

Key Macro Highlights

- 👍 As per the Q2 GDP data released at end Nov, services sector grew robustly at 9.3% (y-o-y)
- 👍 Retail inflation cooled off to a 11-month low of 5.9% in Nov 2022 after peaking at 6.8% in Oct 2022
- 👍 Gross non-performing asset ratio of Scheduled Commercial Banks have fallen to a 7-year low of 5% in Sept 2022
- 👍 Service exports have remained robust logging a growth rate of 30.7% in Nov 2023
- 👎 IIP decelerated by 4% in Oct 2022, led by a contraction of 5.6% in the manufacturing sector
- 👎 The central bank hiked the policy repo rate by 35 basis points in Dec 2022, taking the total rate hike by 225 since May 2022
- 👎 Current account deficit widened to 4.4% in Q2 FY23
- 👎 Rupee depreciated to an all-time low of 82.92 per US\$ on 28 Dec 2022

D&B Optimism Index for India for Q1 2023

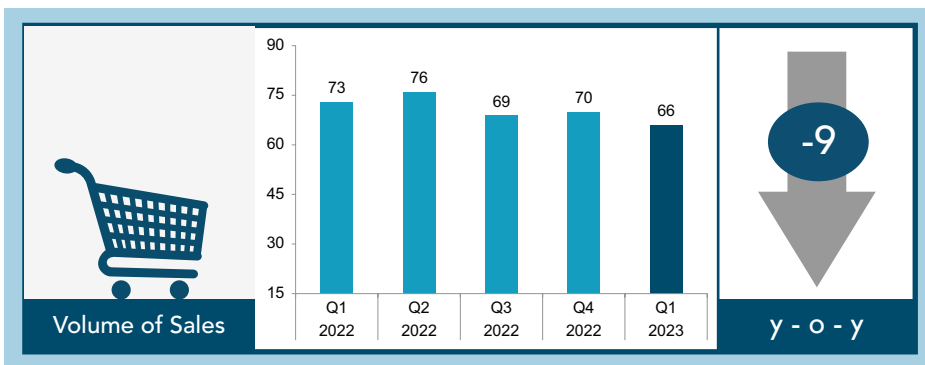
The survey for the Dun & Bradstreet Business Optimism Index (BOI) was conducted during the month of December 2022, when global outlook remained clouded, the World Trade Organisation (WTO)'s goods trade barometer suggested weaker export orders, financial tightening continued to raise the debt burdens of domestic households and corporates and profitability deteriorated. Amidst the threat of a looming recession or an entrenched slowdown globally, optimism amongst business fell not only from the previous quarter but also from the previous year when concerns that the new Omicron variant would restrain the revival in demand and slow down the recovery weighed upon the sentiment of business.

Even as India remains the fastest growing economy in the world, the intensity of the global spillover remains highly uncertain. If the contagion happens to be stronger than expected, the pace of recovery will be longer than the developed markets currently witnessing a slowdown. Given global monetary tightening would continue in most economies as evidence of inflation reduction globally is still quite weak, spillover effects would continue to impact the economy. Despite the depreciation in rupee, gains from exports remain elusive as indicated by the rising real effective exchange rate (REER), while imports remain expensive (reflecting the falling nominal effective exchange rate). The rise in REER indicates that the rupee is appreciating in real terms, which erodes the benefits of cheaper exports. As imports increase in value terms

and exports slow down dragged by deteriorating global demand, the current account deficit is expected to widen. Widening of the current account deficit amid volatile foreign investment inflows, the depreciating rupee and imported inflationary pressures would continue to impact the sentiment of businesses. Volatility in the rupee remains high; this is likely to have a negative impact on the profit margins of export-oriented sectors, especially for existing contracts. Domestically while agriculture and services remain resilient, industrial production fell in the festive month of October; the consumer and non-consumer durables sectors witnessed a steep contraction. Demand continues to remain lukewarm amidst the inflationary pressures and increase in cautiousness. Our survey also revealed that optimism for net sales for Q1 2023 to be the lowest since Q3 2021. The fact that optimism for selling price has fallen to the lowest since Q3 2021 indicates businesses are apprehensive of passing the input price to the customers as demand is likely to remain tepid.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q1 2023 decreased by 14% on a y-o-y basis. Based on the responses received, on a y-o-y basis it was observed that four out of six optimism indices have decreased. Amongst the sectors, intermediate goods sector is the least optimistic sector on all parameters and construction is the most optimistic for volume of sales, new orders and level of selling prices.

