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PRESS RELEASE

NCAER's Business Confidence Index rose by 29.6% between Q2 and Q3 of FY2020-21: NCAER's Business Expectations Survey

New Delhi (Monday, February 5, 2021): The 115th Round of NCAER's Business Expectations Survey (BES) was carried out in December 2020, during a period of both hope and despair. The approval and rollout of vaccines in Europe and North America were accompanied by the discovery of new mutations of the Coronavirus. Closer to home, Indian authorities approved the Covishield and Covaxin vaccines for "restricted use" on January 3, 2021. Meanwhile, the Indian economy continued its recovery and was forecast to show positive growth in 2020–21:Q3. Business sentiments have shown the same V-shaped pattern of a sharp drop followed by a rise in Q1 and Q2, and then a flattening out in Q3 of 2020–21.

After falling by (–) 40.1 per cent in Round 113 of the NCAER BES (2020–21:Q1; July 2020), the NCAER Business Confidence Index (BCI) rose by 41.1 per cent in Round 114 (2020–21:Q2; October 2020) on a quarter-on-quarter (q-o-q) basis. In Round 115 (2020–21:Q3; January 2021), the BCI rose further by 29.6 per cent on a q-o-q basis, rising from 65.5 in 2020–21:Q2 to 84.8 in 2020–21:Q3. However, business sentiments remained worse than they were during the corresponding period in the previous year; in 2020–21:Q3, the BCI fell by (–) 23.7 per cent on a year-on-year (y-o-y) basis.

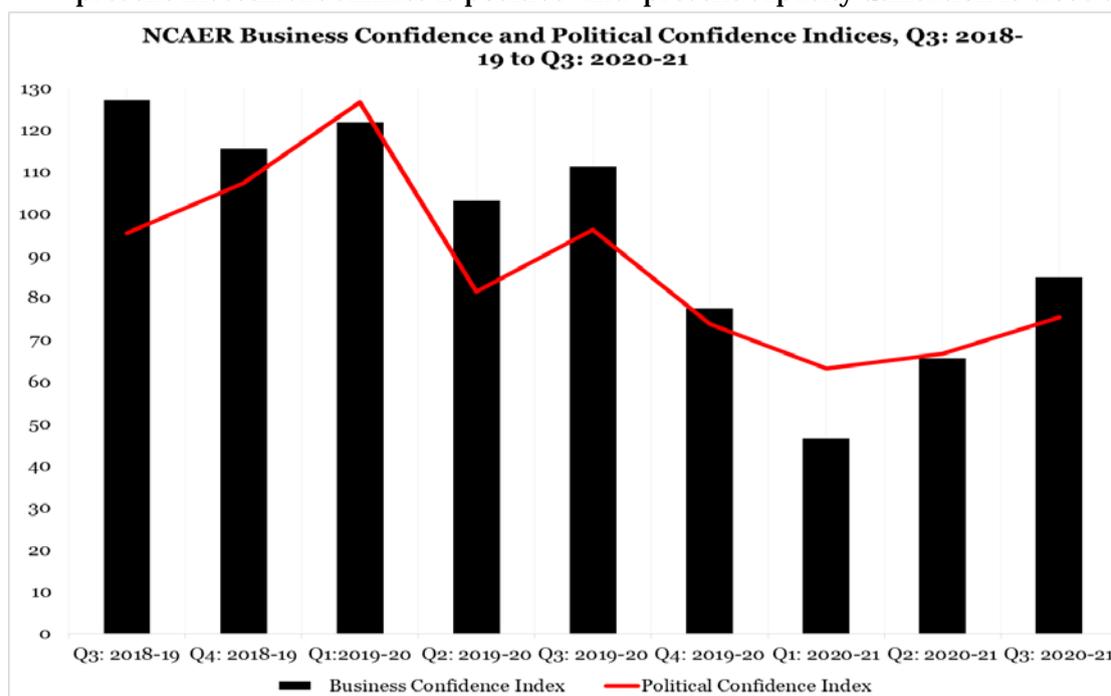
The National Council of Applied Economic Research (NCAER), India's premier economic policy research and think tank, has been carrying out the BES on a quarterly basis since 1991.

The BCI is an indicator of business sentiment across Indian industry. It is driven by four components, with equal weights in the Index: '*overall economic conditions will improve in the next six months*', '*the financial position of firms will improve in the next six months*', '*the present investment climate is positive as compared to six months ago*', and '*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 business sentiments have changed.

