



Press Release

NCAER's Business Confidence Index continues to fall in the first quarter of 2015–16

Highlights of NCAER's most recent Business Expectation Survey for Quarter 1, 2015–16

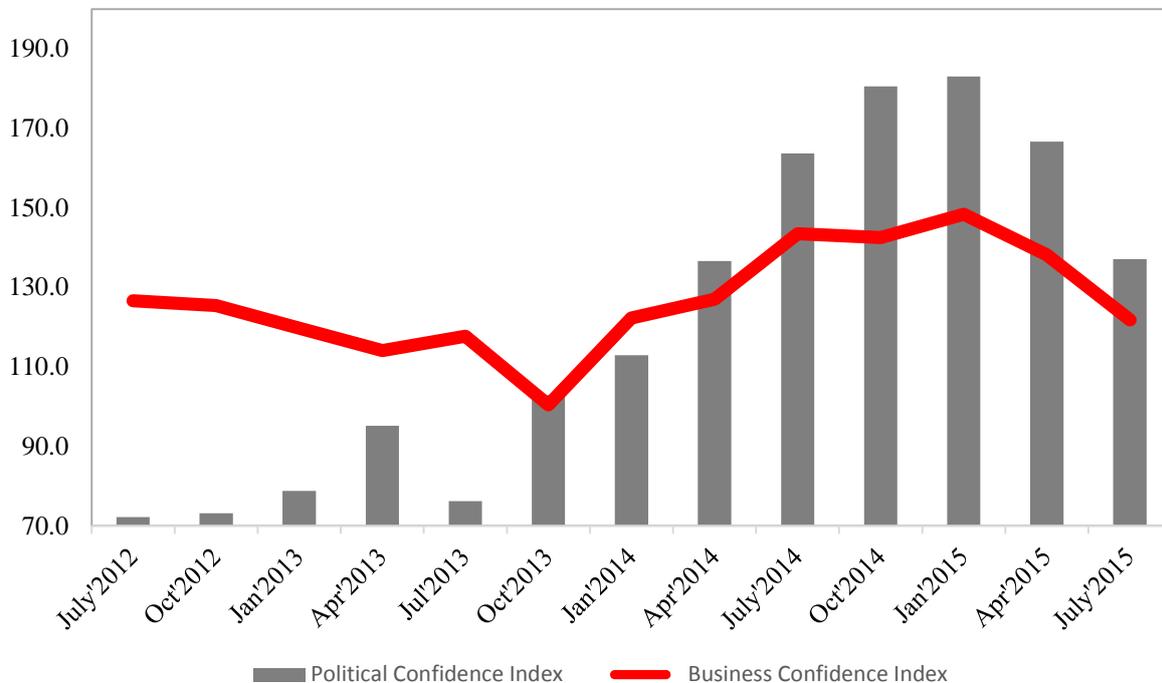
- The 93rd round of Business Expectations Survey (BES) carried out in June 2015 reveals that business sentiments have not only continued to decline but are declining at a more rapid pace. The BCI decreased by 11.9 per cent over the previous quarter on a quarter-on-quarter basis and by 15.1 per cent on a year-on-year basis.
- All components of BCI showed negative change between April and July 2015. The percentage of respondents perceiving the 'present investment climate is positive' went down sharply from 49.5 per cent to 38.0 per cent between April and July 2015. This component of the BCI shows the sharpest decline.
- The services sector shows a marginal improvement in the BCI (2.6%). The manufacturing sector shows double digit decline in all four sectors – consumer durables, non-durables, intermediate and capital goods. The fall in the consumer durables BCI was the steepest.
- The regional distribution of responses reflects mixed perceptions. All but the Western region show a decline in business confidence measured by BCI, with the South falling the most. The BCI of the South fell by as much as (–) 24.5 per cent followed by the North (–9.7%) and East (–7.2%). The BCI increased in the West by 6.3%. Overall, business sentiments are particularly low in the Eastern region.
- The divergence in business sentiments across firm sizes has increased significantly with all firm categories experiencing further slide in business sentiments except the BCI of companies with annual turnover greater than ₹500 crore (2.3% on a q-o-q basis). All the other BCIs fell by double digits between April and July 2015 on a q-o-q basis. Firms with annual turnover between ₹10–100 crore size have shown the sharpest fall in BCI in July 2015 (–16.4%), followed by companies with annual turnover less than ₹1 crore (–14.1%), annual turnover of ₹1–10 crore firms (–12.8%) and annual turnover of ₹100–500 crore firms (–10.4%). The range of divergence has increased from 38.8 in Round 92 to 58.9 in Round 93.
- The distribution of firms by ownership-type reveals deterioration in all but the public limited companies, with Partnership/ individual owned firms falling the maximum (–18.6%). The BCI of the public limited companies rose by 4%.
- Sentiments regarding production, domestic sales, exports, imports of raw materials and pre-tax profits have moderated since April 2015 and the outlook is muted. While expectations regarding pre-tax profits, production and sales were all subdued, it was relatively less for the latter two items. Firms expect a significant rise in the cost of electricity. Labour market continues to remain weak, more so for unskilled labour.
- The Political Confidence Index (PCI) continued its slide downwards from last quarter. The PCI fell by as much as 17.7% over the last quarter on a q-o-q basis and 16.2% on a y-o-y basis. All components of PCI show a deteriorating trend. The percentage of positive

responses is below 40% on sub-components including ‘managing inflation’, ‘managing unemployment’, ‘exchange rate’ and ‘conducive political climate’.

- Across industries, the PCI for all groups fell sharply and by double digits. The BCI for consumer durables showed the sharpest fall. Notably, the PCI fell for all regions with the South showing the largest decline. Firm size wise, all registered a decline in PCI, with the PCI of the firms with annual turnover greater than ₹500 crore falling the minimum.

Dr Bornali Bhandari, Fellow, NCAER, noted that “the decline of business sentiments specially related to the investment climate is particularly worrisome because this may be perceived as a signal for lower future investment and thereby for economic growth. Further, the fact that smaller companies are experiencing the worse deterioration in business sentiments is a matter of concern both for growth and equity.”

NCAER Business Confidence Index and Political Confidence Indices July 2012 to July 2015



Source: NCAER

Brief Methodology: The National Council of Applied Economic Research (NCAER) has been conducting Business Expectations Survey (BES) every quarter since 1991. It tracks the business sentiments of over 500 Indian companies to compute the composite index, Business Confidence Index (BCI). The survey consists of responses from firms/industries across six cities to assess business sentiments in four regions of India. Delhi NCR represents the North, Mumbai and Pune represent West, Kolkata represents the East and South is represented by Bangalore and Chennai. Industries are adequately represented with regard to 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 turnover (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 a list of industries in each city drawn from various sources. A sizeable number of units taken in one round are retained in the next round to maintain continuity of analysis.

The Business Confidence Index (BCI) is developed based on four questions. Two are devoted to macro

factors and another two to micro factors. All four questions carried equal weight. The BCI is a simple average of all the positive responses to three questions and in the case of fourth question (capacity utilisation), an average of sum of the responses to improvement and no improvement is taken. Then BCI is compared with the base value to know the change. If the BCI increases for a particular round, it is due to the larger proportion of positive responses 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 on 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 nearly 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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