News Release

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S&P Global India Business Outlook

Growth prospects in India hampered by inflation concerns and fierce competition

Key findings

Outlook for business activity weakens in February

Firms downgrade Capex and R&D plans, but hiring intentions improve

Resurgence in non-staff cost inflation expectations

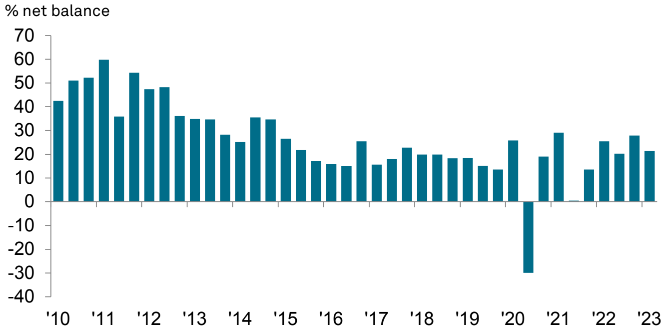
Private sector companies in India remained positive that output levels would increase over the course of the coming year, but optimism weakened in February and was below both the global and emerging market averages. Investment targets were pulled back, in line with receding confidence for profitability, while hiring intentions recovered to its highest in two years. Sentiment surrounding inflation was mixed, with an upward revision for input prices contrasting with a downward correction for staff costs. Concurrently, the net balance of firms aiming to hike their output charges matched that seen in October 2022 when the survey was last conducted.

The S&P Global India business activity net balance slipped from +28% in October 2022 to +21% in February, highlighting a weaker degree of optimism that was below the global (+32%) and emerging market (+33%) averages. Moreover, India was one of three nations to see a fall in confidence, alongside Brazil and Japan, with the other nine countries for which comparable data are available all registering an increase.

Anecdotal evidence indicated that inflation concerns and competitive pressures were the main factors stymieing business confidence. Firms nevertheless identified some opportunities to the outlook, including demand resilience, product diversification, advertising and pipelines of new work.

In the manufacturing industry, the proportion of optimists outstripped that of pessimists by +20% in February, down from +27% last October. The respective reading for the service economy was down from +28% to +22%.

India Business Activity expectations



Source: S&P Global.
Data were collected 10-24 February 2023.

Comment

Commenting on the India Business Outlook survey data, Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said:

“Indian companies became more concerned about inflation and its detrimental impact on growth prospects during February, leading them to downgrade their forecasts for output and profitability. With regards to business activity, the weakening of optimism contrasted with improvements in most of the nations covered by the survey.

"The drop in sentiment for profitability in turn led companies to reassess their budgets for the year ahead. Fewer panellists aim to invest in fixed assets than in late-2022, with the largest downgrade noted in the manufacturing sector. That said, goods producers remained more upbeat about capex than service providers. Moreover, planned outlays on R&D among the former strengthened, while pessimism was recorded among the latter.

"At the one-year horizon, Indian private sector companies foresee further price pressures. Inflation expectations for input costs intensified, but were the lowest globally, while that for staff costs moderated. The outlook for output charges was unchanged as several firms anticipate that competitive pressures will somewhat restrict pricing power."

Hiring plans improve, while investment prospects weaken

Indian companies intend to expand operating capacities in the year ahead to accommodate for new business growth. Moreover, job creation looks set to strengthen as seen via an improvement in the employment net balance from +5% to +10%. The latest figure was the highest since February 2021, but below the global average (+17%).

While a net balance of +17% of survey members reported plans to increase investment on physical assets late last year, only +12% now foresee growth. This was the lowest reading recorded since October 2021, albeit equal to the global average.

Confidence surround R&D spending was also at its weakest since October 2021, with the net balance for India well below the average for emerging markets.

Goods producers were notably more upbeat about capex than service providers. The latter also signalled pessimism towards R&D parallel to a pick-up in optimism among manufacturers. As for hiring goals, levels of confidence were broadly similar.

