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PRESS RELEASE

Business Confidence Index fell by 40% in Q1 of FY2020-21: NCAER's Business Expectations Survey

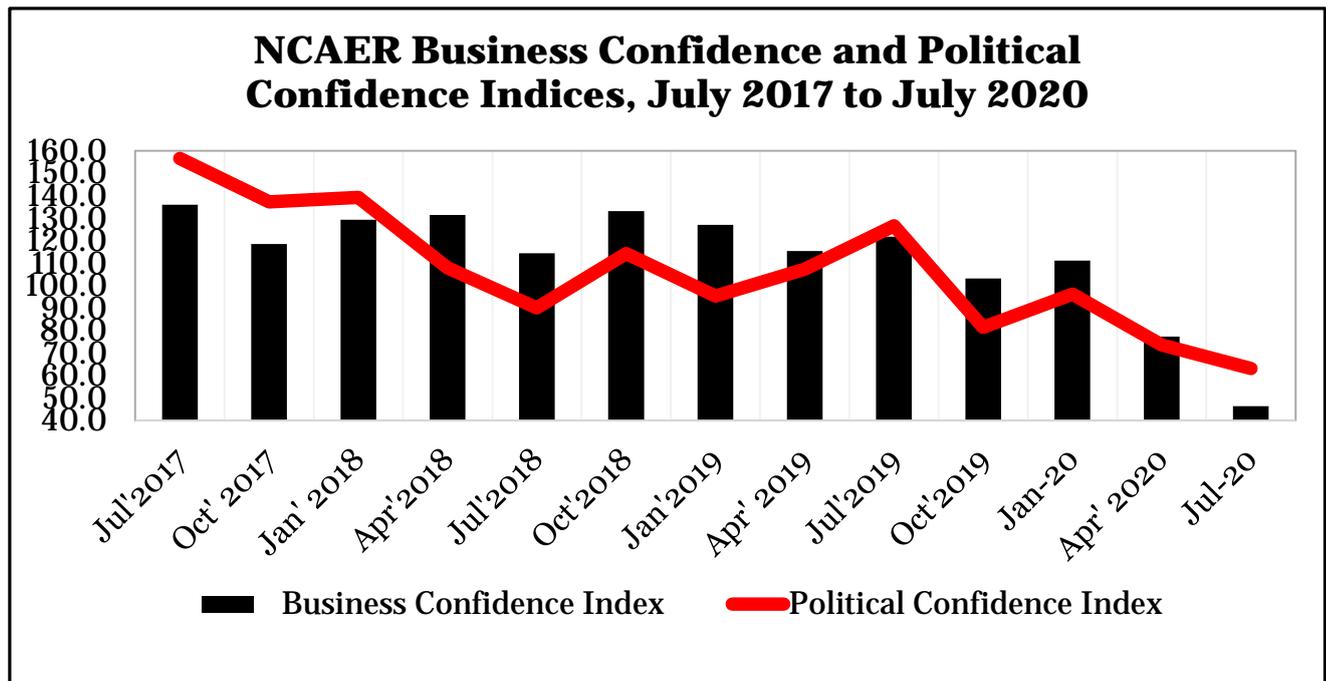
New Delhi (Friday, August 7, 2020): NCAER's Business Confidence Index (BCI), an indicator of business sentiment across Indian industry, stood at 46.4 in Q1 of 2020-21, a drop of 40.1% from its level of 77.4 in Q4: 2019-20. It fell by (-) 62% on a year-on-year (y-o-y) basis. This is the lowest that the BCI has ever fallen in the history of 113 Rounds of the NCAER Business Expectations Survey (BES). The decline of 40.1% in the BCI came on the back of a decline in the BCI in April 2020 by (-) 30.4% on a quarter-on-quarter (q-o-q) basis.

The BES has been carried out on a quarterly basis since 1991 by the National Council of Applied Economic Research (NCAER), India's premier economic policy research and think tank.

The latest, 113th Round of the BES was carried out in June 2020, when the country had started slowly opening up after more than two months of lockdown due to the outbreak of the novel coronavirus (technically SARS-COV-2), following which, the spread of the disease accelerated. By the time the BES was fielded, the Index of Industrial Production for April-May on a y-o-y basis for General had fallen by (-) 46.2% and Manufacturing by (-) 53.2%.

The BCI is driven by four components, with equal weights in the Index: '*overall economic conditions will improve in the next six months*', '*financial position of firms will improve in the next six months*', '*present investment climate is positive as compared to six months ago*', and '*present capacity utilisation is close to or above the optimal level*'. The change in the percentage share of positive responses on a q-o-q basis tells us how sentiments have changed. In the latest BES Round:

- The proportion of respondents expecting that 'overall economic conditions will improve in the next six months' fell by (-) 9 percentage points, from 26.1% to 17.1% between Q4: 2019-20 and Q1:2020-21.
- The proportion of respondents expecting that 'financial position of firms will improve in the next six months' decreased by (-) 7.7 percentage points, from 27.5% in Q4: 2019-20 to 19.8% in Q1: 2020-21.
- The proportion of respondents saying that 'present investment climate is positive compared to six months ago' fell from 19.5% in Q4: 2019-20 to 15.2% in Q1: 2020-21, exhibiting a fall of (-) 4.3 percentage points.
- The proportion of respondents saying that 'present capacity utilisation is close to or above the optimal level' decreased by (-) 43 percentage points from 80.3% in Q4: 2019-20 to 37.2% in Q1: 2020-21.



