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IHS Markit India Business Outlook

Indian companies more cheerful regarding growth prospects

Key findings:

- Sentiment improves for new business and output...
- ...resulting in upbeat mood towards employment and revenues
- Inflation rates forecast to build up

Data collected June 12-28

Sentiment towards growth prospects among Indian companies has brightened half-way through 2017, with most of the confidence indicators moving higher in June. A more cheery mood is recorded for new business, output, revenues and employment, while the net balance for capex is down slightly since February. Growth is anticipated to be accompanied by stronger inflationary pressures, however.

The percentage of optimists less pessimists across the private sector as a whole is up from +16% earlier in the year to +18% in June. Confidence regarding business activity is underpinned by anticipations of better demand conditions, belief that the goods & services tax will be favourable to businesses, greater client bases and marketing efforts.

Manufacturers and service providers alike are buoyant about business activity, with the respective net balances at +17% and +19%, both up from +16% in February.

Firms are planning to step up output in line with forecasts of new business growth. Whereas the net balance for new work is up from +14% to +16%, it is the lowest reading of the four BRIC nations.

The only figure that has fallen since February is the one for capital expenditure. The net balance of enterprises foreseeing growth is down from +12% to +10% in June, below the BRIC and global averages.

India business activity expectations



Levels of confidence concerning spending on capital are similar among goods producers (+10%) and service providers (+11%).

Hiring intentions lag behind other nations

Although companies are planning to engage in recruitment, job creation looks set to be mild and among the weakest worldwide. At +9% in June, up from +6%, the net balance for employment is ahead only that seen in China (+6%). Indian confidence around payroll numbers has remained stuck at post-recession lows for over two years, with the subdued mood evident across manufacturing and services.

Cheerful expectations around revenues

Private sector firms in India are buoyant around the prospects for growth of business revenues in the coming 12 months. A net balance of +15% of monitored companies foresee expansion, compared with +13% in the prior outlook period. Breaking down by sector, the readings for manufacturing and services are at +16% and +14% respectively. Optimism regarding profitability has also moved higher, with the net balance rising from +13% in February to +16%.

Inflationary pressures predicted to intensify

Input costs facing companies in India are expected to rise at a stronger rate than previously anticipated. This is signalled by an upward movement in the respective net balance from +22% to +25%. Cost inflation expectations in the country are above both the BRIC (+22%) and global (+21%) averages.

As a result, more enterprises (+13% on balance) are planning to raise their selling prices in the year ahead than seen earlier in the year (+10%). Inflation rates of both input costs and output charges look set to be stronger in manufacturing than in services.

Comment:

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

“The business mood in India has brightened slightly since the outlook survey was last conducted in February, though levels of confidence are still among the lowest globally and much weaker than seen up until 2015.

“The improvement in sentiment is largely underpinned by belief that the goods & services tax will be favourable to businesses and that marketing efforts will be successful in generating more work. Nevertheless, there remain worries around competition and inflation.

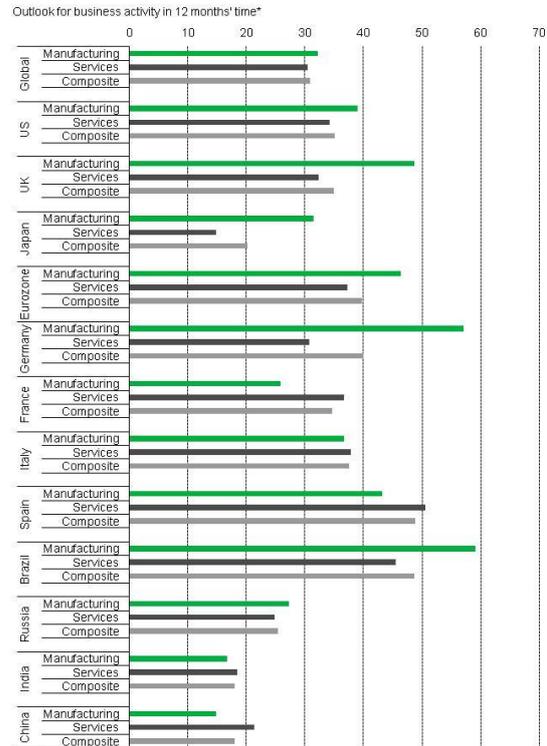
“Indeed, Indian companies are anticipating stronger input cost inflation and, as such, are planning to raise their own charges at quicker rates than signalled at the beginning of the year.

“The most encouraging aspect of these readings is the broad aspect of optimism, which revived for almost all measures. The only exception is a downward revision to capital expenditure.”

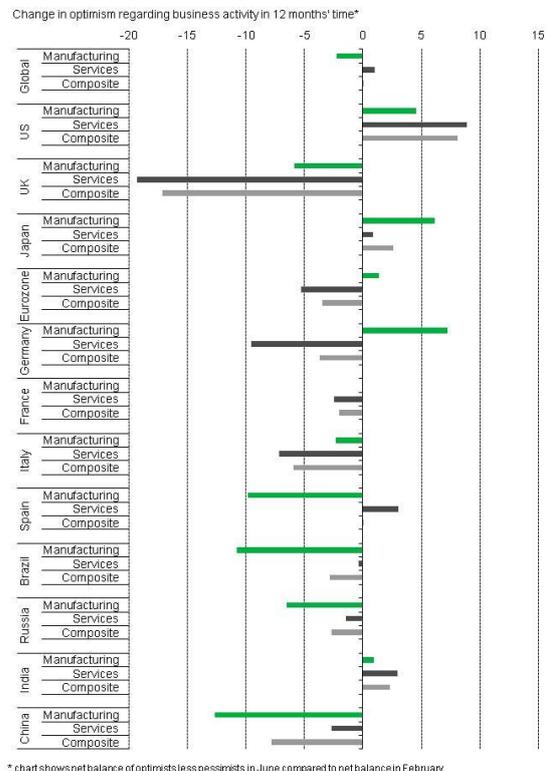
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Full data available on request from economics@ihsmarkit.com

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 12 and 28.

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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve 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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