

## Key Macro Highlights

- 👍 Wholesale inflation moderated sharply to 29-month low of 1.34% for March 2023.
- 👍 Service exports continue to remain robust recording a growth of 28.2% in February 2023 corresponding to same month last year.
- 👍 The Reserve Bank of India has paused the rate hike, maintaining the interest rate at 6.5% in its April Monetary Policy meeting.
- 👍 India's Current account deficit has narrowed to 2.2% of GDP for Q3 FY23 against 4.4% in the previous quarter.

- 👎 World Bank has lowered India's growth outlook for FY 24 to 6.3% from its December estimate of 6.6%.
- 👎 Mining & Manufacturing sector recorded negative growth rate of -2.8% and -4.3% respectively for second quarter of FY23 as per the Second Advanced Estimates released in March 2023.
- 👎 Merchandise exports exhibited a negative growth of 13.89% (y-o-y) in February 2023.
- 👎 India's crude oil production fell by 4.6% (y-o-y) in February 2023.

## D&B Optimism Index for India for Q2 2023

The survey for the Dun & Bradstreet Business Optimism Index (BOI) was conducted during the month of March when collapses of global banks in the first half of March 2023 led to fears of contagion risk across financial markets leading to a sharp turnaround of global capital markets. A slowdown in demand for Indian goods from its key trading partners have also tempered the optimism levels of businesses. Exports of goods have decreased in the past five out of six months. The March contraction was sharp, coming in at a 13.9% year-over-year decrease. At this point, businesses may have wished to be cautious about the waning of overall pent-up demand, particularly given the potential impact of the heatwave and El Nino on rural demand.

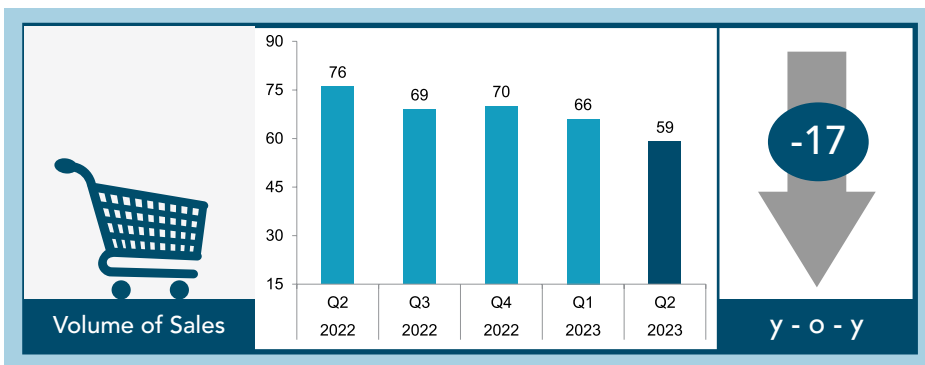
According to our Q2 2023 survey, business optimism has decreased for four straight quarters year on year. For the second quarter in a row, business optimism has also dropped quarter over quarter. According to the survey results, optimism for new sales remained muted, reaching its lowest level in eight quarters. We believe that weak demand has had an impact on business optimism levels. Exporters of goods and services face a difficult year as the global economy's outlook becomes more pessimistic and hope for a turnaround continues to fade. Additionally, benefits to domestic businesses from reduced interest rates and a decrease in debt are probably going to be

undone in the current fiscal year. Profit levels are also likely to be affected by cost pressures connected to financing and labour.

Nonetheless, the banking crisis in the US and Europe are unlikely to cause a domino effect for India. Capital outflows were restricted to the debt market as equity markets received net inflows in March. India's banking system has adequate liquidity supported by the safety buffer of SLR (Statutory Liquidity ratio) requirement, sound credit quality and low NPA ratio. The economy is also supported by adequate forex reserves, current account deficit is expected to remain below 3% and fiscal deficit remains within control. Going ahead, the easing of retail inflation is likely to support household demand and the significant moderation of the wholesale will ease input price pressures for corporates. Industrial output remains steady and the government's thrust on capital expenditure would sustain the investment momentum.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q2 2023 decreased by 24.3% on a y-o-y basis. Based on the responses received, on a y-o-y basis it was observed that five out of six optimism indices have decreased. Amongst the sectors, the intermediate goods sector is the least optimistic sector on four out of six parameters.

