

EMBARGOED UNTIL: 00:01 (UTC) March 15th 2021

IHS Markit India Business Outlook

Output expectations across India highest since late-2014

Key findings:

- Business activity optimism strengthens in February
- Sentiment towards employment turns positive
- Capital expenditure budgets revised higher

Data collected February 11-24

India's coronavirus disease 2019 (COVID-19) vaccination drive boosted business confidence in February, with companies at their most upbeat towards the 12-month outlook for output in close to six-and-a-half years. Predictions of a pick-up in demand underpinned optimism towards hiring, after pessimism was signalled in late-2020, while sentiment regarding capital (capex) improved to the highest since October 2014. On balance, a greater proportion of companies foresee increases in staff costs and output charges, but non-staff cost inflation expectations were unchanged since last year.

The business activity net balance recovered further from last June's record low (-30%), rising from +19% in October 2020 to +29% in February. The latest reading pointed to the strongest degree of optimism towards output since October 2014. The uptick in the headline figure stemmed from strengthening confidence in the service sector, where a net balance of +28% of firms (+14% last October) foresee growth of business activity in the coming 12 months. Vaccine availability was cited as the key opportunity to future prospects.

Manufacturing sector sentiment regarding production was unchanged in February, and the joint-highest since October 2012. Goods producers expect the COVID-19 immunisation programme to lead to a reduction in contamination and the easing of restrictions, subsequently boosting demand for their products and stabilising market conditions. Firms also mentioned plans to increase marketing budgets and hopes of new client wins.

India business activity expectations



Source: IHS Markit.

Private sector jobs look set to increase in coming year

After signalling pessimism towards employment for two successive survey periods, Indian companies reported plans to lift headcounts over the coming 12 months during February. The overall degree of optimism was the second-highest in six years and above the emerging markets average. Moreover, both goods producers and service providers foresee job creation.

Private sector firms became more upbeat regarding capex growth, with a net balance of +26% of panellists foreseeing an increase. The overall level of positive sentiment improved to the highest since October 2014, amid strengthening confidence among goods producers.

Trends for R&D spending were mixed, with sentiment improving in the manufacturing sector whilst weakening in the service economy. Given the size of the latter, the composite net balance fell from +15% last October to +12% in February. The reading was above the global average, but below the figure for emerging markets.

Charge inflation expectations highest since October 2016

Indian companies intend to lift their selling prices over the coming 12 months due to expected increases in cost burdens. The output price net balance rose to +20% in

February, the highest in close to four-and-a-half years. Both manufacturers and service providers made upward revisions to their planned fees.

Firms anticipated an increase in overall staff costs, with expectations reaching the highest in the two-year series history. Levels of sentiment were broadly similar in the manufacturing (+25%) and service (+24%) sectors, both of which rose from last October.

Increases in non-staff costs were also predicted, but sentiment was unchanged since late last year. Moreover, the respective net balance was below both the global and emerging markets averages.

Firms more optimistic towards profitability

Amid predictions of an improvement in demand conditions and pricing power, Indian companies foresee profitability growth in the coming 12 months. Furthermore, the overall level of positive sentiment strengthened to a one-year high and surpassed the emerging markets average.

Comment:

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

“The latest Business Outlook results showed a further improvement in confidence across India, with output expectations reaching the highest since late-2014. The key driver of optimism was the COVID-19 vaccination campaign, which firms hope will lead to the easing of restrictions and demand growth.”

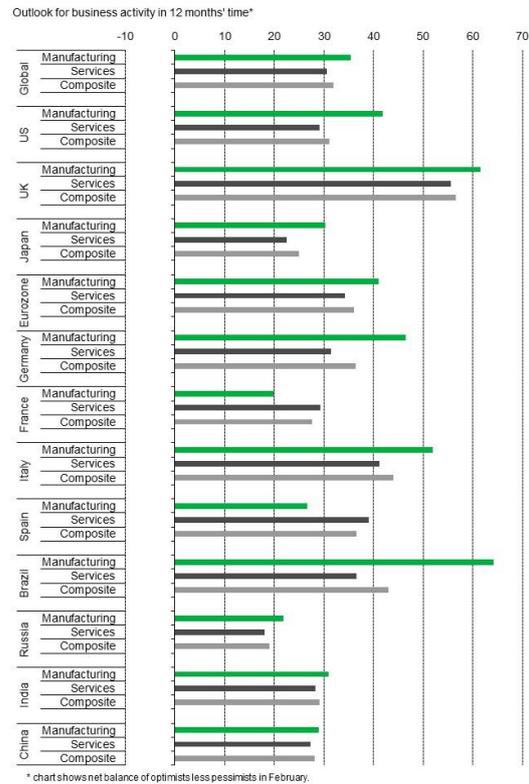
“Companies are planning to expand their operating capacities to accommodate for new order growth by taking on additional staff. Hiring intentions were among the brightest in six years. Capex goals were also revised higher, with sentiment on this front well in advance of the global average.”

“Despite some concerns that raw material shortages could lead to higher input costs, non-staff cost inflation expectations were unchanged since last October. Staff cost inflation, on the other hand, looks set to intensify and a larger proportion of firms intend to hike their fees.”

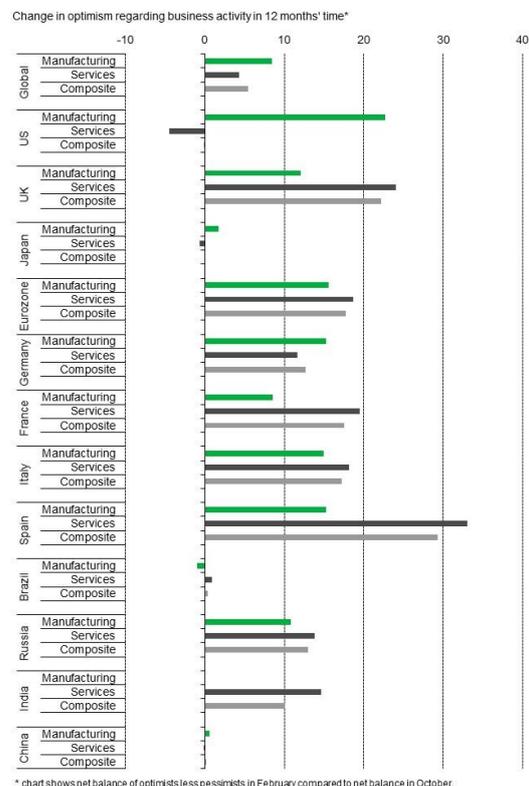
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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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 February 2 and 25.

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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