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IHS Markit India Business Outlook

Business confidence wanes amid election uncertainty

Key findings:

- Optimism towards output, new business and earnings weakens in October
- Inflation expectations similar to June
- Hiring intentions revised higher; subdued capex plans

Data collected October 12-29

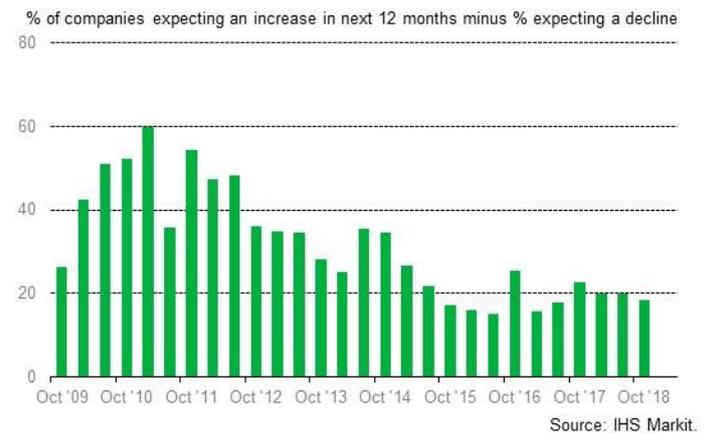
Overall, companies in India remain upbeat towards growth prospects, with forecasts of new business expansion expected to boost output, profits and employment. However, in most instances, firms are less optimistic than in June, with only the employment net balance rising in October.

The headline business activity net balance is at +18%, down from +20% in June and at its joint-lowest mark in over one-and-a-half years. Moreover, sentiment in India is weaker than seen on average in emerging markets and globally. Companies still foresee demand improvements and are planning to increase advertising to secure new work. Some firms also mention merger opportunities and product development as reasons to be upbeat.

However, anecdotal evidence suggests a growing concern about input costs, particularly for fuel. Other factors restricting confidence include the 2019 general election, competition, limited pricing power and expected currency fluctuations.

Although sentiment is broadly similar among goods producers and service providers, the former signal an uptick in confidence, while the latter are less optimistic than in June. Notably, the net balance of services firms predicting activity growth is the lowest registered since June 2017. A similar trend is noted for new business, with sentiment strengthening at manufacturers and weakening at services companies.

India business activity expectations



Employment & Investment plans

To accommodate for projected increases in new work, private sector firms in India are planning to expand operating capacities over the coming 12-month period. Although hiring intentions have been revised higher, reaching the greatest mark seen in over three-and-a-half years, sentiment is among the lowest seen globally. Only in China and Spain lower net balances are recorded.

Spending on capital such as vehicles, premises, equipment and land are projected to increase in the year ahead. That said, with both manufacturers and service providers revising lower their capex plans, the proportion of optimists minus pessimists at the composite level is down from June.

At the same time, the mood among manufacturers regarding research and development has darkened, with Indian producers the only pessimists globally.

Inflation Expectations

Firms predict greater cost burdens in the year ahead to stem from higher prices for raw materials, food, fuel and transport, as well as rupee depreciation. The input costs net balance is broadly similar to that noted in June, matching the emerging markets average.

Although companies look set to pass-through to their clients additional expenses by raising their charges, the net balance for output prices remains below that seen for costs and is unchanged since June.

Corporate Earnings

A combination of weaker confidence for new business and strong cost inflation expectations have restricted sentiment regarding earnings. Degrees of optimism for business revenues and profits are lower in October, in both cases reflecting downward revisions among service providers and goods producers.

Comment:

Commenting on the India Business Outlook survey data, **Pollyanna De Lima**, Principal Economist at IHS Markit, said:

“Sentiment in India follows a similar pattern to that seen across most nations monitored by the Global Business Outlook surveys, one by which firms are generally concerned about political issues, cost pressures and currency instability.”

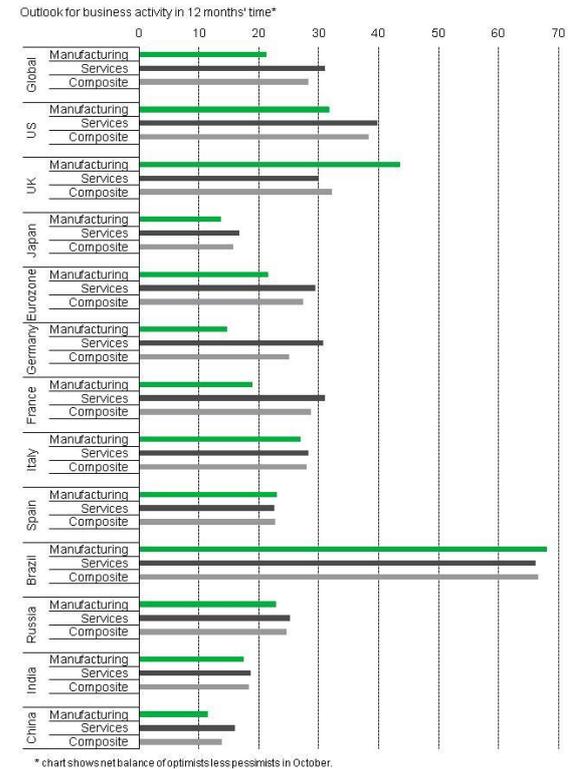
“October sees confidence regarding activity slide to the weakest in almost one-and-a-half years, dragging down optimism for profits and investments. Moreover, in all three cases, sentiment levels are below their respective global averages.”

“The growth slowdown is predicted to be accompanied by strong inflationary pressures, but the gap between the input costs and output prices net balances suggests that companies remain worried about their ability to pass-through to clients additional expenses without losing market shares.”

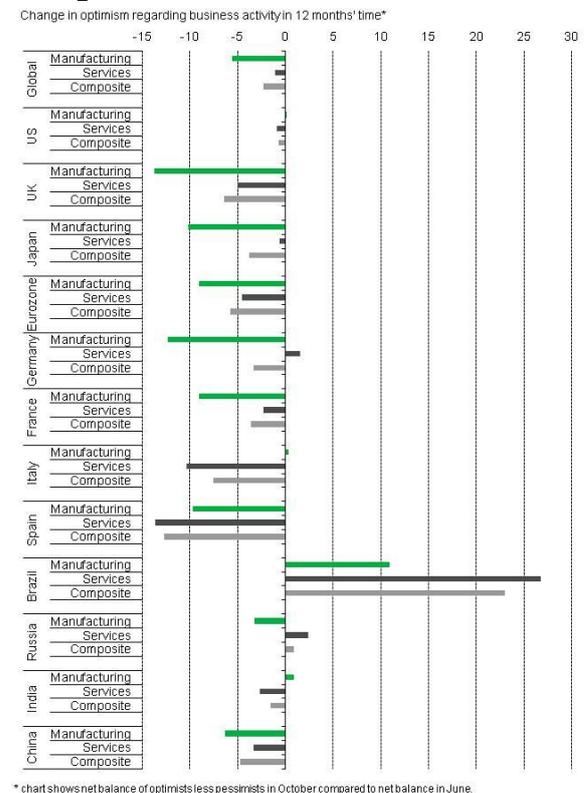
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



For further information, please contact:**IHS Markit**

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Notes to Editors:

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 October 12 and 29.

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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