

**NATIONAL COUNCIL OF
APPLIED ECONOMIC
RESEARCH**

**The NCAER-NSE
Business Expectations Survey
for India**
Third Quarter 2022–23

Business Confidence Index

Report	January
20230101	2023

The NCAER-NSE Business Expectations Survey for India *Third Quarter 2022–23*

Business Confidence Index

January 2023



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NCAER has been carrying out quarterly surveys of Business Expectations in India since 1992.

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The findings, interpretations, and conclusions expressed are those of the authors and do not necessarily reflect the views of the Governing Body of NCAER or NSE.

Contents

<i>Study Team</i>	<i>iii</i>
<i>Executive Summary</i>	<i>v</i>
1. NCAER-NSE Business Confidence Index Moderates in 2022–23:Q3 compared to 2022–23:Q1 and Q2	1
2. Trends in Firm-specific Business Outlook Indicators	4
<i>Annexure 1</i> Survey Methodology	8

Executive Summary

The National Council of Applied Economic Research (NCAER), one of India's premier economic policy research think tanks, carried out the 123rd Round of its Business Expectations Survey (BES) in December 2022, with support from the National Stock Exchange of India Limited (NSE). NCAER has been carrying out the BES every quarter since 1992, covering 500 firms across four regions.

The NCAER-NSE Business Confidence Index (BCI) has recovered from the lows of the pre-pandemic (2019–20) and pandemic years 2020–21 and 2021–22. It is higher at 126.6 in 2022–23:Q3 than it was a year ago at 124.4 in 2021–22:Q3. However, sentiments continued to soften sequentially in the first, second and third quarters of 2022–23.

Sentiments pertaining to firms' own conditions softened between the two rounds on 'financial position of firm will improve in the next six months' and 'present capacity utilisation is close to or above optimal level'. In contrast, sentiments relating to macro conditions either improved (overall economic conditions will improve in the next six months) or remained unchanged (present investment climate is positive).

Sentiments about production, domestic sales, exports, imports of raw materials and new orders improved in 2022–23:Q3 versus 2022–23:Q2, while expectations about ex-factory prices exhibited buoyancy. Despite a larger share of firms expecting ex-factory prices to rise, sentiments about pre-tax profits remained virtually stagnant. Sentiments about hiring of workers and their wage exhibited buoyancy.

Sentiments about increases in unit costs in the next six months remained elevated. The share of firms that expected higher unit costs of labour and electricity went up from the previous round. The good news is that inflation expectations over the next six months show moderation. A larger number of firms expect that inflation will moderate or be lower over the next three months and twelve months.

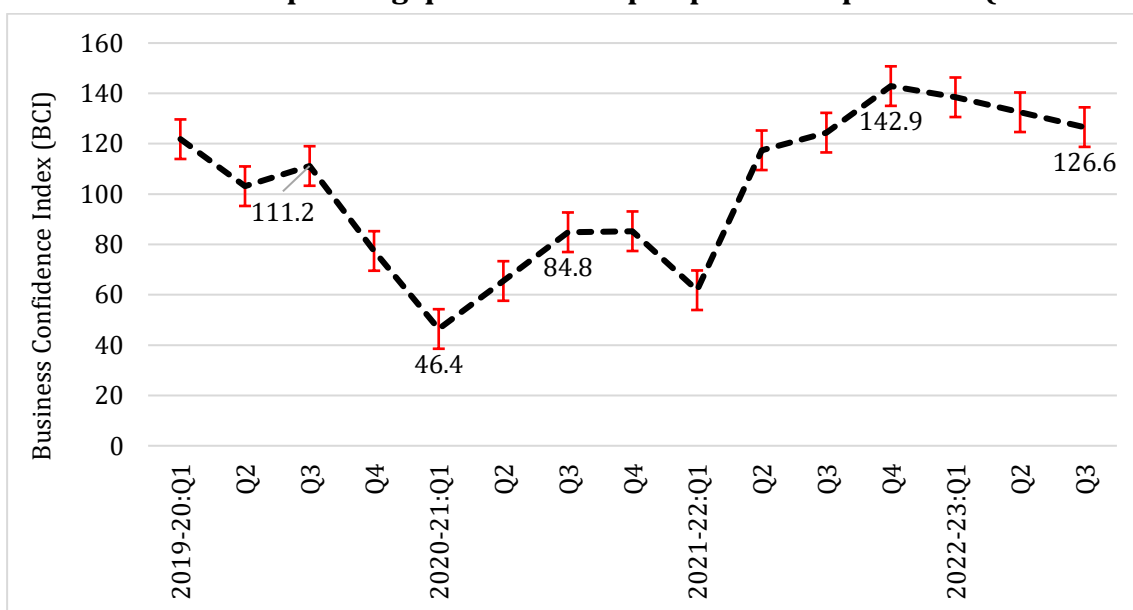
1. NCAER-NSE Business Confidence Index Moderates in 2022–23: Q3 compared to 2022–23: Q1 and Q2

