PRESS RELEASE

NCAER’s Business Confidence Index fell by 9.1% in the Fourth Quarter of 2018–19

NCAER’s Business Expectations Survey

New Delhi (Tuesday, June 4, 2019): After declining by 4.6 per cent on a quarter-on-quarter (q-o-q) basis in January 2019, the downturn in the Business Confidence Index (BCI) gained strength in April 2019. The BCI further fell by 9.1 per cent to reach 115.4 in April 2019 (Figure 1.1), on a q-o-q basis. On a year-on-year basis, the BCI fell by 12.2 per cent.

The BCI is made up of four components, who all have equal weights in the computation of the index. The four components are “overall economic conditions will be better in next six months”, “financial position of the firms will improve in next six months”, “present investment climate is positive” and “present capacity utilisation is close to or above optimal level”. Sentiments remained virtually unchanged for the first component and worsened for the remaining three. The percentage of positive responses on “present investment climate is positive” fell from 46.7 per cent in January 2019 to 37.5 per cent in April 2019.

The BCIs declined in all the sectors on a q-o-q basis signalling a pervasive worsening of sentiments. After showing improvement in January 2019, the BCIs of consumer durables and consumer non-durables sectors declined by 12.1 and 15.9 per cent respectively, on a q-o-q basis.

All the four regions showed decline in BCI on a q-o-q basis between January and April 2019, with the East showing the steepest fall in BCI by 17.3 per cent. The magnitude of decline in BCI between the 107th and 108th round in the West, North and South were 8 per cent, 3.6 per cent and 8.7 per cent, respectively.

All firm groups across firm size showed deterioration in business sentiments between January and April 2019, however, degree of fall varied. The sharpest decline in BCI had been seen in the small-sized firms (less than ₹1 crore and ₹1–10 crore firm group) where the BCI decreased by 11 per cent and 14 per cent, respectively. The remaining three firm groups registered single digit decline in BCI. MSME firms bore the burden of the decline.

All firm groups across ownership type showed decrease in BCI between the 107th and 108th rounds. The Public Sector companies that had showed increase in
BCI between October 2018 and January 2019 also fell by 5.3 per cent in April 2019, on a q-o-q basis. The BCI of the partnership/individual owned firms showed the minimum fall of 2.1 per cent in BCI between the two rounds. Maximum fall of 11.8 per cent was recorded by the Public limited companies.

Overall, sentiments regarding production, domestic sales, expectations about exports and imports of raw materials and pre-tax profits remained muted in April over January 2019 with variations seen across firm groups. Consumer non-durables sector showed relatively worsening trend with regard to production, sales and pre-tax profits between the two rounds. The situation regarding labour employment during the last three months had been mixed. However, future expectations about labour employment were buoyant with increased expectations about rising employment across labour types.

The Political Confidence Index (PCI) that had shown a persistent negative trend since July 2017, showed a turnaround in April 2019. The PCI showed a q-o-q rise of 12.4 per cent in April 2019. The outlook was encouraging with expectations pertaining to six components showing significant improvement, one showing no change in sentiments and one showing a decline in sentiments between the two periods. The components showing an increase in positive responses in the order of magnitude of change in percentage points were: ‘managing overall economic growth’, ‘managing conducive political climate’, ‘pushing economic reforms forward’, ‘managing inflation’, ‘managing government finance’, and ‘managing the exchange rate’. Sentiments with regard to the components, ‘external trade negotiations’ declined and that with regard to ‘managing unemployment’ remained unchanged between January and April 2019.

![NCAER Business Confidence Index, April 2016 to April 2019](image)

*Source: NCAER.*
**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 Business Confidence Index (BCI) is developed on the basis of responses to four questions. Two of these are devoted to macro factors and another 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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