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PRESS RELEASE

Business Confidence Index Decreased by 30.4% in Q4 of 2019-20: NCAER's Business Expectations Survey

New Delhi (Wednesday, 17 April 2020): NCAER's Business Confidence Index (N-BCI), an indicator of business sentiments across Indian industry, stood at 77.3 in Q4 of 2019-20. The 112th Round of the NCAER Business Expectations Survey (BES) was carried out in March 2020 amidst the outbreak of COVID-19 disease caused by the novel Coronavirus. The BES is being 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.

Business sentiments, which were already weak to start with, worsened further in the fourth quarter of 2019-20. The N-BCI fell from 111.2 in Q3: 2019-20 to 77.3 in Q4: 2019-20, declining by 30.4 per cent on a quarter-on-quarter (q-o-q) basis and by 32.9 per cent on a year-on-year (y-o-y) basis. This was the lowest level of BCI recorded since the 25th Round of the BES in 1998, coinciding with the Asian Financial Crisis of 1997-98, when it had fallen to 68.3.

All the four components comprising the BCI experienced deterioration in sentiments on a quarterly basis. The BCI macro components worsened the most. All four of them, detailed below, are given equal weightage in the Index.

- **Components dealing with macro sentiments:**
 - "The overall economic conditions will be better in the next six months": ↓ (21 percentage points)
 - "The present investment climate is positive": ↓ (21 percentage points).
- **Components dealing with micro (own firm) sentiments:**
 - "The financial position of firms will improve in the next six months": ↓ (13.3 percentage points)
 - "The present capacity utilisation is close to or above the optimal level": ↓ (11.6 percentage points)
- A weekly examination of the four components showed that business sentiments took a turn for the worse during the fourth and fifth weeks of March, 2020, coinciding with the announcement of the first COVID-19 lockdown on 24 March 2020.

The NCAER BCI by Sector

There was an across-the-board decline in sentiments across all the five sectors (on a q-o-q basis) in Q4: 2019-20. The BCI figures of the consumer durables sector fell by (-) 32.9 per cent, of the consumer non-durables sector by (-) 31.6 per cent, of intermediate goods by (-) 35 per cent, of capital goods by (-) 27.5 per cent, and of the services sector by (-) 30 per cent.

The NCAER BCI by Region

There was also an across-the-board decline in sentiments across all the three regions (on a q-o-q basis) in Q4: 2019-20. Due to the lockdown due to COVID-19, there was no representative sample from the southern

