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IHS Markit India Business Outlook

Indian companies turn optimistic towards outlook, but jobs set to fall

Key findings:

- Business activity and profitability outlook turns positive in October
- Investment intentions improve from June
- Companies pessimistic about employment
- Both input costs and output charges expected to rise

Data collected October 12-28

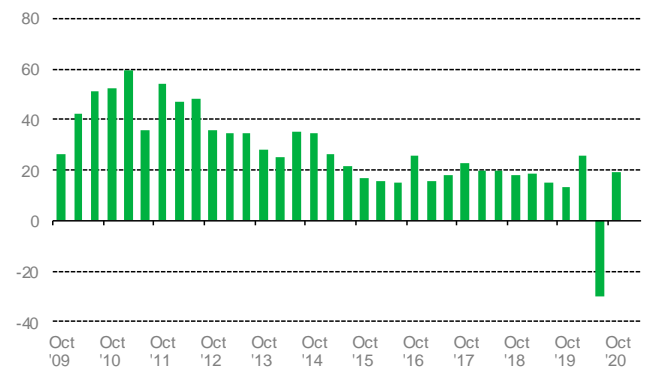
Predictions of a reduced impact from the COVID-19 pandemic on operations, and hopes of a vaccine, underpinned positive sentiment among Indian companies regarding the 12-month outlook for output after companies had been pessimistic in June. Firms intend to lift spending on both capital (capex) and research and development (R&D), but foresee lower payroll numbers in the year ahead. Businesses forecast an overall increase in cost burdens, but expectations of retained pricing power meant that profitability growth was anticipated.

Having slipped to a record low of -30% in June, the business activity net balance rose to +19% in October. This signalled renewed optimism among Indian companies towards the outlook for output. The overall level of positive sentiment was subdued by historical standards, however, and below the global average.

Although the revival in confidence stemmed from hopes of a COVID-19 vaccine and fewer case numbers, some firms were concerned that any rise in contamination could bring in additional controls and harm the economic recovery. Worries about competitive pressures and travel restrictions also limited the rebound in sentiment.

Confidence returned to positive territory in the manufacturing and service sectors, with the respective net balances rising from -12% and -38% to +31% and +14%.

India business activity expectations



Source: IHS Markit.

Investment intentions improve, but employment set to fall

A net balance of +22% of private sector firms forecast capex growth in the year ahead. The latest figure was up from +6% in June to its highest mark in six years, with Indian companies the most upbeat worldwide. At the same time, businesses turned optimistic towards R&D spending, with the respective net balance up from -7% to +15% in October. The improvement in the outlook for capex and R&D was broad-based across manufacturers and service providers.

Although a few Indian companies plan to hire additional staff in line with an expected recovery in economic conditions, confidence was restricted by uncertainty surrounding the COVID-19 pandemic and labour shortages. As a result, the composite employment net balance remained negative in October (-2%) despite rising from June (-23%). Globally, Indian firms were amongst the most downbeat with regards to employment.

Pessimism regarding jobs was centred on the service sector, where a net balance of -7% of businesses foresee job shedding. Goods producers meanwhile predicted employment growth, with the net balance up from -18% to +9%.

Inflationary pressures set to intensify

After predicting an overall fall in non-staff costs in June, companies now forecast a rise. The respective net balance was up from -11% to +17% in October, the highest since mid-2018. Firms also foresee a rise in wage bills in the year ahead.

In response, companies plan to lift their own fees in the coming 12 months. A net balance of +16% of businesses intend to increase selling prices, compared to +6% in June. This reading for India was also notably higher than the global average.

Profitability forecast improves

In line with expected increases in sales and retained pricing power, companies foresee higher earnings in the year ahead. The profits net balance rose from a record low of -33% in June to +9% in October. India saw the largest change in the profit outlook globally, but the overall degree of confidence was weaker than seen on average for emerging markets.

Comment:

Commenting on the India Business Outlook survey data, **Pollyanna De Lima**, Economics Associate Director at IHS Markit, said:

“Business sentiment in India improved considerably from the lows seen in June, as the loosening of COVID-19 restrictions and predictions of a vaccine boosted confidence in October. All survey measures increased during the latest survey period, though pessimism was still seen for employment.”

“India saw the greatest rebound in sentiment towards business activity globally, with predictions of growth boosting confidence towards capital expenditure and research & development investment. Optimism for capex was the strongest of all nations for which comparable data are available.”

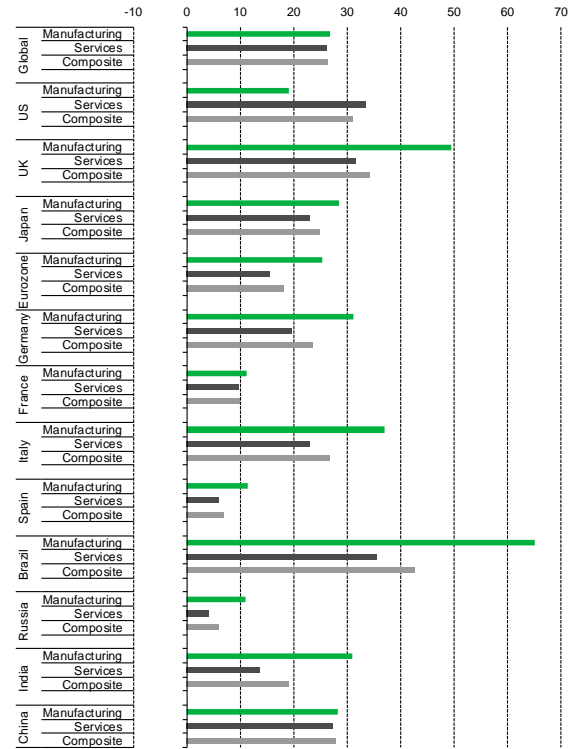
“The results do bring a note of caution, however. Levels of confidence remain historically low as a number of firms were worried that any spike in COVID-19 cases could harm growth prospects, while job shedding is still predicted for the year ahead.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in October

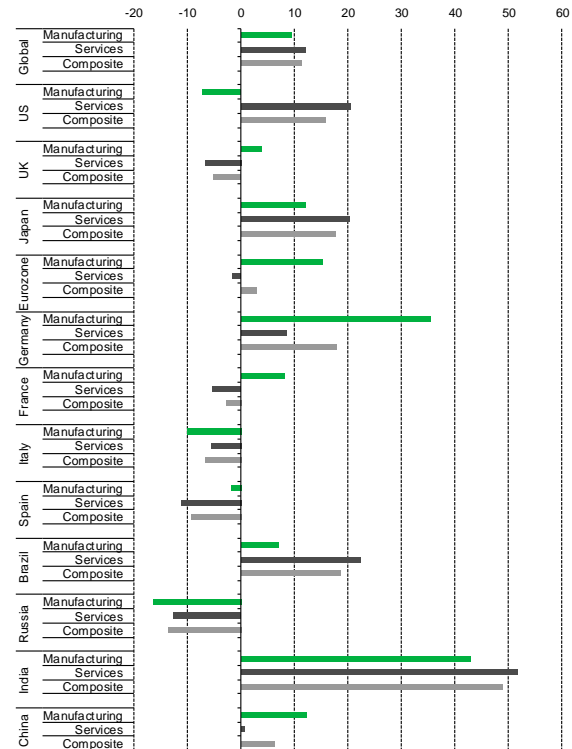
Outlook for business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in October.

How business activity expectations have changed since June

Change in optimism regarding business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in October compared to net balance in June.

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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 9 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, 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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