



For more information, please contact:
Bornali Bhandari at +91-9871825027, bbhandari@ncaer.org
Shilpi Tripathi at +91-9953779905, stripathi@ncaer.org
Sudesh Bala at +91-9899262692, sbala@ncaer.org

PRESS RELEASE

As a backdrop to India's Second covid-19 Surge, the NCAER Business Confidence Index remained virtually unchanged, between Q3 and Q4 of 2020-21

NCAER's Business Expectations Survey for Q4:2020-21

New Delhi (Friday, April 30, 2021): This NCAER Report on the *Business Expectations Survey* for Q4:FY2020-21 is being released at the end of April 2021 when the country is going through an unprecedented national crisis because of the second covid-19 surge sweeping through the country. The report provides the important backdrop and some early signs of the disquiet that was emerging on business expectations at the end of FY2020-21 with virtually no change in sentiments between the third and fourth quarters of FY2020-21, despite substantial increase in economic activity during this period. We believe understanding this backdrop will be important to better understand and interpret what may lie ahead on the NCAER Business Confidence Index and the Political Confidence Index for FY2021-22. The second surge is causing a humanitarian crisis of untold proportions that will deepen the scarring of the economy. This will surely impact business sentiment and expectations when we do the BES for this quarter and report on Q1:FY2021-22.

NCAER's Business Confidence Index (BCI), an indicator of business sentiments across Indian industry, stood at 85.2 in Q4 of 2020-21, only a marginal increase of 0.5% from its level of 84.8 in Q3. Though the BCI increased by 10.1 per cent on a year-on-year (y-o-y) basis, this was largely due to base effects, with no significant improvement from the third quarter. The sentiments measured by the BCI have varied across components, sectors, regions and firm size groups and firm ownership.

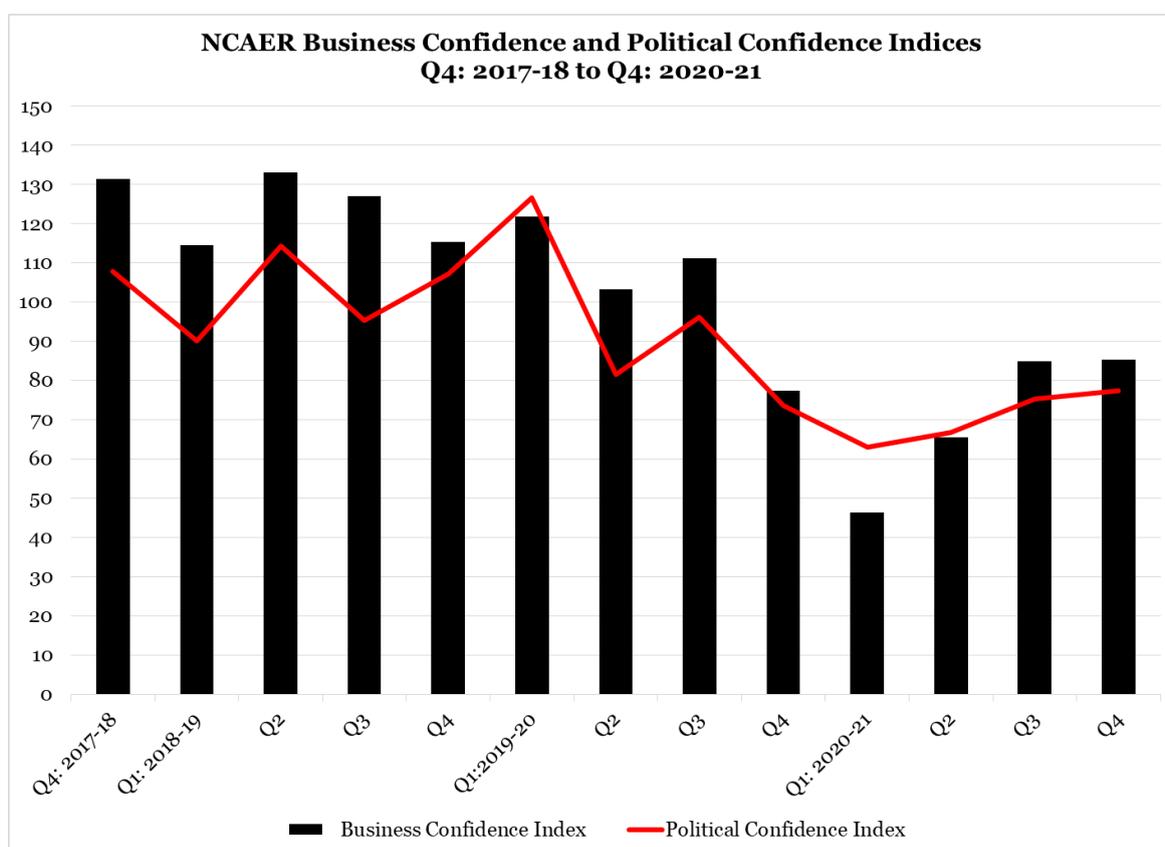
The NCAER's Business Expectations Survey (BES) has been carried out on a quarterly basis since 1991 by the National Council of Applied Economic Research, one of India's premier economic policy research think tanks.