Source: NCAER Business Expectations Surveys.

The NCAER BCI by Sector

There was an across-the-board decline in sentiments on a q-o-q basis in Q1: 2020-21 for all five sectors that the BES covers. The BCI for the *consumer durables* sector fell by (-) 38.2%, for the *consumer non-durables* sector by (-) 41.4%, for the *intermediate goods* sector by (-) 60.3%, for the *capital goods sector* by (-) 30.7%, and for the *services sector* by (-) 35.2%.

The NCAER BCI by Region

The regional variation in business sentiments increased in Q1: 2020-21. The BCI for North India (represented in the BES by Delhi NCR) increased by 25.1% in Q1: 2020-21 over that of Q4: 2019-20. The BCI for East India (represented by Kolkata) and West India (Mumbai and Pune) fell by (-) 89.3% and (-) 68.1%, respectively, over those of Q4: 2019-20. The BCI for South India (represented by Bengaluru and Chennai) in July 2020 was 53.9 but unfortunately, due to logistical challenges posed by the lockdown in March and April 2020, the BES could not collect data from a representative sample from South India in March 2020.

The NCAER BCI by Firm Size

There was an across-the-board decline in business sentiment for all five firm-size groups (based on their annual turnovers) on a q-o-q basis in Q1: 2020-21. During this quarter, the BCI fell by:

- (-) 27.1% for firms with annual turnovers of less than ₹1 crores;
 - (-) 39.8% for firms with annual turnovers of ₹1 to less than 10 crores;
 - (-) 51.6% for firms with annual turnovers of ₹10 to less than 100 crores;
 - (-) 42.4% for firms with annual turnovers of ₹100 to less than 500 crores;
- and

- (-) 46.7% for firms with annual turnovers of ₹500 crores or more.

The NCAER BCI by Firm Ownership

The BCI for private limited companies fell by (-) 34.8% in Q1: 2020-21 from the previous quarter, the BCI of public limited companies fell by a much greater (-) 47.4%, and the BCI for partnerships/individually owned companies fell by an even larger (-) 48.3%.

Trends in Firm-specific Business Outlook Indicators

Business sentiment regarding production, domestic sales, exports, new orders, imports of raw materials, and pre-tax profits further dampened in Q1: 2020-21. The share of firms expecting the costs of raw materials per unit of output to rise over the next six months (a sign of increasing supply costs) fell from 69.4% in Q4: 2019-20 to 56.7% in Q1: 2020-21.

The share of firms reporting a decline in employment of *unskilled* labour over the last three months rose from 6.7% in Q4:2019-2020 to a whopping 46% in Q1: 2020-21. The corresponding figure indicating a fall in employment of *skilled* labour increased from 4.3% in Q4: 2019-20 to 18.2% in Q1: 2020-21. For casual/temporary labour, the share of firms responding that employment had decreased rose from 7.5% in Q4: 2019-20 to a staggering 44.7% in Q1: 2020-21. For permanent workers, the share of firms responding that employment had decreased rose from 2.6% in Q4: 2019-20 to 30.2% in Q1: 2020-21.

Sentiments for labour markets over the next six months remain subdued. The share of firms which expect no change in labour employed over the next six months for managerial/skilled labour was 77% in Q1: 2020-21. The corresponding numbers for unskilled labour, casual/temporary labour and permanent were 58%, 59.3%, and 76.4% respectively.

The NCAER PCI

The BES' Political Confidence Index (PCI) fell from 73.7 in Q4: 2019-20 to 63.1 in Q1: 2020-21, falling by (-) 14.4% on a q-o-q basis and by (-) 50.1% on a year-on-year (y-o-y) basis.

The following five components showed deterioration in the PCI: '*managing overall economic growth*', '*managing government finance*', '*managing a conducive political climate*', '*external trade negotiations (both bilateral /multilateral)*' and '*pushing economic reforms forward*'. However, business sentiment improved on the following three components: '*managing inflation*', '*managing unemployment*', and '*managing the exchange rate*'.

Methodology: NCAER, the National Council of Applied Economic Research, has been conducting the BES every quarter since 1991. It tracks the business sentiments of around 600 Indian companies to compute the composite BCI. The survey elicits responses from firms 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); industry sector (consumer durables, consumer non-durables, intermediate goods, capital goods, and services); and firm size based on the annual turnovers of the firms (in the range of less than ₹1 crore, ₹1 to less than 10 crores, ₹10 to less than ₹100 crores, ₹100 to less than 500 crores, and more than ₹500 crores). The sample is drawn randomly from various sources and from a list of firms 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 based on responses from firms to four questions. Two focus on macro factors and the other two on micro factors. All 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 'status quo' is taken. Thereafter, the BCI is compared with the base value (100 in Round 7) to determine the change. An increase in the level of the BCI reflects optimism in the business sector (i.e. larger share of positive responses) about 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 world-wide 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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