News Release

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S&P Global India Business Outlook

Indian companies more upbeat towards output prospects as cost inflation outlook improves

Key findings

Confidence towards business activity strengthens in June...

...boosting optimism for capex budgets and underpinning hiring plans

Non-staff cost inflation expectations at their lowest for two years

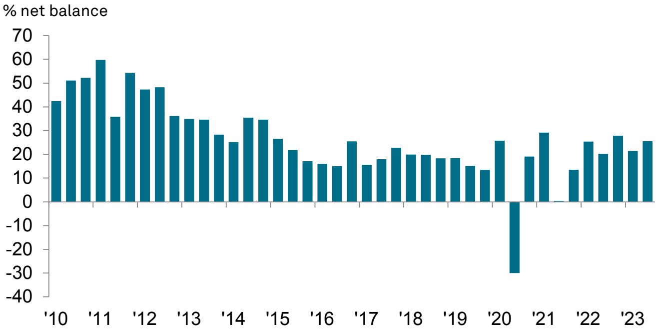
Forecasts that demand conditions will remain favourable in the year ahead boosted optimism towards business activity and capital expenditure among private sector companies in India during June. To accommodate for expected improvements in sales, firms upheld their hiring intentions. Meanwhile, there were downward revisions to non-staff and staff cost inflation expectations across both the manufacturing and service sectors. That said, prices charged for goods and services look set to increase at a slightly quicker rate than anticipated in February when the survey was last conducted.

Business outlook data, compiled by S&P Global, showed that a greater net balance of Indian firms forecast output growth in the year ahead. The headline figure improved from +21% in February to +26% midway through 2023, matching the average for emerging markets but below the global reading (+28%). Nevertheless, India was one of only four nations to see a pick-up in output prospects as the other eight countries for which comparable data are available saw confidence dwindle.

Factory sentiment in India (+30%) recovered to a near two-and-a-half-year high, and was above that seen for service providers (+24%). The respective global readings were at +20% and +31%.

Survey participants listed advertising, brand recognition, machinery acquisitions, new product releases, capacity expansion and positive demand trends as the key opportunities to the outlook. Several firms also reported plans to beat competitors' prices in order to increase market shares.

India Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-28 June 2023.

Comment

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

“The latest data from S&P Global showed a noticeable improvement in sentiment among Indian companies regarding the outlook for the business environment. Predictions that demand will remain buoyant had a positive impact on several measures covered by the survey such as output, employment, profitability and investment forecasts.

"The results for output expectations compared favourably with those seen globally, with India being one of only four nations to see a pick-up in sentiment. While the improvement was broad-based at manufacturers and service providers, the former led optimism.

"Upgrades to capital expenditure budgets also reflected a retreat in firms' cost inflation assessments. Prospects for non-staff costs were at their lowest for two years and propped the global rankings. There was also a mild decline in the outlook for staff costs, despite hiring plans being unchanged since February.

"Worryingly, charge inflation expectations picked up to the highest since February 2022. Yet, looking at the qualitative evidence provided by survey participants, there were pockets of mentions that prices would be set in a way to beat competitors and increase market shares, suggesting that hikes may be somewhat restricted."

S&P Global

Outlook for capex improves, hiring intentions at joint-highest since February 2021

Forecasts that customer interest will remain positive over the course of the coming 12 months underpinned upbeat sentiment towards job creation at private sector companies in India. The net balance of firms planning to hire extra staff was equal at manufacturers and services firms (+10%).

Companies intend to increase their budgets for capital expenditure, with the composite net balance improving from +12% at the start of the year to +16% and outpacing the global average (+10%). Manufacturers led sentiment on this front, but it was a pick-up in confidence among service providers that pushed the aggregate figure higher. The respective net balances changed from +20% and +9% to +19% and +14%.

Sentiment surrounding R&D spending was generally muted in June, with the net balance of optimists outstripping that of pessimists by only +2%. June saw a downgrade among manufacturers (from +10% to +4%) and a marginal recovery at services firm (from -1% to +1%).

Inflation expectations for non-staff costs slip to lowest in two years

June data showed an improvement in the outlook for non-staff costs in India, with the net balance of companies predicting an increase registering at a two-year low of +8%. This was the lowest reading seen out of the 12 nations for which comparable data are available. Downward revisions were noted at goods producers and services firms.

Similarly, the data showed lower net balances for staff costs in the manufacturing and service sectors. At the composite level, the net balance slipped to +17%, the lowest reading since October 2021. Globally, only the aggregate reading for China was below that for India.

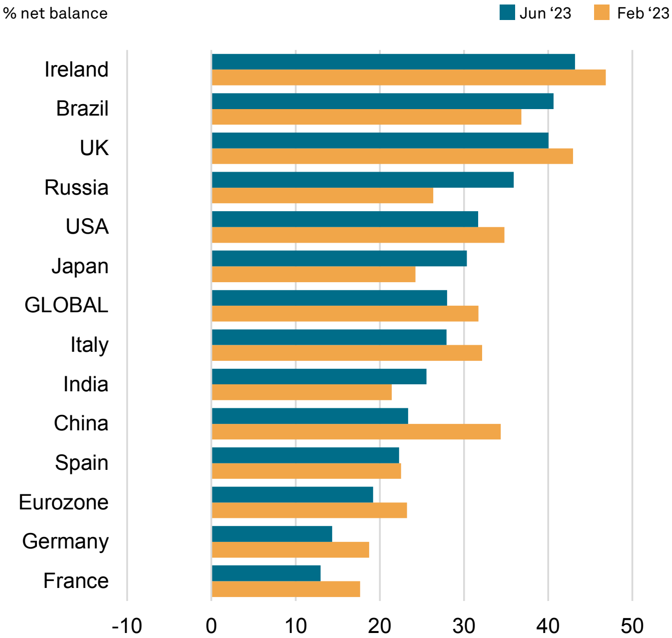
That said, price-setting plans were revised higher in June, with the net balance of companies intending to hike their charges rising to +17%. Manufacturers were particularly confident about pricing power, with the net balance increasing to its highest mark since February 2021.

Profitability growth set to strengthen

There was a recovery in profits sentiment among private sector firms in India during June. The net balance of optimists outstripped that of pessimists by +18%, compared with +15% in February.

The improvement in the service economy was mild, with the net balance rising only marginally from + 14% to +16%, while goods producers signalled the brightest outlook since February 2021.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

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

Source: S&P Global PMI.
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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