The latest 116th Round of BES was carried out in March 2021, amidst the emergence of the second wave of the Coronavirus pandemic. The period also saw the rollout of the second phase of vaccinations which included health & frontline workers, senior citizens above the age of 60 and between the ages of 45-59 with comorbidities. Key indicators of the economy showed mixed trends in Q4, with peak electricity demand and exports of goods and services registering strong growth in March relative to the previous two months.

The BCI is driven by four components, with equal weights in the Index: '*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’, 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 sentiments have changed. There were mixed movements in the above four components, with two showing an improvement and two others a deterioration, as a result of which the BCI remained virtually unchanged. In the latest BES Round:

- The proportion of respondents expecting that ‘overall economic conditions will improve in the next six months’ increased from 34.6% in Q3: 2020–21 to 36.4% in Q4: 2020–21.
- The proportion of respondents expecting that ‘financial position of firms will improve in the next six months’ fell from 30.8% in Q3: 2020–21 to 26.2% in Q4: 2020–21.
- The share of positive responses for the component, ‘present investment climate is positive compared with six months ago’ fell from 29.8% in Q3: 2020–21 to 26.8% in Q4: 2020–21. Notably weak investment sentiments in Q3 have further deteriorated in Q4.
- The proportion of respondents saying that ‘present capacity utilisation is close to or above the optimal level’ increased from 72.8% in Round 115 to 79.5% in Round 116.



Source: NCAER Business Expectation Surveys.

The NCAER BCI by Sector

Sectoral trends during this quarter were mixed. The BCI increased for three sectors on a q-o-q basis in Q4: 2020–21, namely by 14% for the **capital goods** sector, by 3.2% for the **services** sector, and by 2.1% for the **consumer non-durables** sector. For the remaining two sectors, the BCI decreased in Q4: 2020–21 as follows: by (–) 6.3% for the **consumer durables** sector, and by (–) 13.2% for the **intermediate goods sector**.

The NCAER BCI by Region

Regional business sentiments exhibited mixed trends with the BCI showing a rise in the South and the East but decreasing in the North and the West. The BCI increased on a q-o-q basis in Q4: 2020–21 in the **East** by 37.1%, and in the **South** by 15%. It declined by (–) 18.9% in the **West** and by (–) 10.5% in the **North**. However, despite recording the highest q-o-q increase among all the regions, the BCI in the East remained the lowest amongst all the regions.

The NCAER BCI by Firm Size

There were wide variations in the (q-o-q) change in sentiments for all five firm groups based on their annual turnovers in Q4: 2020–21. The BCI increased for three firm groups and declined for two. During this quarter, the BCI changed in the following manner on a q-o-q basis:

- ↓ by (–)11% for firms with annual turnovers of ≤ ₹1 crore;
- ↑ by 1.1% for firms with annual turnovers of > ₹1 crore and ≤ 10 crore;
- ↑ by 17.6% for firms with annual turnovers of > ₹10 crore and ≤ 100 crore;
- ↓ by (–)15.2% for firms with annual turnovers of > ₹100 crore and ≤ 500 crore; and
- ↑ by 3.7% for firms with annual turnovers of > ₹500 crore.

The NCAER BCI by Ownership Type

There were wide variations in sentiments for the firm groups based on ownership in Round 116 over Round 115. The BCI increased for three firm groups and declined for the remaining one group. The BCI figures for **public sector**, **private limited**, and **public limited** firms increased by 1.9%, 5.2%, and 0.6%, respectively, in the latest round. The only group which registered a fall of (–) 7.6% in the BCI between Rounds 115 and the latest 116 was that of **partnerships/individually** owned firms.

Trends in Firm-specific Business Outlook Indicators

Sentiments regarding production, domestic sales, exports, new orders, imports of raw materials, and pre-tax profits were mixed in Q4: 2020–21. Firms' sentiments about hiring both temporary and permanent workers over the next six months showed moderation. However, a larger share of firms expected labour costs to increase over the next six months. In contrast, a smaller share of firms expected electricity and raw materials costs to increase in Q4: 2020-21 compared to Q3.

The NCAER PCI

The Political Confidence Index (PCI) increased for the third consecutive quarter by 2.6 per cent on a q-o-q basis, from 75.3 in Q3: 2020–21 to 77.3 in Q4: 2020–21, and also rose by 4.8 per cent on a y-o-y basis. The upturn in the PCI was driven by an improvement in sentiments for five of the eight components being studied, namely, '*managing the exchange rate*', '*pushing economic reforms forward*', '*managing a conducive political climate*', '*external trade negotiations (both bilateral/multilateral)*' and '*managing overall economic growth*'.

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 sentiments 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 led by its Director General, Dr Shekhar Shah, and governed by an independent Governing Body currently chaired by Mr Nandan M. Nilekani.

Media Contacts:

Dr Bornali Bhandari, +91-98718 25027 bbhandari@ncaer.org

Dr Samarth Gupta, +91-99712 84978 sgupta@ncaer.org

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH
NCAER India Centre, 11 Indraprastha Estate, New Delhi 110002
Tel: +91-11- 2345-2698/2699, Email: info@ncaer.org, www.ncaer.org

NCAER | Quality . Relevance . Impact

