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PRESS RELEASE

Business Confidence Index up 5.5% in Q1 2019–20: NCAER's Business Expectations Survey

New Delhi (Friday, 30 August 2019): NCAER's Business Confidence Index (BCI), an indicator of business sentiments across Indian industry, made a turnaround in July 2019, registering a rise of 5.5% in July on a quarter-on-quarter (q-o-q) basis after two consecutive dips in January & April 2019. Further, the BCI rose 6.5% on a year-on-year basis in the first quarter of 2019-20. This is based on the 109th Round of the Business Expectations Survey (BES) carried out by NCAER, the National Council of Applied Economic, India's premier economic policy research and macroeconomics think tank.

The numbers suggest an improvement in short-term business sentiments. The four components each of which has equal weightage in the BCI are: · *the overall economic conditions will be better in the next six months* · *the financial position of firms will improve in next six months* · *the present investment climate is positive* · *the present capacity utilisation is close to or above optimal*. Business sentiment on three of the four components showed an upswing while '*the present capacity utilisation is close to or above optimal level*' registered no change.

Firms were clearly more optimistic about future business prospects, specifically on better overall economic conditions and the healthier financial positions of firms, as reflected in the marked improvement of 5.5 and 4.7 percentage points, respectively, in these parameters. The percentage of positive responses to '*the present investment climate is positive*' component rose from 44.2 per cent in April 2019 to 48.8 per cent in July 2019.

The NCAER BCI by sector

Of the five sectors covered by NCAER's BES, Consumer Non-durables, Consumer Durables, Intermediate Goods, Capital Goods and Services, four showed an increase in business confidence. Only Consumer Durables registered a moderate decline of 2.1 per cent between April and July 2019, while Consumer Non-durables showed the largest increase of 9.5 per cent between the two periods. The BCI of the remaining three sectors, Intermediate Goods, Capital Goods, and Services registered single-digit increases of 5.7 per cent, 6.8 per cent, and 7.6 per cent, respectively.

The NCAER BCI by region

Of the four regions represented by six cities, three saw an increase in BCI on a q-o-q basis between April and July 2019. The Eastern Region registered the steepest rise of 17.3 per cent between April and July 2019, followed by the Western Region at about 12.2 per cent. The

BCI of the Northern Region showed a marginal q-o-q increase of 1.7 per cent in July 2019. The only region that bucked the trend was the South, which showed a decline of 6.7 per cent.

The NCAER BCI by firm size

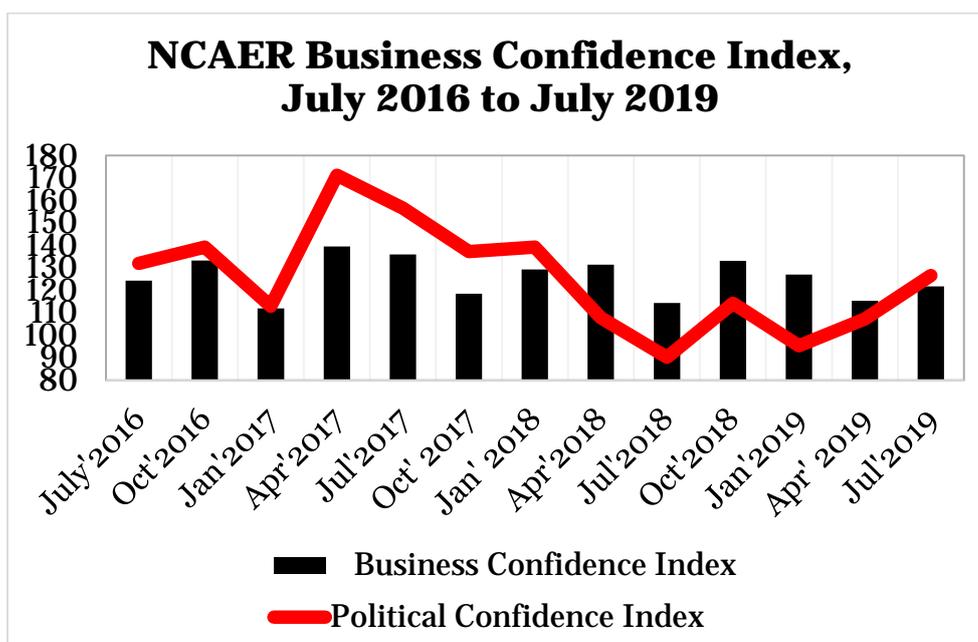
The BES July 2019 showed that business sentiments had a direct correlation with the size of firms. The BCI of firms with annual turnovers of Rs 1-10 crore, Rs 10-100 crore, Rs 100-500 crore and Rs 500 crore and above improved by 2.3%, 6.6%, 11.2% and 15.7%, respectively, whereas firms with annual turnover less than Rs 1 crore saw their BCI falling on a q-o-q basis by (-)10.3 per cent. The firms below Rs 1 crore turnover showed the worst business confidence, possibly because they are still bearing the burden of the economic slowdown.

The NCAER BCI by ownership-type

The Business Confidence Index of public limited companies showed the maximum rise of 12.7 per cent, followed by the private limited companies whose BCI rose by 7.6 per cent between the two periods. Public sector companies registered a fall of 19 per cent while partnership/individual owned firms showed no change in business sentiments.

Overall, sentiments regarding production, domestic sales, exports, and pre-tax profits remained buoyant in July over April 2019, with variations seen across various firm groups. Consumer durables was the only sector showing a relatively worsening trend with regard to production, sales, exports, and pre-tax profits between the two rounds. The services sector was markedly positive about domestic sales, exports and pre-tax profits. Expectations regarding the import of raw materials remained muted in all the manufacturing sectors. Sentiments regarding labour employment had been subdued during the last three months. There was decline in employment for managerial/skilled, unskilled and permanent labour and increase in employment only for casual/temporary labour. Further, future expectations about labour employment were also subdued, with a decrease in expectations about rising employment across all labour types.

The Political Confidence Index continued with its upward momentum and showed a q-o-q rise of 18 per cent between April and July 2019.



Source: NCAER Business Expectation Surveys.

Brief Note on Methodology: NCAER, the National Council of Applied Economic Research has been conducting the Business Expectations Survey every quarter since 1991. It tracks the business sentiments of around 600 Indian companies to compute the composite Business Confidence Index. 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 (public sector, private limited, public limited, partnerships/individual ownership firms, and multinational corporations or MNCs), industry sector (Consumer Durables, Consumer Non-durables, Intermediate Goods, Capital Goods, and Services), and firm size based on their annual turnover (in the range of less than ₹1 crore, ₹1- 10 crores, ₹10-100 crores, ₹100- 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 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 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 worldwide that combines rigorous economic analysis and policy outreach with deep 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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