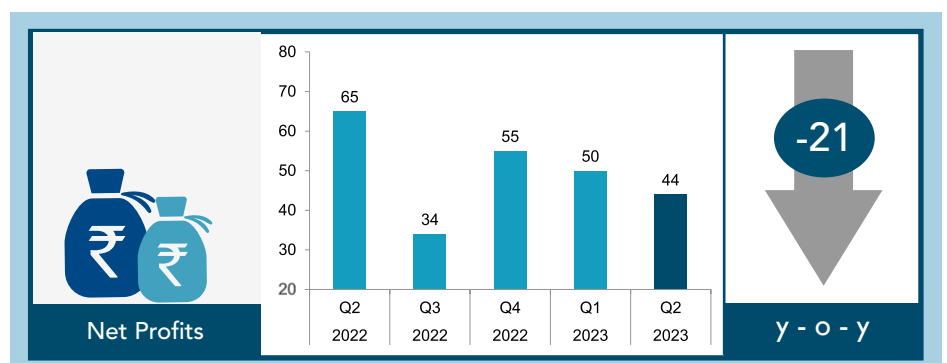
### Optimism on Sub-indices



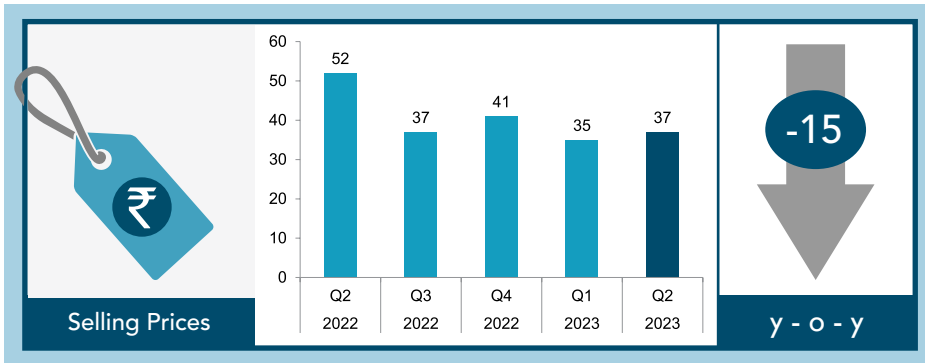
Note: All q-o-q figures are in percentage points

59% of the respondents expect volume of sales to increase in Q2 2023 compared to 76% in Q2 2022, a decrease of 17 percentage points. While 55% expect it to remain unchanged, 14% expect the volume of sales to decline. Consumer Non-durables sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.

44% of the respondents expect an increase in net profits in Q2 2023 compared to 65% in Q2 2022, a decrease of 21 percentage points. 42% expect net profits to remain unchanged, while 14% expect it to decrease. The consumer non-durables sector is the most optimistic, while the intermediate goods sector is the least optimistic on this parameter.



