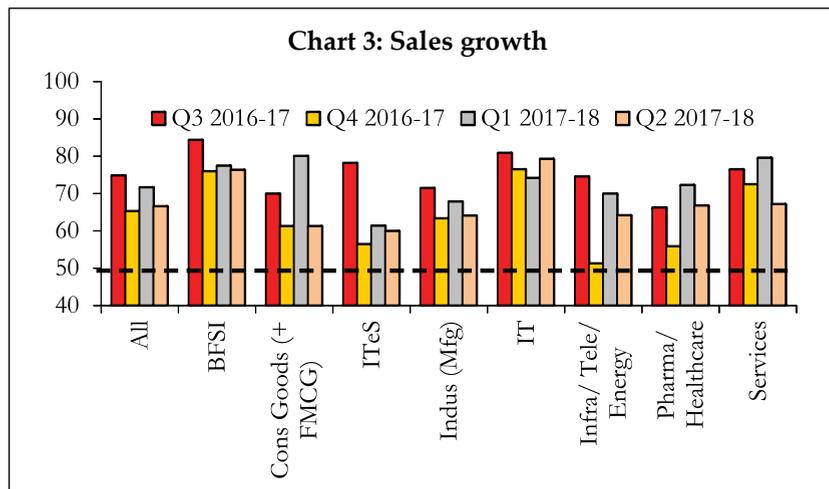
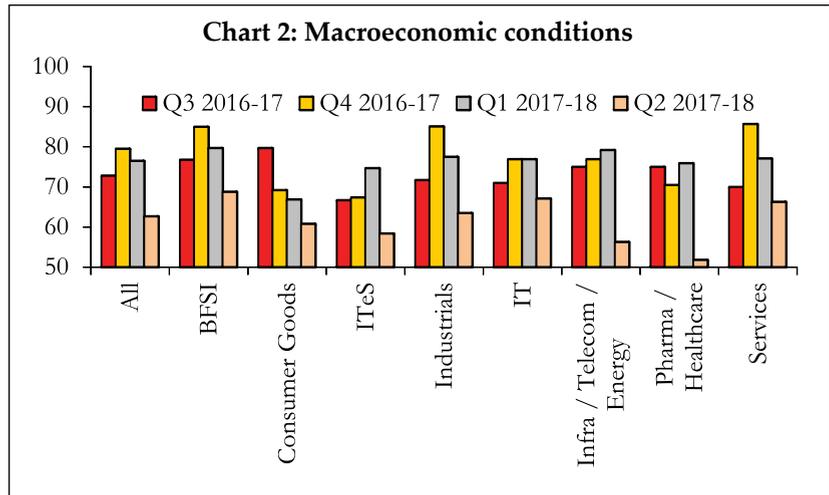
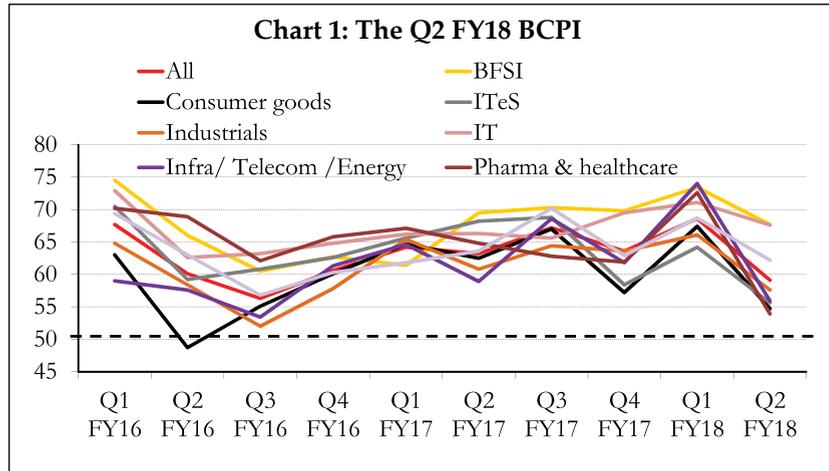


