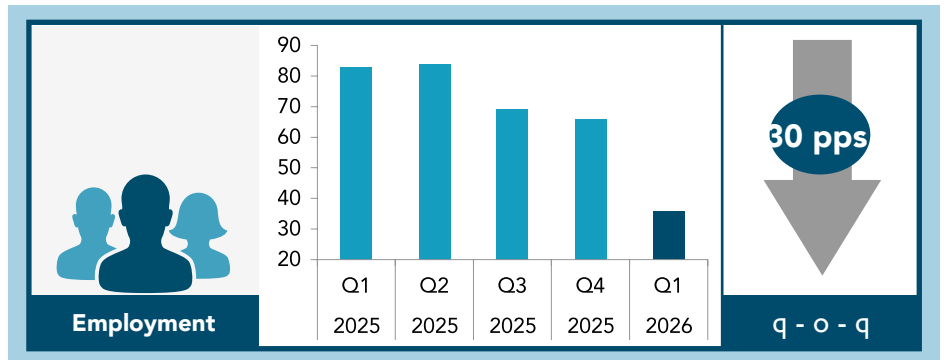
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Global-macroeconomic optimism rose to 75% in Q1 2026, up from 69% in Q4. The improvement reflects expectations of a stronger external environment, supported by recent EU and UK FTAs reducing policy-related external risks. Optimism is strongest in automobile manufacturing, financial and insurance activities, and real estate, while weaker in capital goods, utilities, and professional and administrative services. These sentiments were recorded before rising Gulf tensions affecting global geopolitics and trade.

Employment optimism fell sharply to 36% in Q1 2026, down from 66% in Q4 and 47 points lower y/y, reflecting demand uncertainty and global policy headwinds. Optimism is highest in textiles, food manufacturing, and accommodation & food services, and weakest in wholesale and retail trade, mining, and chemicals.



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

## Methodology

The Dun & Bradstreet Business Optimism Index report is a synthesis of data from a comprehensive survey, alongside insights from Dun & Bradstreet, leveraging the firm's proprietary data and economic expertise. The primary survey is conducted on a stratified random sample of around 300 businesses, across 17 sectors and across three size segments (small, medium and large businesses). A diffusion index is calculated for each parameter and normalized against base period values

(Sep-2023 to Jun-2024). An index reading above 100 indicates an improvement in optimism relative to the base period, while an index reading below 100 signifies a deterioration. The composite index at size and sector level is calculated using factor-weighted averages of the parameter-level indices. The economy-level index is a weighted average of sector-level indices by their contribution to GDP.

## Research Team

Economic Research Team

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