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PRESS RELEASE

Business Confidence Index Rises by 7.8% in Q3 of 2019-20 NCAER's Business Expectations Survey

New Delhi (Wednesday, 26 February 2020): NCAER's Business Confidence Index (N-BCI), an indicator of business sentiments across Indian industry, stood at 111.2 in Q3 of 2019-20. Despite showing improvement in the third quarter of the current fiscal, business sentiments continued to exhibit lingering weakness and specifically fragility. This is evident from the fact that the N-BCI rose by 7.8 per cent in Q3: 2019-20 versus Q2:2019-20 on a quarter-on-quarter (q-o-q) basis, while falling by 12.5 per cent on a year-on-year basis. These figures are based on the 111th Round of the Business Expectations Survey (BES) carried out by the National Council of Applied Economic Research (NCAER), India's premier economic policy research and macroeconomics think tank.

The quarterly improvement in BCI was driven by a relatively higher improvement in present sentiments versus future sentiments. All the four components of the BCI mentioned below have been given equal weightage in the Index.

○ **Future Sentiments**

- 'The overall economic conditions will be better in the next six months': ↔ (0.6 percentage points increase in share of positive responses on a q-o-q basis)
- 'The financial position of firms will improve in the next six months': ↑ (1.4 percentage points increase in share of positive responses on a q-o-q basis)

○ **Present Sentiments**

- 'The present investment climate is positive': ↑ (8.0 percentage points increase in share of positive responses on a q-o-q basis). Only 40.6 per cent of the respondents perceived that the 'present investment climate was positive' at the time of the survey.
- 'The present capacity utilisation is close to or above the optimal level': ↑ (5.7 percentage points increase in share of positive responses on a q-o-q basis). 91.9 per cent of the respondents perceived that the 'present capacity utilisation is close to or above the optimal level' at the time of the survey.

The NCAER BCI by Sector

Four out of the five industry sectors showed an improvement in business sentiments. The BCI of the consumer non-durables sector fell by 4.5 per cent in Q3: 2019-20 on a q-o-q basis. The BCI of the intermediate goods sector showed the maximum increase of 19.0 per cent in Q3:2019-20 on a q-o-q basis, followed by the consumer durables (11.5 per cent), capital goods (9 per cent), and services sectors (4.6 per cent).

The NCAER BCI by Region

Regionally, the business sentiments were mixed. The BCI figures of the West (20.6 per

cent) and North (7.3 per cent) increased in Q3: 2019-20 on a q-o-q basis. However, they remained virtually unchanged in the East (0.3 per cent) and the South (-0.8 per cent).

The NCAER BCI by Firm Size

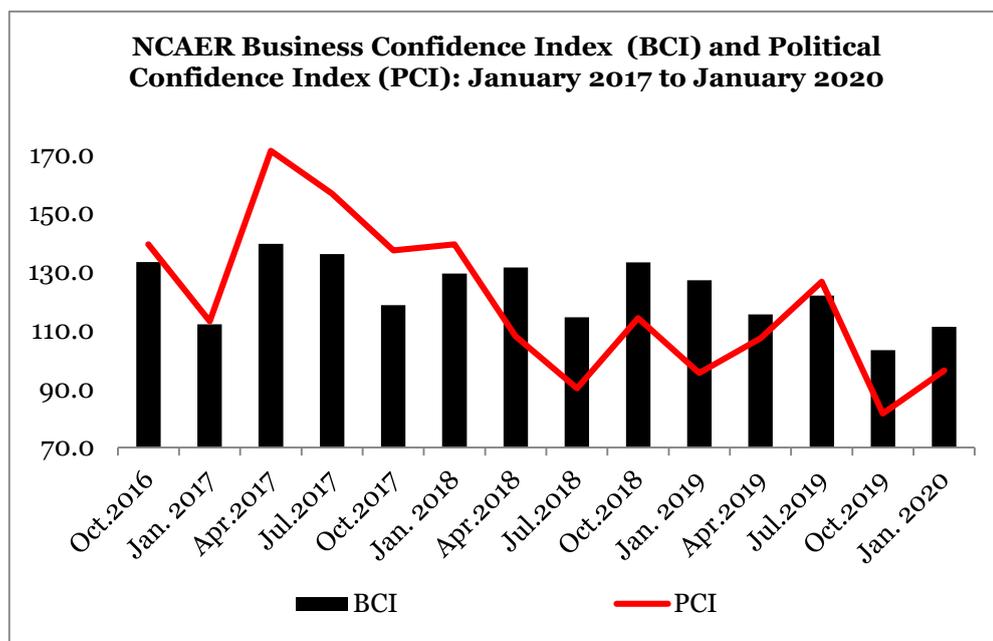
The BCI of micro firms with annual turnovers of less than Rs 1 crore fell by 21.5 per cent in Q3:2019-20. Similarly, the BCI of the largest firms with annual turnovers of more than Rs 500 crore fell for the second consecutive quarter by 4.1 per cent on a q-o-q basis. The BCI figures of firms with annual turnovers in the ranges of Rs 1-10 crore, Rs 10-100 crore, and Rs 100-500 crore increased by 18.3 per cent, 6.8 per cent, and 11.7 per cent, respectively.

The NCAER BCI by Ownership Type

The BCI of partnerships/individually-owned firms showed the maximum rise of 17.4 per cent, followed by a rise of 9.7 per cent registered by private limited companies on a q-o-q basis. The BCI of public limited companies fell by 6.4 per cent in the current round.

Overall, contrary to what was seen in October 2019, sentiments regarding production, domestic sales, exports, imports of raw materials, and pre-tax profits remained buoyant in January 2020, with the significant exception of the consumer non-durables sector. The firms were relatively more optimistic about domestic sales versus exports for the next six months. The firms also perceived that the costs of raw materials, electricity, and labour, and ex-factory prices would stay muted in the next six months. Sentiments regarding the labour market showed a marginal improvement in Round 111 over the previous round.

The Political Confidence Index (PCI) showed a q-o-q rise of 18.1 per cent in Q3: 2019-20, after falling by 35.6 per cent in Q2: 2019-20. Despite the improvement in PCI, it was still below the last peak. The outlook was encouraging, with sentiments improving between the two periods for five of the eight components, namely, ‘pushing economic reforms forward’, ‘external trade negotiations’, ‘managing the overall economic growth’, ‘managing government finances’ and ‘managing the exchange rate’. Sentiments remained virtually unchanged for the component, ‘managing a conducive political climate’ and ‘managing inflation’. Sentiments regarding the component, ‘managing unemployment’, however, worsened.



Source: NCAER Business Expectation Surveys.

Brief Note on Methodology: NCAER, the National Council of Applied Economic Research has been conducting the Business Expectations Survey (BES) every quarter since 1991. It tracks the business sentiments of around 600 Indian companies to compute the composite Business Confidence Index (BCI). 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 turnovers (in the range of less than Rs 1 crore, Rs 1- 10 crores, Rs 10-100 crores, Rs 100- 500 crores, and more than Rs 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 BCI 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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