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PRESS RELEASE

Business Confidence Index dips 15.3% in Q2 2019-20: NCAER's Business Expectations Survey

New Delhi (Monday, 11 November 2019): NCAER's Business Confidence Index (BCI), an indicator of business sentiments across Indian industry, stood at 103.1 in Q2 2019-20 continuing its volatile journey, falling by 15.3 per cent in October on a quarter-on-quarter (q-o-q) basis, despite a small reprieve in July 2019. It fell by 22.5 per cent on a year-on-year (y-o-y) basis in the second quarter of 2019-20. This is based on the 110th Round of the Business Expectations Survey (BES) carried out by NCAER, the National Council of Applied Economic Research, India's premier economic policy research and macroeconomics think tank.

The numbers suggest a deep and all-pervasive worsening of 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 the next six months*
- *the present investment climate is positive*
- *the present capacity utilisation is close to or above optimal.*

The fall in the BCI in October 2019 was driven by a deterioration in sentiments across all four components.

The steepest decline was for the component, "*the overall economic conditions will improve in the next six months*", where the share of positive responses fell from 58.9 per cent in July 2019 to 46.3 per cent in October 2019. The percentage of respondents expecting that "*the financial position of firms will improve in the next six months*" decreased from 48.8 per cent in July 2019 to 39.3 per cent in October 2019. The muted business sentiment was further reinforced by the barely 32.5 per cent of the respondents who believed that "*the present investment climate is positive compared with six months ago*" while the component of '*present capacity utilisation is close to or above optimal level*' dropped by 86.2 per cent to an all-time low since July 2009.

The NCAER BCI by sector

All the five sectors covered by NCAER's BES, Consumer Non-durables, Consumer Durables, Intermediate Goods, Capital Goods and Services, showed a deterioration of business sentiments. The BCI of each of the sectors registered double-digit decreases of 11.4 per cent, 11.4 per cent, 21.4 per cent, 18.3 per cent and 13.1 per cent respectively (on a q-o-q basis) in October 2019.

The NCAER BCI by region

Of the four regions represented by six cities, three showed a decrease in the BCI on a q-o-q basis between July and October 2019. The western region witnessed the steepest fall of 36.4 per cent between the two periods, followed by the east with a fall of 17 per cent. The BCI of the northern region showed a marginal q-o-q decrease of 6.3 per cent in October over July

2019. After falling for two consecutive rounds in April 2019 (8.7 per cent) and July 2019 (6.7 per cent), the BCI of the South increased by 2 per cent in October 2019 on a q-o-q basis.

The NCAER BCI by firm size

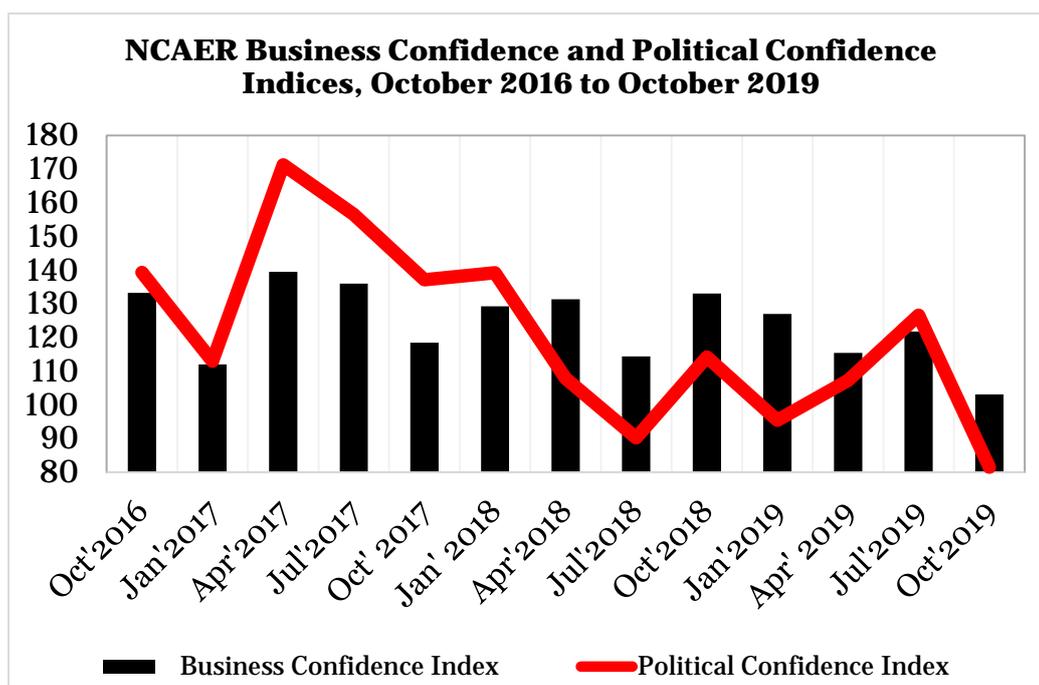
The BCI figures across firm size declined on a q-o-q basis for four of the five groups between July and October. Firms with annual turnovers of less than ₹1 crore or micro firms was the only group that showed a slight upswing of 2 per cent in BCI on a q-o-q basis between the two periods. Interestingly this was the only group that had shown a decline in BCI between April and July. Firms with annual turnovers of ₹10-100 crores registered the maximum fall of 20.6 per cent in BCI followed by ₹100-500 crores and ₹1-10 crores firm groups with 17.6 per cent and 14 per cent respectively.

The NCAER BCI by ownership-type

The BCI of firms across ownership type declined in three groups, whereas that of public sector companies rose by a significant 15.6 per cent between July and October 2019. Partnerships/individual owned firms showed the biggest dip of 21.5 per cent in BCI between the two periods, followed by the private limited and public limited companies with 14.4 per cent and 11.3 per cent respectively.

Business sentiments regarding production, domestic sales, exports, imports of raw materials and pre-tax profits remained subdued in October over July 2019, among all firm groups across industry type, in line with the overall trends. The labour market outlook for the next six months continued to remain muted.

After two consecutive increases in the Political Confidence Index (PCI) in April 2019 (12.4 per cent) and July 2019 (18 per cent), it fell by 35.6 per cent between July and October 2019 on a q-o-q basis. The number of positive responses on all the components assessed in this index fell between the two quarters of July and October 2019. The eight components were “managing overall economic growth”, “managing exchange rate”, “pushing the economic reforms forward”, “managing government finance”, “managing conducive political climate”, “external trade negotiations”, “managing unemployment”, and “managing inflation”.



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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