The NCAER-NSE Business Expectations Survey (BES), Round 123, was carried out in December 2022, covering 492 respondents. The BES is composed of the NCAER-NSE Business Confidence Index (BCI)¹. Annexure 1 reports the methodology, sample composition, and summary statistics for the BES.

1.1. The BCI and Its Four Components

The NCAER-NSE Business Confidence Index (BCI) has recovered from the lows of the pre-pandemic (2019–20) and pandemic years 2020–21 and 2021–22. It is higher at 126.6 in 2022–23:Q3 than it was a year ago at 124.4 in 2021–22:Q3. However, sentiments continued to soften sequentially in the first, second and third quarters of 2022–23.

Figure 1.1: Business Sentiments Continue to Soften Sequentially in 2022–23:Q3 but are better than the corresponding quarter in the pre-pandemic period in (2019–20:Q3)



Source: NCAER Business Expectations Survey, several rounds.

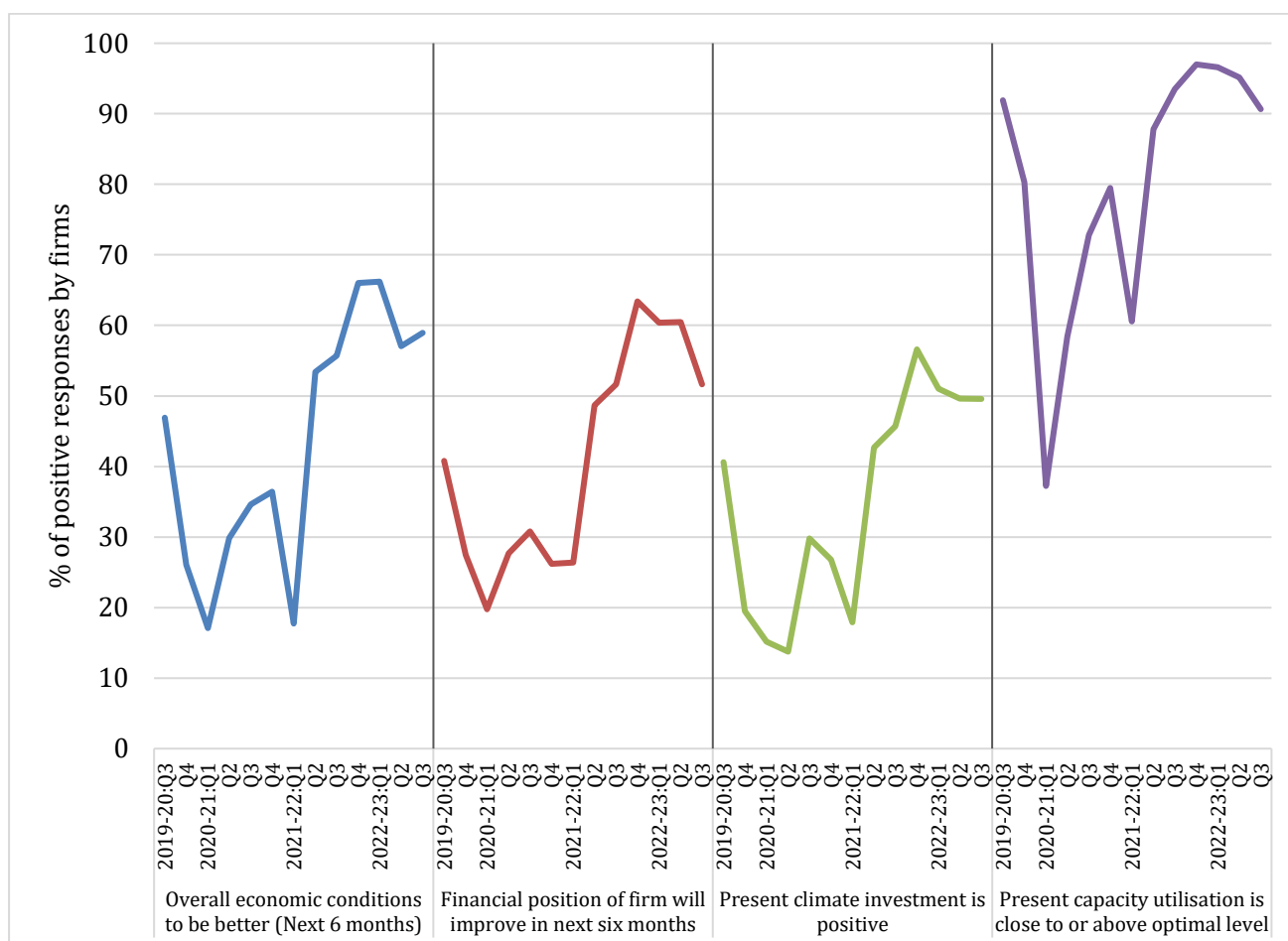
Notes: 1. The survey from Round 119 onwards has been conducted with support from the NSE.