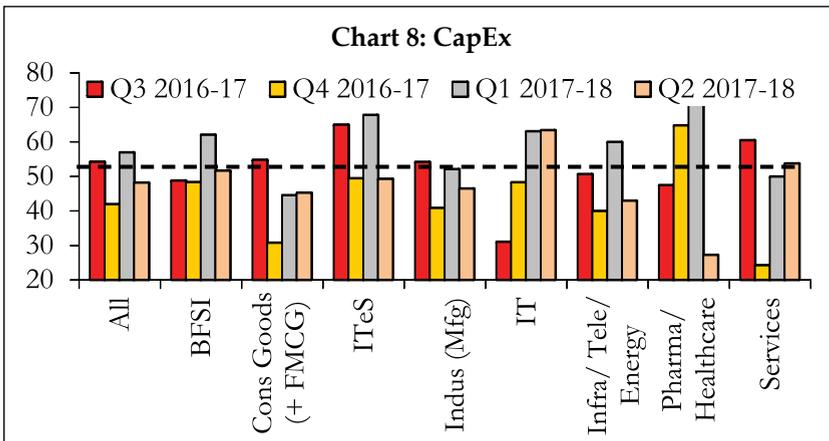
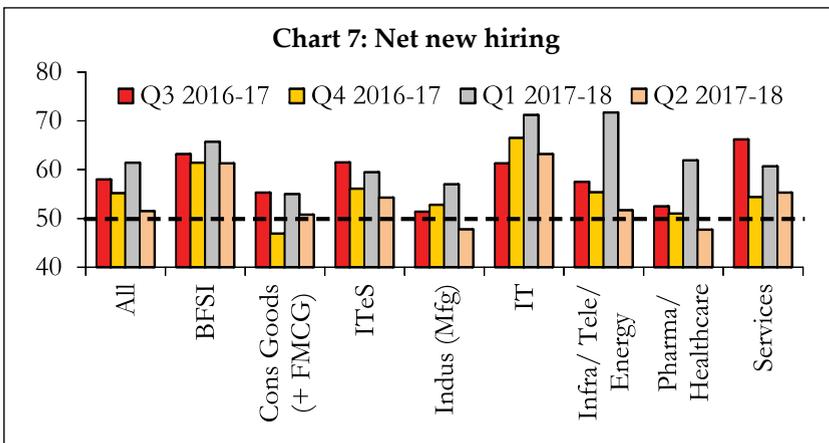
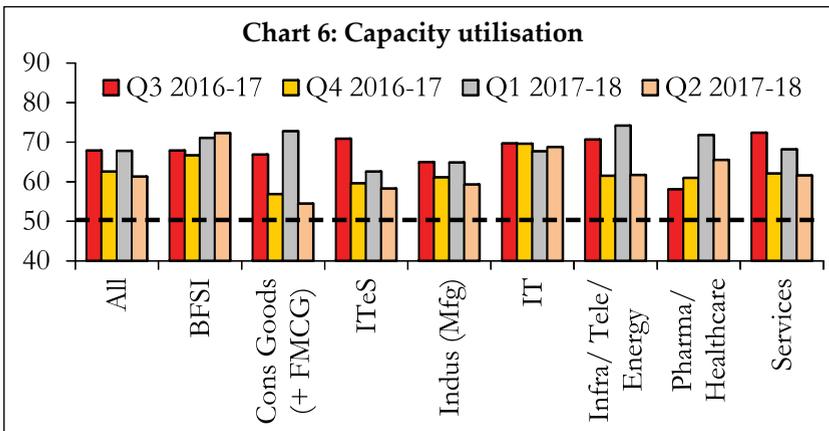
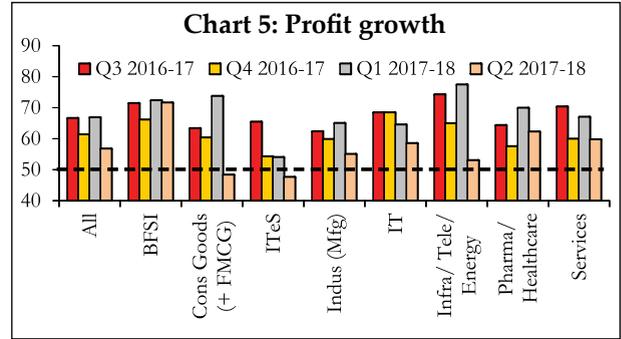
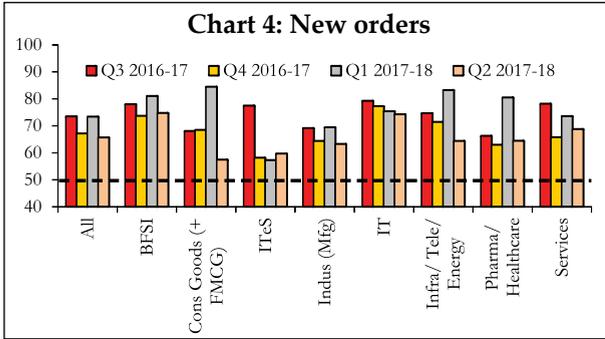
A Steep Climb-down