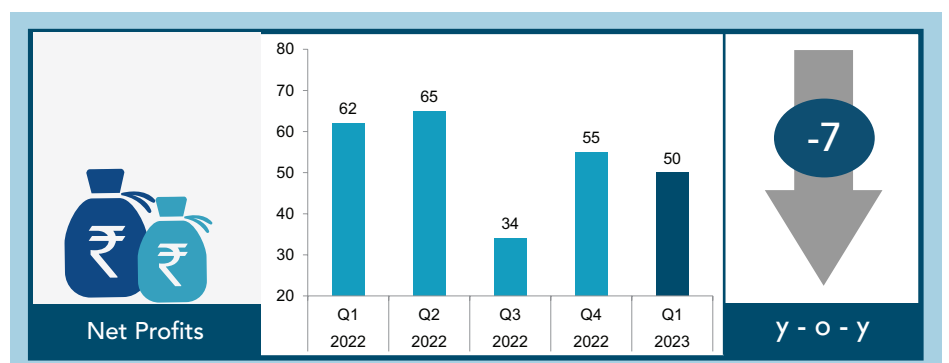
Optimism on Sub-indices



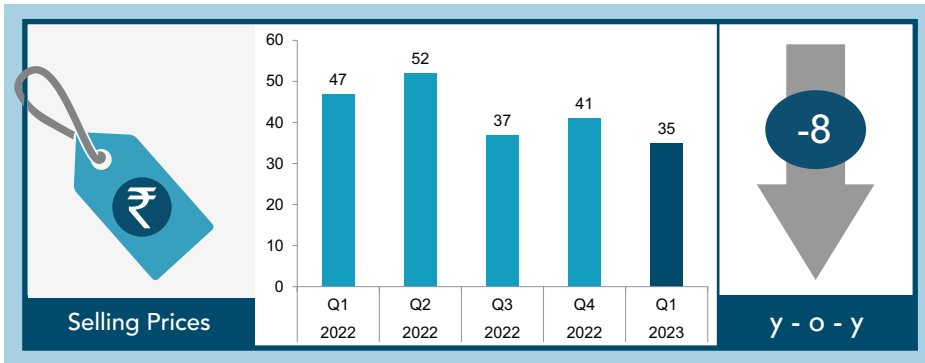
Note: All q-o-q figures are in percentage points

66% of the respondents expect volume of sales to increase in Q1 2023 compared to 73% in Q1 2022, a decrease of 7 percentage points. While 24% expect it to remain unchanged, 10% expect the volume of sales to decline. The construction sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.

50% of the respondents expect an increase in net profits in Q1 2023 compared to 62% in Q1 2022, a decrease of 12 percentage points. 35% expect net profits to remain unchanged, while 15% expect it to decrease. The basic goods sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.



