PRESS RELEASE

NCAER’s Business Confidence Index surged by 16.3% in the Second Quarter of 2018–19

NCAER’s Business Expectations Survey

New Delhi (Tuesday, 4 December, 2018): The 106th round of the Business Expectations Survey (BES) showed that the Business Confidence Index (BCI) registered a rise of 16.3 per cent in October over July 2018 on a quarter-on-quarter (q-o-q) basis after a steep fall of 12.9 per cent in July 2018 over April 2018. Further, the BCI rose by 12.3 per cent on a year-on-year (y-o-y) basis.

The rise in the BCI is driven by improvement in sentiments in all the four components, where all four have equal weights in the composition of the BCI. The turnaround in BCI in October 2018 was mainly driven by components dealing with expectations about the future, namely, ‘overall economic conditions will improve in the next six months’ and ‘financial position of the firms will improve in the next six months’. The components pertaining to the present economic sentiments showed moderate improvement between July and October 2018.

Although the business sentiments of firms across sectors showed an improvement in all types of firms in October over July 2018, the magnitude of the increase varied across sectors. Consumer goods sectors (both durables and non-durables) that had shown moderate declines as compared to the other sectors in the last round, showed moderate improvement in sentiments in October 2018 over July 2018. The BCIs of the capital goods and services sectors that had declined by a larger percentage in the last round, improved considerably in this round, by as much as 14.2 per cent and 30.3 per cent, respectively, on a quarter-on-quarter (q-o-q) basis.

A significant improvement across three of the regions was seen in the BCI on a q-o-q basis, with the BCI of the North increasing the maximum, by as much as 34.4 per cent. Incidentally, this region had shown the maximum fall in BCI during the last round. The magnitude of increase had also been significant in the West and South in October over July 2018 with the BCI rising by 17.1 per cent and 11.9 per cent, respectively, in these two regions.

All the firm groups across firm size showed an improvement in business sentiments between July and October 2018, though the degree of improvement varied. The sharpest
increase in BCI was seen in the mid-sized firms (belonging to the ₹10–100 crore and the ₹100–500 crore firm groups) where the BCI increased by 26.7 per cent and 24.7 per cent, respectively. The largest firm groups (with turnovers of more than ₹500 crore) registered a moderate increase of 4.1 per cent in the BCI.

All the four firm groups across ownership type showed an increase in the BCI between the 105th and 106th rounds, with three of them showing a double-digit rise. Public sector companies showed the maximum rise of 28 per cent. The BCI of the private limited and public limited firm groups also rose significantly by 16.1 per cent and 25.4 per cent, respectively, between July and October 2018 on a q-o-q basis. In all the firm groups, the components dealing with future business sentiments, namely, ‘the overall economic conditions will be better in the next six months’ and ‘the financial position of the firms will improve in the next six months’ showed the maximum improvement in sentiment.

Overall, the sentiments regarding production, domestic sales, imports of raw materials, and pre-tax profits remain buoyant in October over July 2018. However, expectations about exports prospects remained subdued, a reflection of the uncertain global economic developments. The situation regarding labour employment during the last three months had been subdued, with declining employment across labour type. However, future expectations about employment were buoyant with increased expectations about employment across labour types.

Political sentiments improved in October over July 2018 with the Political Confidence Index (PCI) showing a q-o-q rise of 26.6 per cent. The outlook was encouraging with expectations pertaining to five components showing a significant improvement while those concerning three components showed a moderate worsening in sentiments over the last quarter. The components that showed significant increase in percentage of positive responses in the order of magnitude of change in percentage points were: ‘external trade negotiations’, ‘managing the overall economic growth’, ‘pushing economic reforms forward’, ‘managing government finances’, and ‘managing a conducive political climate’. Sentiments with regard to the components ‘managing the exchange rate’, ‘managing inflation’, and ‘managing unemployment’ showed worsening between July and October 2018.
**Brief Note on Methodology:** The National Council of Applied Economic Research (NCAER) has been conducting the Business Expectations Survey (BES) every quarter since 1991. It tracks the business sentiments of around 600 Indian companies to compute the composite Business Confidence Index (BCI). The survey elicits responses from firms/industries across six cities to assess business sentiments in the four regions of India. Delhi NCR represents the North; Mumbai and Pune, the West; Kolkata, the East; and Bengaluru and Chennai represent the South. All industries are adequately represented in terms of ownership type (namely, public sector, private limited, public limited, partnership/individual ownership, and MNCs), industry sector (namely, consumer durables, consumer non-durables, intermediate goods, capital goods, and services sector), and firm size based on their annual turnovers (in the range of less than ₹ 1 crore, ₹ 1 to 10 crores, ₹ 10 to 100 crores, ₹ 100 to 500 crores, and more than ₹ 500 crores). The sample is drawn randomly from various sources and from a list of industries in each city. A sizeable number of units taken in one round are retained in the next round to maintain continuity of the analysis.

The BCI is developed on the basis of responses to four questions. Two of these are devoted to macro factors and the other two to micro factors. All four questions carry equal weight. The BCI is a simple average of all the positive responses in the case of three questions, whereas in the case of the fourth question (on capacity utilisation), an average of the sum of the responses indicating ‘improvement’ and ‘no improvement’ is taken. Thereafter, the BCI is compared with the base value to determine the change. Any increase in the BCI for a particular round is due to the larger proportion of positive responses received in that round. The positive responses may increase for a specific question. An increase in the level of BCI reflects optimism in the business sector with regard to the performance of the economy.

**About NCAER**

NCAER, the National Council of Applied Economic Research, is India’s oldest and largest independent economic think-tank, set up in 1956 at the behest of Prime Minister Jawaharlal Nehru, to inform policy choices for both the public and private sectors. Over the past six decades, NCAER has served the nation well with its rich offering of applied policy research, unique data sets, evaluations, and policy inputs to central and state governments, corporate India, the media, and informed citizens. It is one of a few independent think-tanks world-wide that combines rigorous economic analysis and policy outreach with data collection capabilities, particularly for large-scale household surveys. NCAER is currently led by its Director-General, Dr Shekhar Shah, and governed by an independent Governing Body chaired by Mr Nandan M. Nilekani.

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