Dropping nearly ten points to 59.1, IMA's Business Confidence and Performance Index (BCPI) has touched a seven-quarter low. A pull-back in corporate expectations is evident across the board, with the sub-indices for business performance, the macro-economy, and especially capital expenditure all receding. Sector-wise, all eight of our sectoral groupings saw drops from their early-2017 levels, with the fall especially marked in six sectors – the exceptions being BFSI and IT (Chart 1).

Down 14 points, from 76.5 to 62.7, the macro-economy sub-index remains comfortably above the 50 mark – mainly due to a positive forward view. From a sectoral perspective, there is a general consensus about which way the economy is headed, but while BFSI (68.8), IT (67.1) and services (66.3) lean towards a more hopeful view, ITeS businesses (58.4), infrastructure, telecom and energy companies (56.3), and especially the pharmaceutical and healthcare sector (51.8) have all slid over 20 points down this scale (Chart 2).

In terms of business parameters, sales (66.6, down from 71.7) (Chart 3) and new orders (65.7, easing from 73.4) (Chart 4) are both weaker than in the June-ending quarter, though still in the high-60s, signalling overall sturdiness. The real areas of worry are profitability (56.8, from 66.9 a quarter ago) (Chart 5), capacity utilisation (61.3, from 67.8) (Chart 6), and net hiring (51.5, 10 points lower than in Q1) (Chart 7). All three are at their lowest levels since end-2015, indicating that margins are under pressure, that spare capacity is rising, and that





businesses are reluctant to build up their workforces ahead of demand. Corroborating this downbeat view is a slump in our measures of capex spends (Chart 8).

Sector-wise, BFSI is at the top of the pile in terms of business performance and confidence. In terms of sales (still in the high 70s), order books (75), profitability (72) and capacity utilisation (72), the sector is holding steady, even if hiring (61, down nearly 5 points) is softening. Similarly, IT is holding firm at a headline level, with little movement in its order books, capex, and capacity utilisation rates, and rising sales. IT firms, however, are reporting a drop in profitability (down to the high 50s) and new hiring (an 8-point decline to 63). An overall decline in business confidence among services firms is led by an all-round softening of sales, order books, profitability, and capacity utilisation, but balanced by a small pick-up in capex.

While holding steady on sales (unchanged) and order books (up marginally), ITeS is seeing a continued drop in profitability, capacity utilisation, hiring, and capex. Also in the doldrums are our four remaining sectors: consumer goods, industrials, infrastructure, energy and telecom firms, and pharmaceuticals and healthcare. All four are seeing a steep climb-down in most areas. ■