2. The bars in the graph represent error bars.
3. “Business sentiments are typically based on opinion surveys on production, inventory, orders etc. They are used to monitor output growth and anticipate turning points to essentially forecast future economic fluctuations. The advantage of sentiments data are two-fold i.e. they are timely and can capture real time changes. Second, they are not subject to revisions like macroeconomic data.” Bhandari, B., Gupta, S., Sahu, A.K. and Urs, K.S. 2021. “Business sentiments during India’s national lockdown: Lessons for second and potential third wave”. *Indian Economic Review*. 56(2): 335–350. December.

¹ The BCI is estimated on the basis of the percentage shares of positive responses for four components, with each of them being assigned equal weights in the Index.

The BCI is driven by four components, with each of them being assigned equal weights in the Index². Sentiments pertaining to firms' own conditions worsened between the two rounds (Figure 1.2) including 'financial position of firm will improve in the next six months' and 'present capacity utilisation is close to or above optimal level'. In contrast, sentiments relating to macro conditions either improved or remained unchanged. Annexure 1 (Table A1.2) shows the confidence interval for each of these components.

**Figure 1.2: Four Components of the Business Confidence Index
2019–20: Q3 and 2022–23: Q3**



Source: NCAER Business Expectations Survey, several rounds.

Note: Firms are asked to give their responses as 'better', 'same', and 'worse'. Only positive responses ('better' for the first three components and 'better' and 'same' for the fourth component) are taken into account for determining the BCI.

Following are some key findings of the current BES:

- The share of positive responses for the component 'overall economic conditions will be better in the next six months' improved from 57.1 per cent in 2022–23:Q2 to 58.9 per cent in 2022–23:Q3.

² The four components are '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', and 'present capacity utilisation is close to or above the optimal level'.

- Sentiments on the component ‘financial position of the firms will improve in the next six months’ softened between this round and the previous one. The share of positive responses decreased from 60.5 per cent in 2022–23:Q2 to 51.6 per cent in 2022–23:Q3.
- The share of positive responses for the component ‘present investment climate is positive’ remained unchanged between the two rounds.
- The share of ‘better’ and ‘same’ responses for the component ‘present capacity utilisation is close to or above optimal level’ fell from 95.2 per cent in 2022–23:Q2 to 90.7 per cent in 2022–23:Q3.

