Business confidence down 4.5% in January-March quarter

84th quarterly survey conducted in March registered BCI of 114.1 points in quarter ending March vs 119.7 points in Q3 2012-13

After the dismal gross domestic product (GDP) numbers released last week and the fall in the Purchasing Managers' Index for manufacturing announced by HSBC yesterday, the economy has received another setback.

In the quarter ended March, the Business Confidence Index dropped 4.5 per cent compared to the previous quarter, according to a National Council of Applied Economic Research (NCAER)-MasterCard survey.

According to the 84th quarterly survey, conducted in March, the index stood at 114.1 points, against 119.7 points in the previous quarter.

During the same period, the political confidence index registered a slight improvement.

"The firm level indicators reveal lower expectations of improvement in domestic sales, production, imports, exports and pre-tax profits in the next six months, contributing to lower business confidence among industrial units," the survey said.

Shashanka Bhide, senior research counsellor, NCAER, said the survey showed the sluggish pace of industrial and services output during the quarter.

He, however, added, "The resistance of the firm level indicator of capacity utilisation and the overall sentiment on growth in the short term are important positive signs.

Policy support to strengthen these positive aspects of business confidence would hasten industrial growth recovery."

The index of business confidence measures business confidence for four equal indicators—overall economic conditions six months ahead, financial position of firms six months ahead, the investment climate and the level of current capacity utilisation.

Of the four, the ratings on investment climate and financial position show a decline, while those on capacity utilisation and expectations on economic conditions show improvement in the short term.

The survey added input costs, including those on raw material, labour, electricity and ex-factory prices per unit of output, are expected to increase in the next six months.
However, the survey said the current scenario (after the survey was completed) had changed and the overall business sentiment had improved.

"One key reason could be the significant fall in headline inflation in April to 4.89 per cent - the lowest in the last three years.

Hopes of an interest rate cut and lower inflation have also brought back some of the sheen to the stock market, though this has been tempered by rising gold imports, which have widened trade and current account deficits," the survey said.

The political confidence index, which provides a measure of the business sector's confidence in the management of economic policies, has improved consistently since October 2012.

In the quarter ended March, it rose 15.5 points to 94.3 points, against 78.8 in the previous quarter. "Six of the eight indicators show improvement in the current round.

The uptick suggests some improvement in the perceptions of the capability of the government to manage various economic policies," the survey said. According to data released last week, GDP growth in 2012-13 stood at a decade-low of five per cent. The HSBC Purchasing Managers' Index for May showed manufacturing output fell to 50.1 points.

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Business confidence drops once again, says the latest NCAER-MasterCard Survey

Continuing the slide in overall business confidence, the latest Business Expectations Survey (BES) of the NCAER (National Council of Applied Economic Research) - MasterCard Worldwide Index™ of Business Confidence exhibits a decline of more than four percentage points over the previous quarter.

The present survey has registered the fourth consecutive drop in the current financial year from Q1 FY 2012-13 and the biggest fall in the last four financial years. The 84th survey in the series, conducted in March 2013, has registered a Business Confidence Index (BCI) of 114.1 points as compared to 119.7 points in January 2013. At the same time, the Political Confidence Index (PCI) registered a slight improvement.

In a fast-changing Indian economic and political landscape, these survey results need to be understood in the light of current realities.

Since the survey in March 2013, the overall business sentiment at first glance seems to have improved. One key reason could be the significant fall in headline inflation in April to 4.89 per cent – the lowest in the last three years. Hopes of an interest rate cut and lower inflation have also brought back some of the sheen to the stock market, though this has been tempered by rising gold imports that have widened the trade and current account deficit.

Despite an overall decline in the quarter under consideration, some mixed trends are also visible in the latest BES
• Of the four components of the BCI, the ratings on investment climate and financial position show a decline while the ratings on capacity utilisation and expectations on economic conditions improve in
the short run.

- In contrast to the BCI, the Political Confidence Index (PCI) shows an improvement by 15.5 points in April 2013 over the last quarter.
- The firm-level indicators reveal lower expectations of improvement in domestic sales, production, imports, exports, and pre-tax profits in the next six months contributing to lower business confidence among industrial units. The input costs, including raw material, labour, electricity and ex-factory prices per unit of output, are expected to increase in the next six months.
- Growth has been slow during the past two years, but this is the second lowest in the past decade after January-March 2009. This is mainly due to the slowdown witnessed in the mining and services sectors. The significant slowdown in GDP growth is a major concern for the economy. Another disappointing aspect of the current economic situation is the increasing Current Account Deficit.

Dr. Shashanka Bhide, Senior Research Counselor, NCAER, notes, “The survey findings capture the sluggish pace of industrial and services output in the quarter ending March 2013. However, the resistance of firm level indicator of capacity utilisation and overall sentiment on growth in the short term are important positive signs. Policy support to strengthen these positive aspects of business confidence will hasten industrial growth recovery.”

Sectoral Business Confidence

There is a decline in business optimism in four out of five major sectors of the economy in the current quarter compared to the previous quarter. The only sector which has registered improved optimism is the consumer durables sector.

Notably, the current round of BCI is the highest in the consumer durable sector at (126.2), followed by the services sector (120.9) capital goods sector (116.4) and consumer non-durables (110.9). The intermediate goods sector again recorded the lowest BCI of all at 105.3. Contributing to the declining business confidence are the investment climate and muted expectations for financial conditions to improve.

Regional Patterns of Business Confidence

The present round of BCI echoes the declining sentiments at the regional level in three out of the four regions. The fourth region (West) shows an improvement over the last round. But there is a paradox here. Overall, BCI is the highest in North (124.2) followed by East (121.3) and South (118.6). The West registered the lowest BCI of all at 88.4 in April 2013, despite the fact that it is the only region that exhibits higher optimism in the present survey. The main reasons for the improved business sentiments in West are the lower base and a decline in only one of the BCI indicators. Although the remaining three indicators of the BCI have registered an increase, the proportions of favourable respondent firms are much lower than the percentages in other regions.

Business Confidence by Size of Firm and Ownership Type

The present survey reflects lower optimism across firms of all sizes. BCI in the largest firms is at 121.5. This is followed by medium sized firms at 115.4 and the smallest size firms at 97.6.

With regard to BCI categorised according to the ownership, while private limited and public limited firms show a decline of 5.2 and 10 per cent respectively over the last round, public sector and partnership firms show an improvement of nearly 3 per cent each.

Political Confidence Index (PCI)

The Political Confidence Index (PCI) provides the measure of confidence of the business sector in the political management of economic policies. Contrary to the trend in the overall BCI, the Political Confidence Index (PCI) has improved consistently since October 2012. It shows an improvement of
15.5 points from 78.8 in January 2013 to 94.3 in the present quarter. Six out of eight indicators of PCI show improvement in the current round. The uptick suggests some improvement in the perceptions of capability of the government to manage various economic policies.