PRESS RELEASE

NCAER’s Business Confidence Index rose by 41% between Q1 and Q2:2020-21

New Delhi (Monday, November 2, 2020): NCAER carried out the 114th Round of the NCAER Business Expectations Survey (BES) in September 2020 as the country entered the fourth phase of unlocking of the economy. After declining for two consecutive quarters (Q4:2019-20 and Q1:2020-21) and falling to its lowest ever of 46.4 in Q1:2020-21 (Round 113), the NCAER Business Confidence Index (BCI) increased to 65.5 in Q2:2020-21 (Round 114), a quarter-on-quarter (q-o-q) increase of 41.1%.

However, on a year-on-year (y-o-y) basis, the Q2:2020-21 BCI was lower by 36.5% compared to Q2:2019-20 and remained lower than the BCI in Q4:2019-20. Round 114 of the NCAER BES therefore suggests that although business sentiment is recovering from its lowest ever level in Q1:2020-21, it continues to remain subdued.

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

The BCI is an indicator of business sentiment across Indian industry. It is driven by four components that have equal weight in the BCI:

- ‘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’
- ‘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’ rose from 17.1 per cent in Q1:2020-21 to 29.8 per cent in Q2:2020-21.
- The proportion of respondents expecting that the ‘financial position of firms will improve in the next six months’ rose from 19.8 per cent in Q1:2020-21 to 27.8 per cent in Q2:2020-21.
- The proportion of respondents saying that the ‘present investment climate is positive compared with six months ago’ contracted from 15.2 per cent in Q1:2020-21 to 13.7
per cent in Q2:2020-21. This slide in sentiments in this component poses a challenge to policymakers.

- The proportion of respondents saying that the ‘present capacity utilisation is close to or above the optimal level’ rose from 37.2 per cent in Q1:2020-21 to 58.4 per cent in Q2:2020-21. Despite this substantial improvement in the results for this component, however, capacity utilisation remains at historically low levels.

Source: NCAER Business Expectations Surveys.

The NCAER BCI by Sector

In Q2: 2020-21, the BCI increased on a q-o-q basis by 38.6% for consumer durables, 43.8% for consumer non-durables, 89.3% for intermediate goods, 36% for capital goods, and 32.3% for the services sector.

The NCAER BCI by Region

The BCI for the West (represented by Mumbai and Pune) increased by 135.5% for and the South (represented by Bengaluru and Chennai) by 79.6%, on a q-o-q basis in Q2:2020-21. The BCI for the North (represented by Delhi NCR) remained virtually unchanged between Q1:2020-21 and Q2:2020-21. However, the BCI for the East (represented by Kolkata) contracted further by 6.1%. Business sentiment in the East continues to be persistently weak, unlike the other regions. Overall, business sentiment was more optimistic in the North and South compared to the East and West.

The NCAER BCI by Firm Size

There was an across-the-board improvement in business sentiment for all five firm-size groups (based on the annual turnover of firms) on a q-o-q basis in Q2: 2020-21. During
this quarter, the BCI changed in the following manner:

- ↑ by 4.7% for firms with annual turnovers of ≤₹1 crore
- ↑ by 43% for firms with annual turnovers of > ₹1 crores and ≤ 10 crores
- ↑ by 47.8% for firms with annual turnovers of > ₹10 crores and ≤ 100 crores
- ↑ by 35.6% for firms with annual turnovers of > ₹100 crores and ≤ 500 crores
- ↑ by 71% for firms with annual turnovers of > ₹500 crores.

The NCAER BCI by Firm Ownership

Based on ownership, all four groups of firms showed an improvement in business sentiment in the current round as compared to the previous quarter. The BCI increased on a q-o-q basis by 195.3% for the public sector, by 12.7% for private limited firms, by 54.1% for public limited firms, and by 53.7% for partnerships/individually owned firms. Sentiment in public sector companies (115.1) and public limited companies (73.6) seems to be more optimistic than in the private limited companies (56.4), and in partnerships/individually owned firms (54.7).

Trends in Firm-Specific Business Outlook Indicators

The NCAER BES also probes sentiments of firms regarding production, domestic sales, exports, new orders, import of raw materials, pre-tax profits, costs and labour market decisions. Sentiment relating to production, domestic sales, exports, new orders, imports of raw materials, and pre-tax profits improved in Q2:2020-21 on a q-o-q basis. The share of firms expecting the cost of raw materials per unit of output to rise over the next six months remained almost the same, at 57.7%, as compared to a corresponding figure of 56.7% in July 2020. While the scale of hiring has improved after the phased lifting of the lockdowns, firms have continued to cut salaries of their employees. Thus, it is not surprising that the labour costs per unit of output incurred by the firms have come down.

The NCAER PCI

After falling for two consecutive quarters, the BES’ Political Confidence Index (PCI) increased by 16.8% on a q-o-q basis, from 63.1 in Q1:2020-21 to 73.7 in Q2:2020-21 (back to the level in Q4:2019-20), but showed an overall fall of 9.6% on a y-o-y basis. The upturn in the PCI was driven by an improvement in sentiment for three of the eight components that drive the PCI, namely, ‘managing a conducive political climate’, ‘external trade negotiations (both bilateral /multilateral)’, and ‘pushing economic reforms forward’. Sentiments remained unchanged for the component, ‘managing government finances’. The share of positive responses worsened for the remaining four components, namely, ‘managing overall economic growth’, ‘managing inflation’, ‘managing unemployment’, and ‘managing the exchange rate’.

Methodology: NCAER has been conducting the BES every quarter since 1991. The BCI tracks business sentiment for around 600 Indian companies to compute the composite BCI. The survey elicits responses from firms across six cities to assess business sentiment in the four regions of India: Delhi NCR representing the North; Mumbai and Pune, the West; Kolkata, the East; and Bengaluru and Chennai, 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 turnover of the firms (in the range of less than or equal to ₹1 crore, more than ₹1 crore to less than or equal to 10 crores, more than ₹10 crore to
less than or equal to ₹100 crores, more than ₹100 crore to less than or equal to 500 crores, and more than ₹500 crores). The sample is drawn randomly 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 computed based on responses from firms to four questions. Two of these questions 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 (denoted by the value of 100 in Round 7; 1993) to determine change. An increase in the level of the BCI (i.e. a larger share of positive responses) reflects optimism in the business sector 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 65 years, 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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