2. Trends in Firm-specific Business Outlook Indicators

2.1. Business Prospects over the Next Six Months

There was a mixed trend in sentiments about business prospects for the next six months (Table 2.1). While sentiments about production, domestic sales, exports, imports of raw materials, new orders and ex-factory prices improved in 2022–23:Q3 versus 2022–23:Q2, expectations about pre-tax profits remained stagnant. This could be explained by the fact that a larger share of firms expected input costs to rise over the next six months compared to the share of firms expecting their output prices to rise. The percentage of firms expecting unit raw materials, electricity and labour costs to rise during the next six months was 70.3 per cent, 67.3 per cent, and 56.2 per cent, respectively. On the other hand, the percentage of firms expecting their output prices to rise in the next six months was a relatively lower 63.2 per cent. The percentage of firms expecting their profits to rise in the next six months declined marginally from 71.4 per cent in 2022–23:Q2 to 70.4 per cent in 2022–23:Q3.

**Table 2.1: Business Prospects in the Next Six Months (Expected Change)
October 2022 and January 2023**

%age Distribution of Respondents	Round	Decrease	No change	Increase by		
				0–5%	5–10%	>10%
	Prospects of					
Production	January 2023	2.2	10.9	21.2	13.6	52.1
	October 2022	5.0	14.2	18.9	17.5	44.4
Domestic Sales	January 2023	2.6	14.4	20.3	13.9	48.7
	October 2022	4.9	15.7	22.3	18.4	38.7
Exports	January 2023	0.4	16.2	36.6	21.3	25.5
	October 2022	11.2	19.5	27.8	25.9	15.6
Imports of Raw Materials	January 2023	1.3	20.6	35.7	25.2	17.2
	October 2022	8.9	28.8	34.7	18.2	9.3
Pre-tax Profits	January 2023	1.5	28.1	37.3	24.8	8.3
	October 2022	3.1	25.4	30.1	36.4	4.9
Ex-factory Output Price	January 2023	0.0	36.8	39.9	22.0	1.2
	October 2022	0.5	39.6	29.9	28.8	1.6
New Orders	January 2023	0.5	31.0	22.2	19.3	27.1
	October 2022	1.2	33.4	21.7	15.9	27.8

Source: NCAER-NSE Business Expectations Survey, Rounds 122 and 123.

Note: 'New orders' implies the orders being expected by a firm.

2.2. Labour Market Prospects

Labour market prospects remained buoyant. Firms' hiring of workers over the last three months improved in this quarter on a quarter-on-quarter (q-o-q) basis for all types of workers (Figures 2.1 & 2.2, and Table 2.2). The share of firms reporting increased hiring of managerial/skilled workers went up from 55.5 per cent in 2022–23:Q2 to 64.2 per cent in 2022–23:Q3, which was the group that showed the highest buoyancy.

Sentiments about hiring of workers over the next six months improved for all labour types, with a higher share of firms reporting that they were likely to increase hiring of workers in this round compared to the last one. The share of firms reporting that they expect to increase hiring of managerial/skilled and unskilled workers went up from 52.1 per cent and 45.2 per cent, respectively, in 2022–23:Q2 to 56.1 per cent and 50.2 per cent, respectively, in 2022–23:Q3 (Figure 2.1).

While labour market sentiments have improved after the pandemic years 2020-21 and 2021-22, firms’ sentiments about hiring workers have been relatively more buoyant for temporary workers versus permanent ones. This has been the trend in both 2022–23:Q2 and 2022–23:Q3.

Figure 2.1: Sentiments about hiring managerial/ skilled and unskilled workers during the last three months and expectations about the next six months