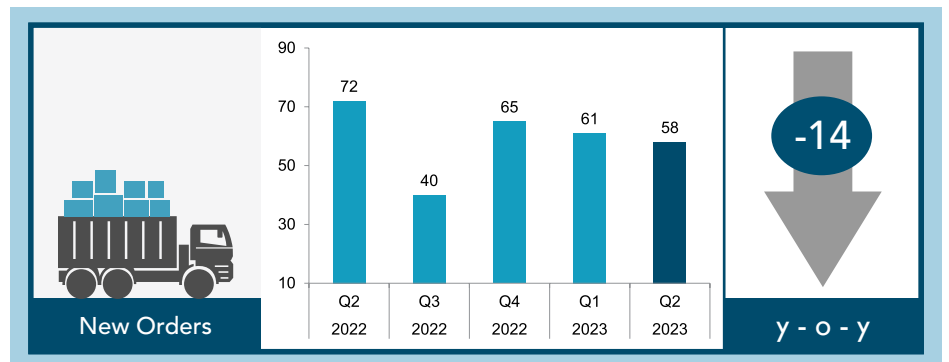
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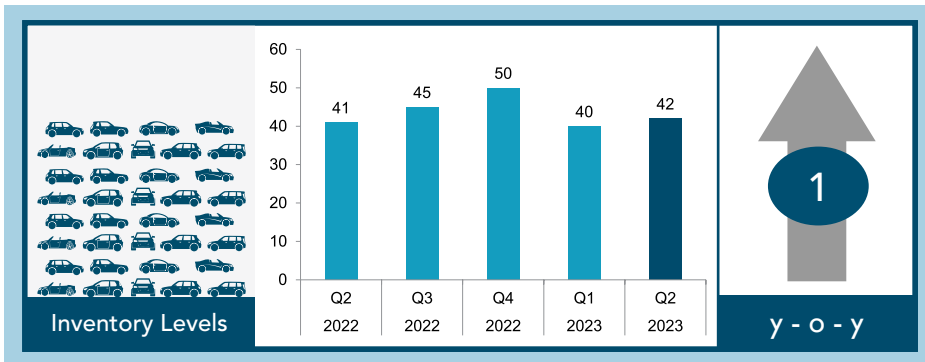
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37% of the respondents expect the selling price of their products to increase during Q2 2023, registering a decline of 15 percentage points compared to Q2 2022. 52% of the respondents expect no change while 15% expect a decline in the selling price 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.

58% of the respondents expect their order book position to improve in Q2 2023, compared to 72% in Q2 2022, a decline of 14 percentage points. While 34% of the respondents expect new orders to remain unchanged, 8% anticipate new orders to decrease. The capital goods sector is the most optimistic, while the intermediate goods sector is the least optimistic.



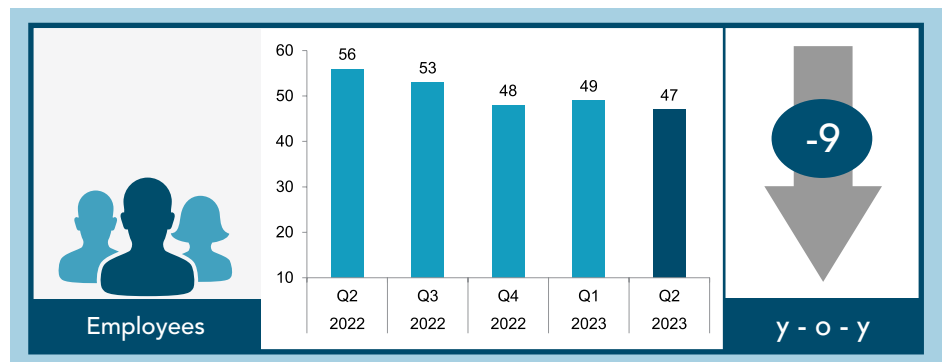
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42% of the respondents expect their inventory level to increase during Q2 2023, recording an increase of 1-percentage point with respect to Q2 2022. While 47% anticipate no change in inventory level, 10% expect inventory level to decline. The consumer non-durable goods sector is the most optimistic on this parameter, while the basic goods sector is the least optimistic.

47% of the respondents expect an increase in the size of their workforce employed during Q1 2023 compared to 56% in Q2 2022. While 46% anticipate no change in the number of employees, 6% expect their workforce size to decline. The construction sector is the most optimistic on this parameter, while the intermediate goods sector is the least optimistic.



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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 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.

## Research Team

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