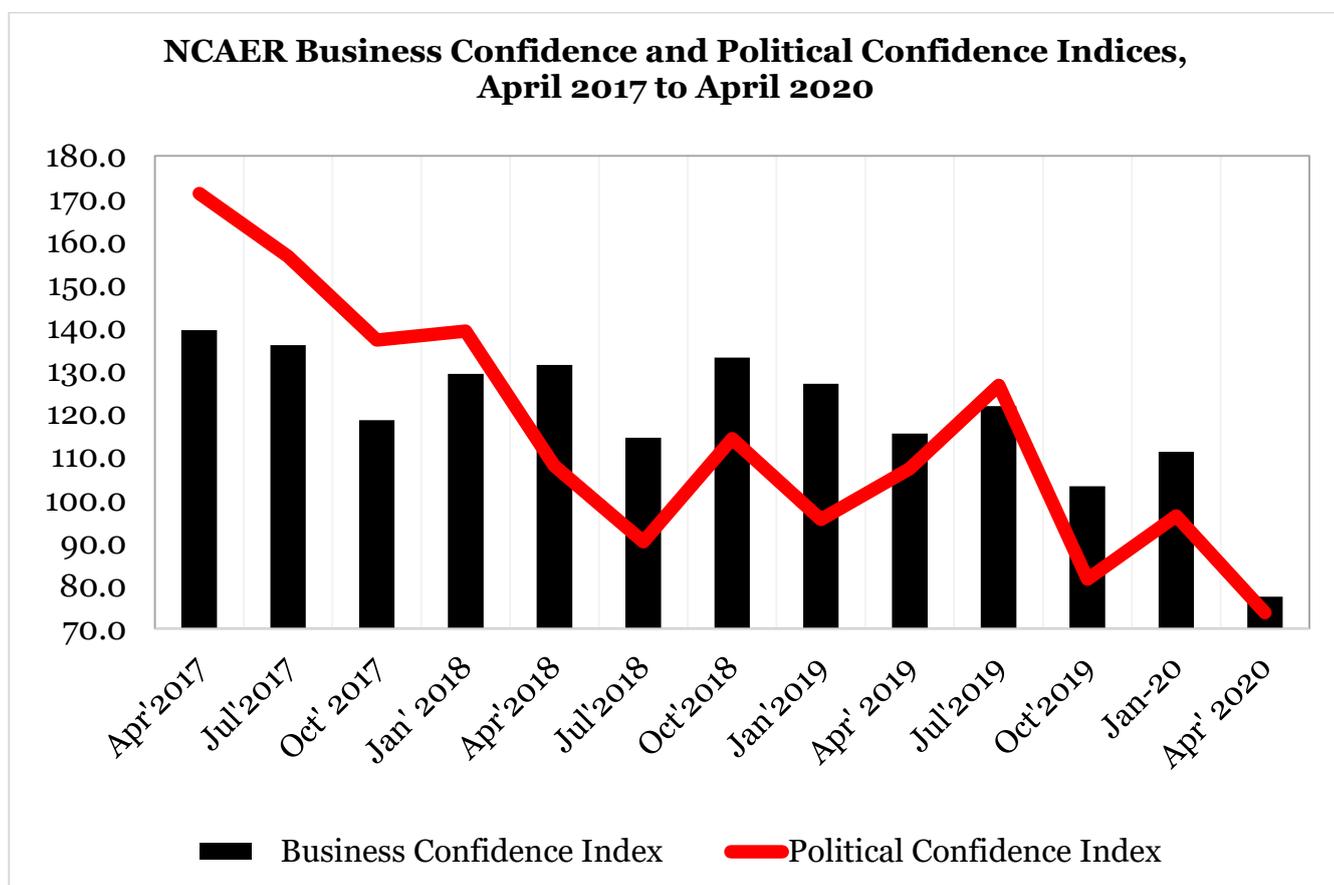
region. The BCI figures fell by (-) 7.1 per cent, (-) 19.7 per cent, and (-) 50.5 per cent, for the East, West, and North, respectively.