In the latest BES Round:

- The proportion of respondents expecting that 'overall economic conditions will improve in the next six months' increased by 4.8 percentage points, from 29.8 per cent in 2020–21:Q2 to 34.6 per cent in 2020–21:Q3.
- The proportion of respondents expecting that the 'financial position of firms will improve in the next six months' increased by 3.1 percentage points, from 27.7 per cent in 2020–21:Q2 to 30.8 per cent in 2020–21:Q3.

- The share of positive responses for the statement, the ‘present investment climate is positive compared with six months ago’ fell by (-) 27 percentage points from 40.7 per cent in Round 109 to 13.7 per cent in Round 114. It was the only component which showed a decline in positive responses in the last quarter. A reversal was seen in this round with the share of positive responses for this statement going up to 29.8 per cent in Round 115.
- The proportion of respondents saying that ‘present capacity utilisation is close to or above the optimal level’ increased by 14.4 percentage points, from 58.4 per cent in Round 114 to 72.8 per cent in Round 115.
- In Round 115, the components that relate to sentiments about the present, that is, ‘present investment climate is positive’ and ‘present capacity utilisation is close to



or above the optimal level’, have shown larger q-o-q improvements than the ones dealing with the future.

Source: NCAER Business Expectations Surveys.

The NCAER BCI by Sector

The BCI improved for all the five sectors on a q-o-q basis in 2020–21:Q3. The BCI increased for the **consumer durables** sector by 26.1 per cent on a q-o-q basis in 2020–21:Q3, for **consumer non-durables** by 32 per cent, for **intermediate** goods by 37 per cent, for **capital goods** by 27 per cent, and for the **services** sector by 32.5 per cent.

The NCAER BCI by Region

The BCI improved for all the four regions on a q-o-q basis in 2020–21:Q3. The BCI in the **East** increased by 186.7 per cent on a q-o-q basis in 2020–21:Q3, followed by 36.2 per cent in the **West**, 35 per cent in the **North**, and 15.2 per cent in the **South**. However, despite recording a triple-digit increase, the BCI in the East was the lowest amongst the BCI figures for all the regions.

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 2020–21:Q3. A bimodal distribution of business sentiments is visible between small firms (those with annual turnovers of less than or equal to ₹100 crore) and large firms (those with annual turnovers greater than ₹100 crore). During this quarter, the BCI changed in the following manner on a q-o-q basis (but the BCI fell on a y-o-y basis):

- ↑ 34% for firms with annual turnovers of ≤ ₹1 crore
- ↑ 29.3% for firms with annual turnovers of > ₹1 crore and ≤ 10 crore
- ↑ 22.9% for firms with annual turnovers of > ₹10 crore and ≤ 100 crore
- ↑ 44.9% for firms with annual turnovers of > ₹100 crore and ≤ 500 crore
- ↑ 8.2% for firms with annual turnovers of > ₹500 crore.

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 figures for **public sector** firms increased by 7.5 per cent in Round 115 on a q-o-q basis, for **private limited** firms by 32.2 per cent, for **public limited** firms by 27.6 per cent, and for **partnerships/individually** owned firms by 36.6 per cent.

Trends in Firm-specific Business Outlook Indicators

Sentiments regarding production, domestic sales, exports, new orders, imports of raw materials, and pre-tax profits improved in 2020–21:Q3 on a q-o-q basis. The hiring prospects of firms have shown moderation since the last quarter. The sentiments of firms about costs remain elevated.

The NCAER PCI

The BES' Political Confidence Index (PCI) increased for the second consecutive quarter by 12.8 per cent on a q-o-q basis, from 66.8 in 2020–21:Q2 to 75.3 in 2020–21:Q3, but fell by (–) 21.7 per cent on a y-o-y basis. The upturn in the PCI was driven by an improvement in business sentiments for five of the eight components being studied, namely, '*managing overall economic growth*', '*managing government finances*', '*managing inflation*', '*managing unemployment*' and '*managing the exchange rate*'. Business sentiments remained unchanged for the component, '*pushing economic reforms forward*'. The share of positive responses decreased for two components, namely, '*managing a conducive political climate*' and '*external trade negotiations (both bilateral/multilateral)*'.

Methodology: NCAER has been conducting the BES every quarter since 1991. The BES findings reported here are from 500 firms. 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/individually owned 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 crore, more than ₹10 crore to less than or equal to ₹100 crore, more than ₹100 crore to less

than or equal to 500 crore, and more than ₹500 crore). 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 Shri Nandan M. Nilekani.

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