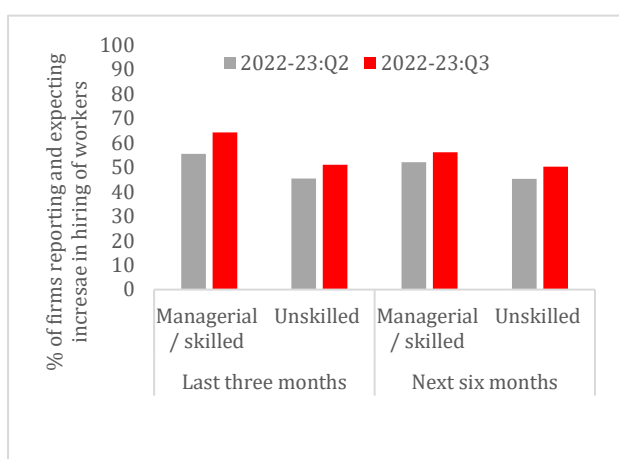
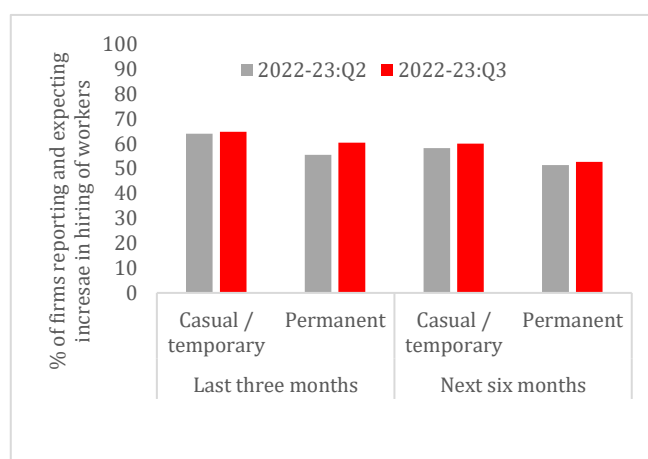


Figure 2.2: Sentiments about hiring casual/ temporary and permanent workers during the last three months and expectations about the next six months



Source: NCAER-NSE Business Expectations Survey, Rounds 122 and 123.

The share of firms reporting an increase in wage rate over the past three months declined between the last round and this one. For unskilled workers, the share of firms reporting an increase in wage rate over the last three months was 52.4 per cent in 2022–23:Q2, which went down to 44.1 per cent in 2022–23:Q3. The corresponding numbers for skilled workers were 53.4 per cent in 2022–23:Q2 and 44.1 per cent in 2022–23:Q3, respectively.

A higher share of firms expect wages to rise over the next six months for both skilled and unskilled workers. Contrary to the wage rates trend experienced over the last three months, the percentage of firms expecting wages to rise in the next six months increased between 2022–23:Q2 and 2022–23:Q3. The share of firms expecting an increase in unskilled workers’ wage rate over the next six months went up from 53.1 per cent in 2022–23:Q2 to 57.6 per cent in 2022–23:Q3. The corresponding numbers for skilled workers were 54.9 per cent and 56.1 per cent, respectively.

Table 2.2: Percentage of Responses in Employment and Wages by Labour Type, January 2023

		<i>Managerial / Skilled</i>	<i>Unskilled</i>	<i>Casual/ temporary</i>	<i>Permanent</i>
Over the Last Three Months					
Employment	<i>Decrease</i>	0.0	0.5	0.7	0.2
	<i>No change</i>	35.8	48.4	34.5	39.4
	<i>Increase</i>	64.2	51.1	64.8	60.4
	<i>Increase by >10%</i>	4.3	2.4	3.4	3.5
Wages	<i>Decrease</i>	0.2	0.2	N.A.	N.A.
	<i>No change</i>	55.6	55.7	N.A.	N.A.
	<i>Increase</i>	44.1	44.1	N.A.	N.A.
	<i>Increase by >10%</i>	10.4	5.6	N.A.	N.A.
Over the Next Six Months					
Employment	<i>Decrease</i>	0.0	0.0	0.2	0.0
	<i>No change</i>	43.9	49.8	39.7	47.4
	<i>Increase</i>	56.1	50.2	60.0	52.6
	<i>Increase by >10%</i>	0.5	1.0	6.7	0.7
Wages	<i>Decrease</i>	0.0	0.0	N.A.	N.A.
	<i>No change</i>	43.9	42.4	N.A.	N.A.
	<i>Increase</i>	56.1	57.6	N.A.	N.A.
	<i>Increase by >10%</i>	22.9	13.6	N.A.	N.A.

Source: NCAER-NSE Business Expectations Survey, Round 123.

The share of firms expecting an increase in ex-factory output price went up moderately from 60.4 per cent in 2022–23:Q2 to 63.2 per cent in 2022–23:Q3. The moderate expectations about a rise in prices of own output of firms is also seen in their perceptions about overall inflation. A relatively larger percentage of firms had expected the inflation rate to settle at a moderate level of >4% & ≤6% (38.4 per cent expected this inflation range in March 2023 and the corresponding figure was 48.2 per cent in December 2023) (Table 2.3). A larger share of firms expects that inflation will moderate or be lower over the next three months and twelve months.

