IHS Markit India Business Outlook

Confidence rebounds to five-year high in February

Key findings:

- Stronger confidence across manufacturing and services
- Hiring and investment intentions revised up
- Cost inflation set to accelerate
- Companies expect to raise selling prices in response to greater cost burdens

Data collected February 12-26

February has seen a resurgence in confidence among companies in India, with optimism at a five-year high. The prospect of stronger workloads is set to lead to increases in employment and investment, while forecasts of profits growth have reached the best since late-2016.

The business activity net balance is up to +26% in February, much higher than the reading of +14% from last October’s decade low and the highest since February 2015. Sentiment in India is well above the average for the emerging markets covered by the survey. Confidence is up across both the manufacturing and service sectors.

The data were primarily collected during the middle of February, before the coronavirus disease 2019 (COVID-19) outbreak spread significantly outside China. Therefore, concerns around the prospect of disruption globally are likely to be heightened relative to the survey results.

The IHS Markit India Composite PMI showed output growth accelerating to an eight-year high in February, and anecdotal evidence suggests that the strengthening of demand in the economy witnessed at the start of the year is the principal factor supporting positive expectations. Some firms also cite business expansion plans.

Meanwhile, threats to the outlook include the prospect of accelerated cost inflation, specific mentions of higher transport costs, competitive pressures and weakness in the automotive sector.

**Job creation set to strengthen**

Improved sentiment regarding the outlook for business activity has fed through to greater confidence around hiring and investment plans.

The net balance of firms set to raise employment has doubled to +14% in February, with optimism in India above the global average. The revising up of hiring plans was broad-based across the manufacturing and service sectors.

Similar trends are evident with regards to investment in both capital and R&D. The capex net balance is the highest since late-2018, driven by improved confidence in the manufacturing sector. Meanwhile, the increase in R&D expenditure forecast by firms in February follows a pessimistic outlook last October.

**Inflationary pressures predicted to build**

Panellists indicate that one of the key threats to the generally positive outlook in India is rising input costs, and these worries are also borne out in the latest data. Net balances for non-staff input prices, staff costs and output prices are all higher than at the end of last year.
Inflationary pressures look set to be more pronounced in the manufacturing sector than in services. Furthermore, an escalation of the COVID-19 outbreak since the survey was undertaken could cause further disruption to global supply chains, further stoking inflation for certain items.

Despite rising since the previous outlook survey, the respective net balances for non-staff and staff costs are lower than the global averages. In fact, the non-staff costs net balance (+10%) is the joint-lowest worldwide alongside Japan.

Output prices are set to increase over the coming year, with the net balance up to +12% in February from +8% in October. That said, this remains below the series average.

**Marked uplift in profits expectations**

Sentiment regarding profits has risen to the highest in over three years at the start of 2020, with the net balance of +23% in India well above the global average (+8%). Both monitored sectors signal a strong improvement in confidence around profitability.

**Comment:**

Commenting on the India Business Outlook survey data, Andrew Harker, Economics Director at IHS Markit, said:

“The Indian economy appears to have got back on track at the start of 2020 following a period of subdued growth. The business outlook survey’s sister PMI reports have shown growth of business activity accelerating to an eight-year high, and this has boosted sentiment in the 12-month outlook.

“While the COVID-19 outbreak played little part in this survey, the wider escalation of the virus globally since the data were collected clearly provides an additional threat to the positivity exhibited here given the potential of disruption to global supply chains and demand.”

-ENDS-

Full data available on request from economics@ihsmarkit.com
The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between February 12 and 27.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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