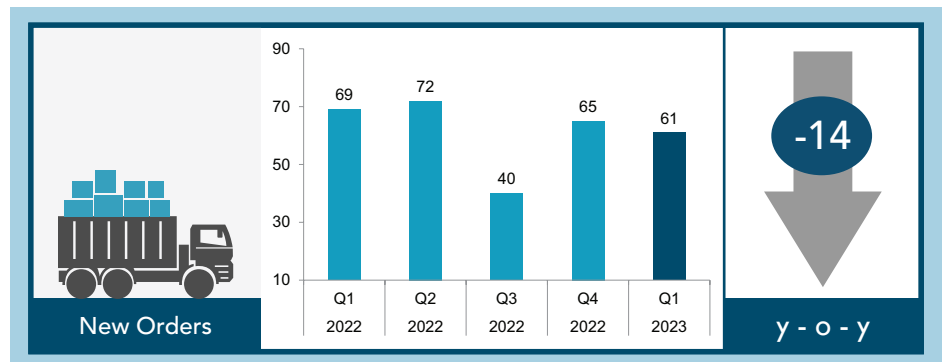
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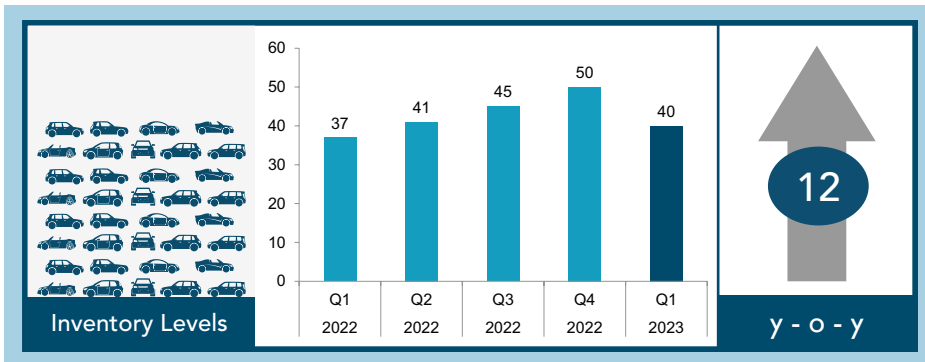
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35% of the respondents expect the selling price of their products to increase during Q1 2023, registering a decline of 12 percentage points compared to Q1 2022. 52% of the respondents expect no change while 13% expect a decline in the selling price of their products in Q1 2023. The construction sector is the most optimistic on this parameter, while the intermediate goods sector is the least optimistic.

61% of the respondents expect their order book position to improve in Q1 2023, compared to 69% in Q1 2022, a decrease of 8 percentage points. While 28% of the respondents expect new orders to remain unchanged, 11% anticipate new orders to decrease. The construction sector is the most optimistic, while the intermediate goods sector is the least optimistic.



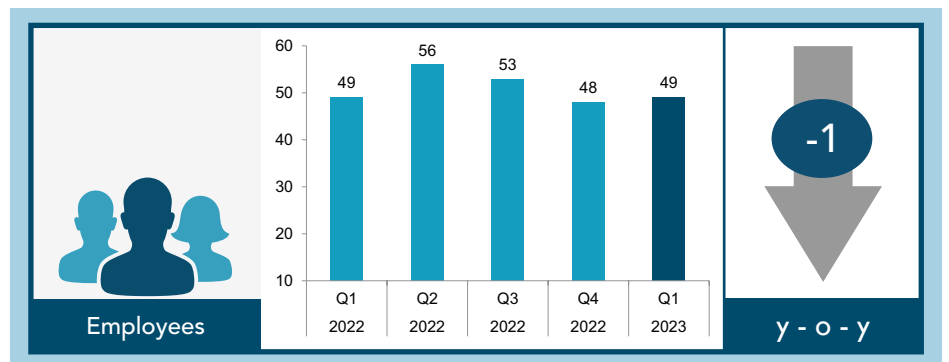
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40% of the respondents expect their inventory level to increase during Q1 2023, compared to 37% in Q1 2022, an increase of three percentage point. While 40% anticipate no change in inventory level, 20% expect inventory level to decline. The consumer non-durable goods sector is the most optimistic on this parameter, while the intermediate goods sector is the least optimistic.

49% of the respondents expect an increase in the size of their workforce employed during Q1 2023, remaining unchanged with respect to Q1 2022. While 42% anticipate no change in the number of employees, 9% expect their workforce size to decline. The basic goods sector is the most optimistic on this parameter, while the intermediate goods sector is the least optimistic.



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 04 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, 01 is the period between January and March, 02 is the period between April and June, 03 is the period between July and September and 04 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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