Table 2.3: Current and Expected Inflation Rate (% of firms)

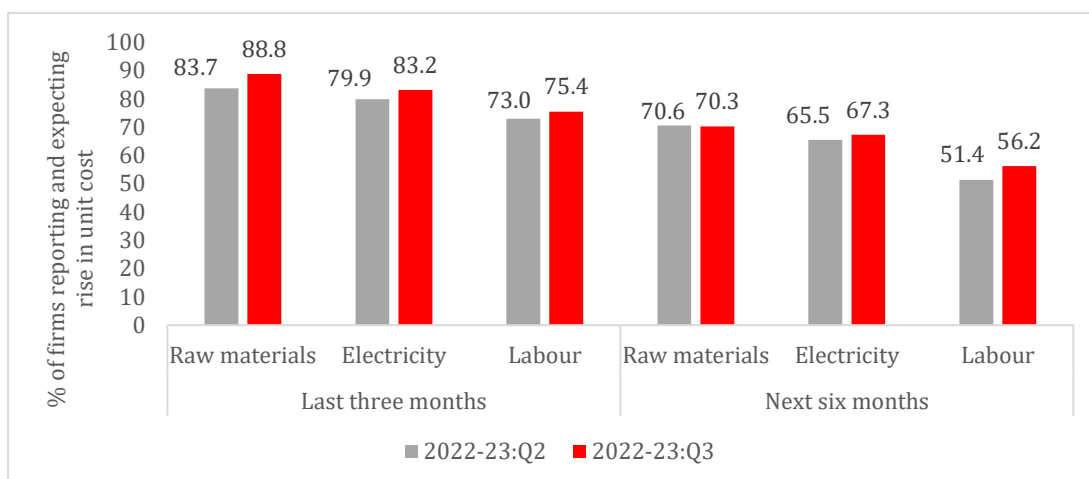
<i>Rates</i>	<i>Dec-22</i>	<i>Mar-23</i>	<i>Dec-23</i>
≤4%	15.9	17.3	16.5
>4% & ≤6%	35.2	38.4	48.2
>6% & ≤10%	39.6	36.8	26.8
>10%	0.8	0.8	1.8
No response	8.5	6.7	6.7
Total	100.0	100.0	100.0

Source: NCAER-NSE Business Expectations Survey, Round 123.

2.3. Costs of Raw Materials, Electricity, and Labour per Unit of Output

The percentage of firms reporting an increase in unit costs of raw materials, electricity, and labour during the past three months in 2022–23:Q3 increased compared to 2022–23:Q2. Similarly, the share of firms expecting a rise in the unit cost of electricity and labour in the next six months increased between the two periods. The share of firms expecting a rise in unit cost of raw materials remained unchanged between the two periods (Figure 2.3).

Figure 2.3: Firms’ reporting of and expectations about change in unit cost of Raw Materials, Electricity, and Labour: over last three months and next six months



Source: NCAER-NSE Business Expectations Survey, Rounds 122 and 123.

Overall future sentiments about costs remain elevated (Table 2.4); they were already high for raw materials and electricity but now they have increased for workers also.

Table 2.4: Firms’ Responses for Unit Raw Materials, Electricity, and Labour Cost for the Last Three and Next Six Months (%), January 2023

<i>Time Period</i>	<i>Type of Input</i>	<i>Decrease</i>	<i>No Change</i>	<i>Increase</i>
Over the last three months	Raw Material	0.5	10.7	88.8
	Electricity	0.4	16.4	83.2
	Labour	0.5	24.1	75.4
Over the next six months	Raw Material	0.8	28.9	70.3
	Electricity	0.0	32.7	67.3
	Labour	0.0	43.8	56.2

Source: NCAER-NSE Business Expectations Survey, Round 123.

Annexure 1: Survey Methodology

1.1 Methodology and Sample Composition

The NCAER-NSE Business Expectations Survey (BES) is a quarterly survey of firms/industries across six cities, undertaken to assess business sentiments in the four regions of India— the North (Delhi-National Capital Region), South (Bangalore and Chennai), East (Kolkata), and West (Mumbai and Pune). The BES covered 492 firms in the 123rd round.

