IHS Markit India Business Outlook

Business confidence recovers in October, but remains historically subdued

Key findings:

- Firms signal optimism towards business activity, following a neutral assessment in June
- Sentiment regarding employment and profitability turns positive
- Input costs and output charges set to rise

Private sector companies in India became optimistic towards the year-ahead outlook for business activity amid hopes that demand would strengthen as the pandemic recedes and market conditions improve. That said, sentiment was subdued in the context of historical data. Similarly, confidence regarding employment and profitability turned positive but was historically muted. Capex and research and development (R&D) spending look set to rise, while firms expect further increases in staff costs, input prices and output charges.

The IHS Markit India Business Outlook survey showed that a net balance of +14% of private sector companies forecast output growth in the year ahead, compared with 0% in June. The latest reading pointed to a restrained level of positive sentiment that was among the lowest since data became available in 2009 and below the emerging markets average (+23%).

Companies foresee a rebound in market confidence and stronger demand conditions. Some firms will be targeting new clients and focusing on customer retention. Capacity expansion plans, product development and the offering of new services were also cited as growth opportunities.

Downside risks to the outlook listed by panellists included further waves of COVID-19 and possible lockdowns. Competitive pressures and demands of price discounts among buyers were also cited as threats to growth prospects, as was rising fuel, transportation and raw material costs.

Goods producers were slightly more upbeat than service providers, with the respective net balances rising from +6% and -2% in June to +19% and +11% in October.

Hiring intentions at services firms contrast with job shedding plans at manufacturers

Service providers intend to increase payroll numbers in the year ahead, but growth looks set to be marginal at best. The employment net balance was up from -4% in June to +3% in October, below any figure recorded prior to COVID-19 (series started 14 years ago). Manufacturers were pessimistic about job vacancies, with the net balance up from -9% to -4%.

Private sector firms revised higher their budgets for capital expenditure, with a net balance of +11% of firms anticipating growth. This was up from a record low of +1% in June and compared with the emerging markets average of +16%. Indian goods producers were more optimistic regarding capex than service providers.

There was a slight uptick in confidence surrounding R&D during October, from -5% in June to +3%. However, the latest figure was below both the global (+7%) and emerging markets (+14%) averages. As was the case for capex, manufacturing companies were more positive about R&D than their services counterparts.
Rising cost burdens set to feed through to final output charges

October data indicated that private sector companies foresee higher staff costs in the year ahead. The respective net balance was up from +2% in June to +10% in October, but remained the lowest of all 12 monitored nations for which comparable data are available.

Similarly, the net balance for non-staff costs (+9%) was the second-lowest in just over a year, historically subdued and below those seen for the other 11 countries monitored.

Some companies intend to share additional cost burdens with their clients by hiking their charges over the course of the coming 12 months. That said, only a net balance of +12% of companies plan to lift their fees.

Firms anticipate profitability growth

Private sector firms foresee an increase in earnings in the year ahead, after being downbeat in June. The net balance improved from -5% to +7%, but remained below the global average (+12%). Indian goods producers were more upbeat about profits than service providers.

Comment:

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

“The upick in confidence levels shown by the survey bodes well for the outlook of the Indian economy, with activity, capex and R&D spending set to rise. Levels of sentiment were historically subdued, however, with companies listing many factors that could dampen the recovery. The most common concerns surrounded inflationary pressures and the risk of successive waves of COVID-19 caused by new variants.

“In their price assessments, a higher net balance of firms predicted an increase in input costs, a trend that was also seen for staff costs and output charges. That said, in all three cases, inflation expectations were below the emerging markets and global averages.”

-Ends-

Full data available on request from economics@ihsmarkit.com

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Business optimism in October

How business activity expectations have changed since June

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

* chart shows net balance of optimists less pessimists in October compared to net balance in June.
For further information, please contact:

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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 11 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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