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IHS Markit India Business Outlook

Business sentiment slips to joint-survey low midway through 2019

Key findings:

- Optimism regarding output and profitability fades in June...
- ...but hiring intentions and capex plans broadly similar to February
- Inflation predictions for non-staff costs and charges revised higher

Data collected June 12-26

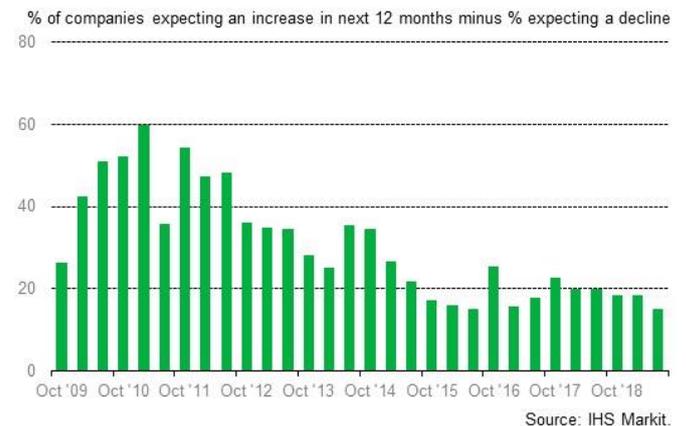
June sees business sentiment in India fall to the joint-lowest level since comparable data became available in 2009, with companies worried over a cooling economy, government policies, regulation and water shortages. Predictions of softer activity growth underpin downward revisions to the profits outlook, subdued hiring plans and relatively muted capex intentions. Although a larger net balance of firms predict higher non-staff costs and output charges than in February, inflation expectations remain historically muted.

Falling from +18% in February to +15% in June, the net balance of private sector companies foreseeing output growth in the year ahead matches the June 2016 reading and therefore is the joint-lowest since aggregate data became available in October 2009. The figure equals the average for emerging markets, but is below that seen globally.

Anecdotal evidence suggests that water shortages, public policies and weak sales have restricted sentiment in June. Companies are also concerned about potential rupee depreciation pushing prices for imported materials higher, a lack of skilled labour, likely tax hikes, financial difficulties and customers increasingly demanding discounts.

The net balances of manufacturers and service providers that predict output growth in the year ahead,

India business activity expectations



at +15% in June, are among the weakest seen in their respective series histories.

Where growth is anticipated in the coming 12-month period, companies expect marketing efforts, product quality and the securing of new clients to boost sales and subsequently business activity. Some firms hope to gain market shares as competitors exit the market, while others are confident about incentives and favourable government policies.

Employment & Investment plans

Amid predictions of a pick-up in demand, companies plan to expand capacity by hiring additional workers. The overall level of confidence for employment in June is similar to those seen over the past four years. Service providers are more likely to create jobs than goods producers.

Capital investment in India looks set to rise in the coming year. However, the net balance of private sector companies predicting growth is unchanged from February and below both the global and emerging market averages.

At the same time, sentiment for research and development spending (R&D) has turned positive in June, with the degree of optimism matching the global

average. R&D confidence in India is driven by the service sector, with goods producers pessimistic on this front for the third survey period in a row.

Inflation Expectations

Private sector companies foresee higher non-staff and staff costs in the medium-term, but inflation predictions are among the weakest worldwide.

Still, firms plan to lift their charges in the year ahead to help cushion the effects of rising cost burdens on their margins. On this front, inflation expectations in India outstrip the global and emerging market averages.

Corporate Earnings

Sentiment towards profitability has faded since February, with the proportion of companies predicting growth exceeding those expecting a contraction by 15%. This figure is well below the historical trend, but surpasses the global average.

Comment:

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

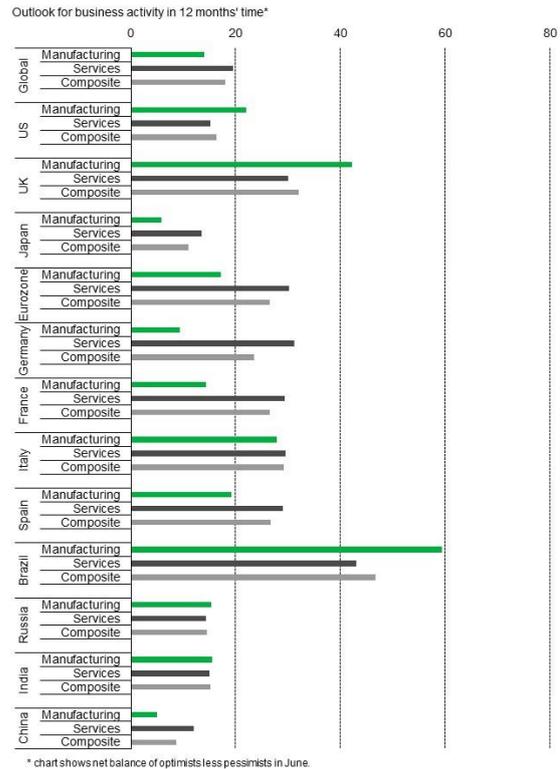
“As seen across emerging markets, business sentiment in India is down in June, dampened by worries about the sustainability of the economic upturn, water shortages, public policies and regulation. However, hopes of pro-business government policies and a better financial flow continue to underpin optimism towards output and profitability growth in the year ahead.

“As such, firms plan to expand capacities by taking on additional workers, though sentiment for all measures of expenditure are anaemic. Indeed, for capital investment confidence in India is among the weakest of all countries for which comparable data are available, ahead of only China and the UK, whilst optimism regarding research and development is below the average for emerging markets.”

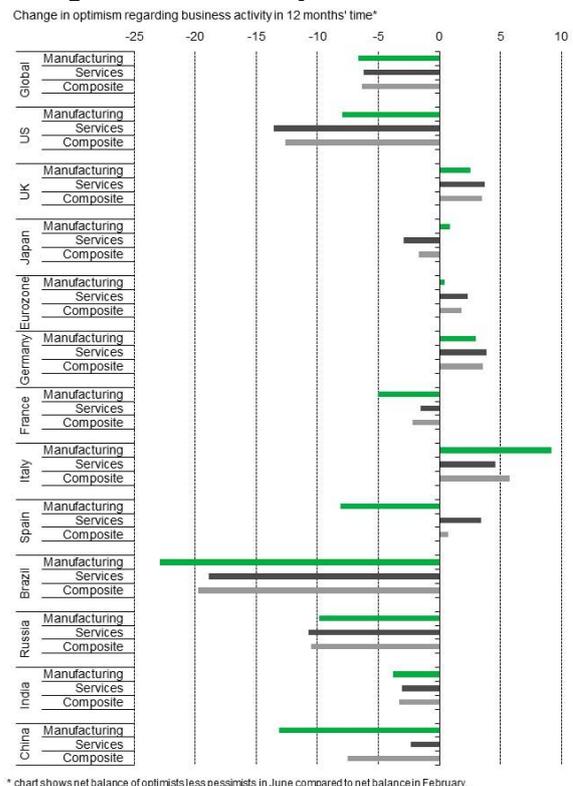
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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 June 12 and 26.

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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