The NCAER BCI by Firm Size

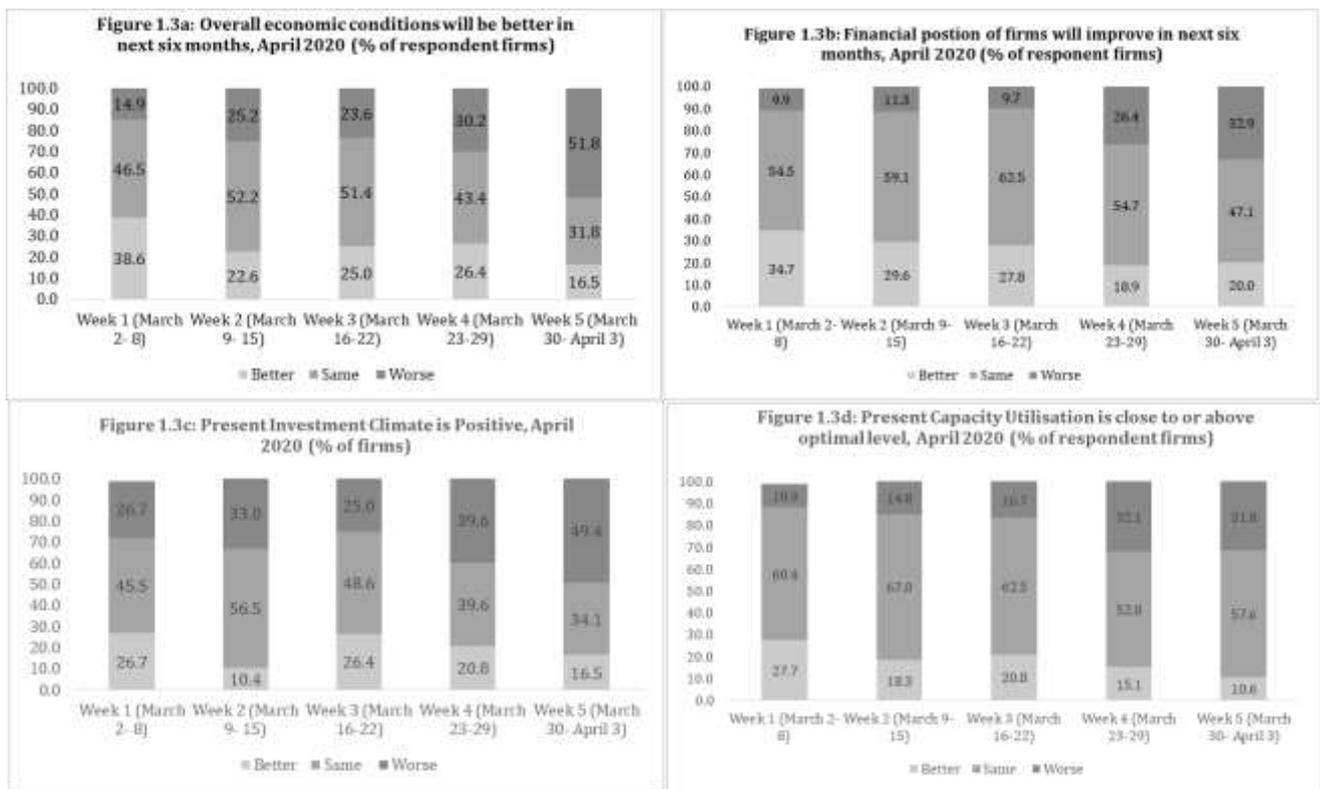
Further, there was an across-the-board decline in sentiments across all the five firm groups based on annual turnovers (on a q-o-q basis) in Q4: 2019-20. During this quarter, the BCI figures fell by (-) 13.1 per cent for micro firms with annual turnovers of less than ₹1 crore, by (-) 37.3 per cent for firms with annual turnovers of ₹1-10 crore, by (-) 27.6 per cent for firms with annual turnovers of ₹10-100 crore, by (-) 22.5 per cent for firms with annual turnovers of ₹100-500 crore, and by (-) 17.8 per cent for firms with annual turnovers of more than ₹500 crore.

Sentiments regarding production, domestic sales, exports, imports of raw materials, and pre-tax profits also worsened in April 2020. About one-third of respondents expected a decline in each of the above parameters. The firms also perceived that the costs of raw materials, electricity, and labour, and ex-factory prices would rise in the next six months. Sentiments regarding hiring in the labour market were muted. While 60.2 per cent of the firms expected no change in permanent labour employed over the next six months, 7.9 per cent expected it to decline. The corresponding figures for temporary/casual labour were 64.1 per cent and 13.5 per cent, respectively.

The Political Confidence Index (PCI) fell from 96.2 per cent in January 2020 to 73.7 per cent in April 2020, falling by 23.4 per cent on a q-o-q basis and by 31.3 per cent on a y-o-y basis. Six components showed deterioration in sentiments. In order of magnitude of the percentage change in positive responses on a q-o-q basis, these components were ‘managing the exchange rate’, ‘managing the overall economic growth’, ‘managing inflation’, ‘pushing economic reforms forward’, ‘external trade negotiations’ and ‘managing government finance’. However, sentiments improved in case of the components, ‘managing a conducive political climate’ and ‘managing unemployment’.



Source: NCAER Business Expectations Surveys.



Source: NCAER Business Expectations Survey, Round 112.

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 ₹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 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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