Non-staff cost inflation set to intensify

A higher net balance of private sector companies foresee an increase in non-staff costs than recorded in late-2022, but the figure for India was the lowest globally. Inflation expectations intensified substantially among manufacturers, with the net balance up from +5% to +13%. A relatively smaller upward revision was noted in the service economy (from +11% to +12%).

Companies in both segments anticipate greater outlays on salaries and wages, albeit with expectations retreating in February. At the composite level, the staff costs net balance was down from +22% to +18%.

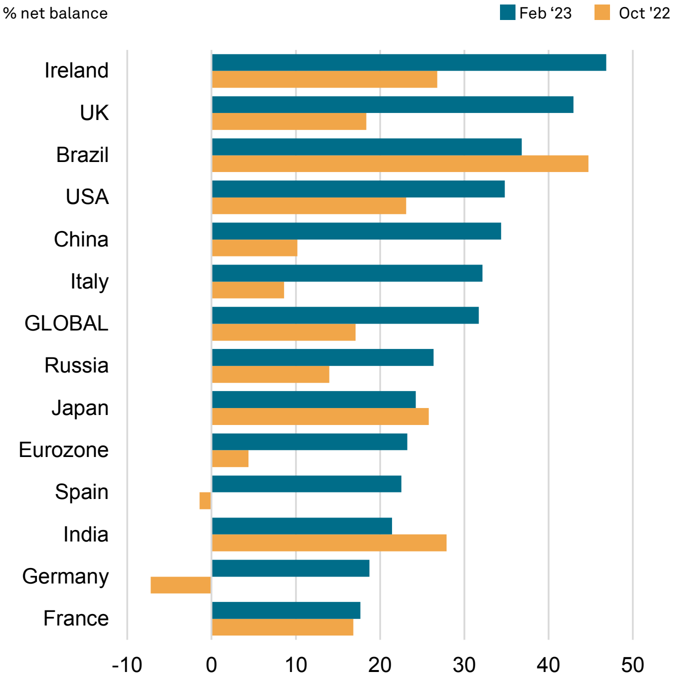
Although firms on average aim to share additional cost burdens with their clients, several pointed out that competitive pressures may restrict pricing power. The output charges net balance was unchanged at +16%. Globally, only China saw a lower figure than India.

Inflationary pressures projected to make a dent in profitability

Sentiment regarding profits in India faded during February. The net balance of companies predicting growth fell from +21% to +15%, the joint-lowest mark since October 2021. By comparison, the global and emerging market readings were at +16% and +20%.

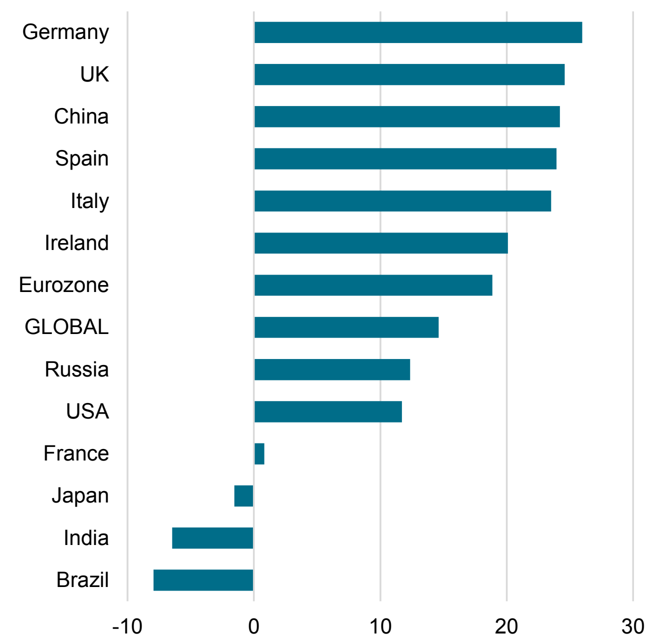
Sentiment levels were broadly similar in the manufacturing and service sectors, but this represented no change in the former and a substantial downward revision among the latter.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '22



Source: S&P Global.
Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global 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.

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 S&P Global 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 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 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*. 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.

**The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

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