Industries are adequately represented in the BES with regard to ownership type, covering public sector, private limited, public limited, partnerships/individually owned firms, and multinational corporations (MNCs); industry sector, covering the consumer durables, consumer non-durables, intermediate goods, capital goods, and services sectors; and firm size, based on the annual turnovers of the firms, including those with turnovers of less than ₹1 crore, ₹1 to 10 crore, ₹10 to 100 crore, ₹100 to 500 crore, and more than ₹500 crore.

The sample has been drawn randomly from a list of industries in each city obtained from various sources. Around 90 per cent of the sample has been drawn from the list and 10 per cent of new firms have been taken from outside the list, which have been added to the list for the next round.

1.2 Conduct of the Survey and Quality Assurance

The respondents are contacted through e-mail and details of the survey along with the survey on a Google form link are shared with them. Thereafter, multiple follow-ups are done through both phone and email. Conducting the survey through Google forms facilitates the receipt of responses on a real-time basis. This also allows for a review of the responses on a daily basis. Any discrepancies/anomalies in the responses are discussed with the respondents on the day when the responses are received, and necessary changes are made in such responses. The responses are also checked against the figures available on the websites and through independent validation. This kind of daily review helps maintain distribution across the various groups and the quality of the survey.

1.3 Response Rates

Table A1.1 depicts the response rates across regions and types of ownership of firms.

Table A1.1: Response Rate across Regions and Ownership Type (%)

	<i>Public Sector</i>	<i>Private Limited</i>	<i>Public Limited/MNCs</i>	<i>Partnership/Individual Ownership</i>	<i>All</i>
East	40.0	77.1	60.0	82.0	68.3
West	34.3	66.3	59.7	55.8	57.3
North	68.8	59.7	50.0	72.4	60.3
South	92.0	77.8	60.0	58.0	68.1
All	56.3	68.8	57.1	67.1	63.0

Source: NCAER-NSE Business Expectations Survey, Round 123.

1.4 Confidence Intervals of the BCI Components

These confidence intervals are delineated in Table A1.2

Table A1.2: Confidence Interval of the BCI Components

<i>Statistic</i>	<i>In looking ahead 6 months from now, overall business conditions for the economy as a whole will be</i>	<i>Compared to now, your firm's own financial position over the next six months will be</i>	<i>How do you rate present investment climate for the economy as a whole compared to six months ago</i>	<i>How do you rate the current level of operation of your firm relative to its optimal capacity utilisation</i>	<i>BCI Components average</i>
R123 (2022-23: Q3)					
Sample size	492	492	492	492	492
Proportion of positive responses	0.59	0.52	0.50	0.91	0.63
Relative Standard Error	0.00025	0.00025	0.00025	0.00009	0.0002
Confidence interval @95% level of significance	0.5898 0.5891	0.5166 0.5160	0.4962 0.4956	0.9067 0.9063	0.6273 0.6268
BCI Range					126.70 126.59
R122 (2022-23: Q2)					
Sample size	496	496	496	496	496
Proportion of positive responses	0.57	0.60	0.50	0.95	0.66
Relative Standard Error	0.00025	0.00024	0.00025	0.00005	0.0002
Confidence interval @95% level of significance	0.5709 0.5702	0.6052 0.6045	0.4963 0.4957	0.9517 0.9515	0.6560 0.6555
BCI Range					132.50 132.39
R121 (2022-23: Q1)					
Sample size	500	500	500	500	500
Proportion of positive responses	0.66	0.60	0.51	0.97	0.69
Relative Standard Error	0.000224	0.000239	0.00025	0.00003	0.0002
Confidence interval @95% level of significance	0.6623 0.6617	0.6043 0.6037	0.5103 0.5097	0.9661 0.9659	0.6858 0.6852
BCI Range					138.51 138.40

Sources: NCAER-NSE Business Expectations Survey, Rounds 121, 122 and 123.

Note: t-statistic significance value at 95 per cent level of significance is 2.33; at 90 per cent, it is 1.96. Change in BCI between two rounds is statistically significant if there is no overlap between the respective ranges. Given that there is no overlap between the BCI ranges in all three rounds given above, the changes between the rounds are statistically significant.



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