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IHS Markit India Business Outlook

Indian firms neutral about growth prospects amid COVID-19 concerns

Key findings:

- Sentiment surrounding business activity dampened by pandemic uncertainty
- Weaker optimism in manufacturing compares with pessimism in services
- Job shedding forecast in year ahead

Data collected June 11-28

Worries about possible new waves of COVID-19, virus mutation, partial lockdowns, global shortages of raw materials and supply-chain disruptions restricted business confidence among private sector companies in India during June. Firms were neutral about the year-ahead outlook for business activity and downbeat about the prospects for profitability, employment and R&D spending.

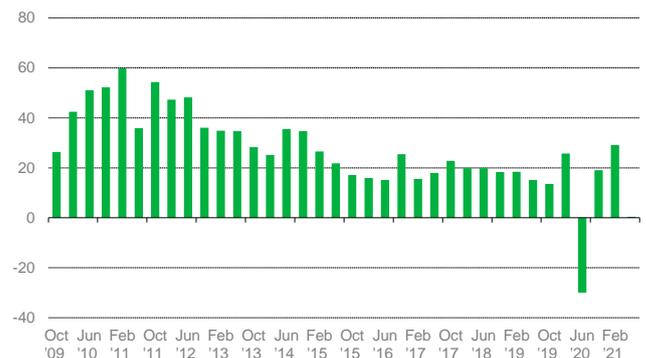
Considering how elevated input costs have been in recent months, companies expect supply-chain disruptions to diminish over the course of the next year. As such, inflationary pressures for non-staff costs and output charges look set to ease.

After improving to a near seven-year high of +29% in February, the business activity net balance slipped to 0% in June. The latest reading indicated that firms foresee no change in output in the year ahead from present levels.

A special question added to the latest survey indicated that output was below pre-pandemic levels among 74% of all firms, with similar proportions seen at goods producers and service providers.

Manufacturers remained optimistic that production will rise in the coming 12 months, but the overall level of confidence dipped to the lowest in a year. Where sentiment was positive, firms indicated that demand conditions should improve once the pandemic is brought under control and restrictions on mobility are fully lifted.

India business activity expectations



Source: IHS Markit.

Services firms were downbeat in their assessments of business activity for the first time in a year. The degree of pessimism was, however, much softer than that registered last year. The pandemic, subdued market confidence, rising fuel prices and low footfall were cited as the key threats to the outlook.

Firms anticipate modest reduction in employment

Sentiment towards employment turned negative in June, after growth was predicted in February. A net balance of -6% of companies foresee job shedding, amid expectations of weak demand and subdued activity. This measure was at -23% in June 2020.

Confidence regarding capital expenditure was marginally positive during June, with only +1% of companies on balance forecasting growth. The reading was down from a near seven-year high of +26% earlier in the year and compared with a global average of +15%.

While marginal growth of capex was expected, companies intend to trim R&D spending in the year ahead. At -5% in June, the net balance was below zero for the first time in a year. By comparison, the respective readings for the emerging markets and global averages were at +7% and +8%. Service providers were slightly more downbeat than manufacturers.

Inflationary pressures set to subside

Although Indian private sector companies continued to predict greater input costs in the year ahead, the non-staff costs net balance slipped from +17% in February to +2% in June. This was the lowest figure of the 12 nations for which comparable data are available.

Similar to input prices, and in line with job shedding plans, staff cost inflation expectations diminished in June. A net balance of +2% of panellists forecast greater payroll expenses, the lowest since negative predictions were reported at the same time last year. Readings were broadly similar in the manufacturing and service sectors.

Selling price inflation also look set to moderate in the year ahead, with the net balance of +9% of firms forecasting growth the lowest in a year. Globally, only China posted a lower figure than India.

Profitability forecast to fall

Indian companies were pessimistic regarding the outlook for profits, with a net balance of -5% of companies predicting a reduction. The reading was the lowest globally, and the only below-zero figure. Downbeat assessments were centred on the service economy, with goods producers confident of a rise in profits.

Comment:

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

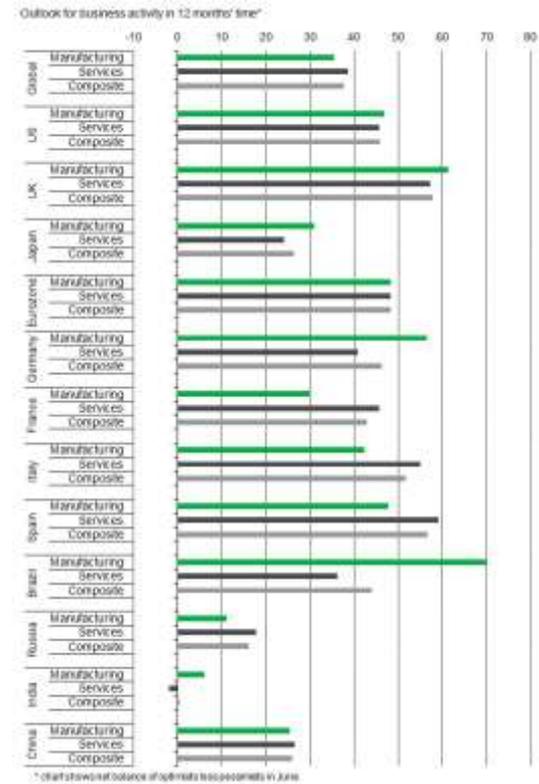
“Indian business confidence took a hit in June amid growing concerns surrounding the path of the pandemic and the discovery of new strains of COVID-19. Firms also see supply-chain bottlenecks and subdued market confidence as threats to the outlook. Sentiment levels regarding output, profitability and employment all were down from February, but remained higher than the record lows set in June 2020.

“While we expect economic activity to contract in the June quarter, growth of 7.7% is anticipated for fiscal year 2021/22 as vaccine coverage improves.”

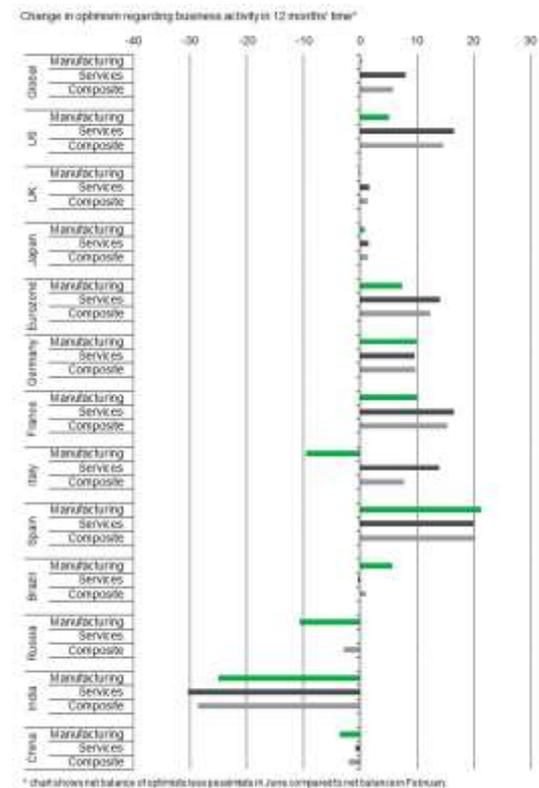
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 10 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 8,000 firms.

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