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PRESS RELEASE

NCAER's Business Expectations Survey for 2021-22: Business Confidence Index Decreased by 27.5 per cent in 2021-22:Q1

New Delhi (Friday, July 30, 2021): The National Council of Applied Economic Research (NCAER), one of India's premier economic policy research think tanks, carried out the 117th Round of its Business Expectations Survey (BES) in June 2021. NCAER has been carrying out the BES on a quarterly basis since 1991.

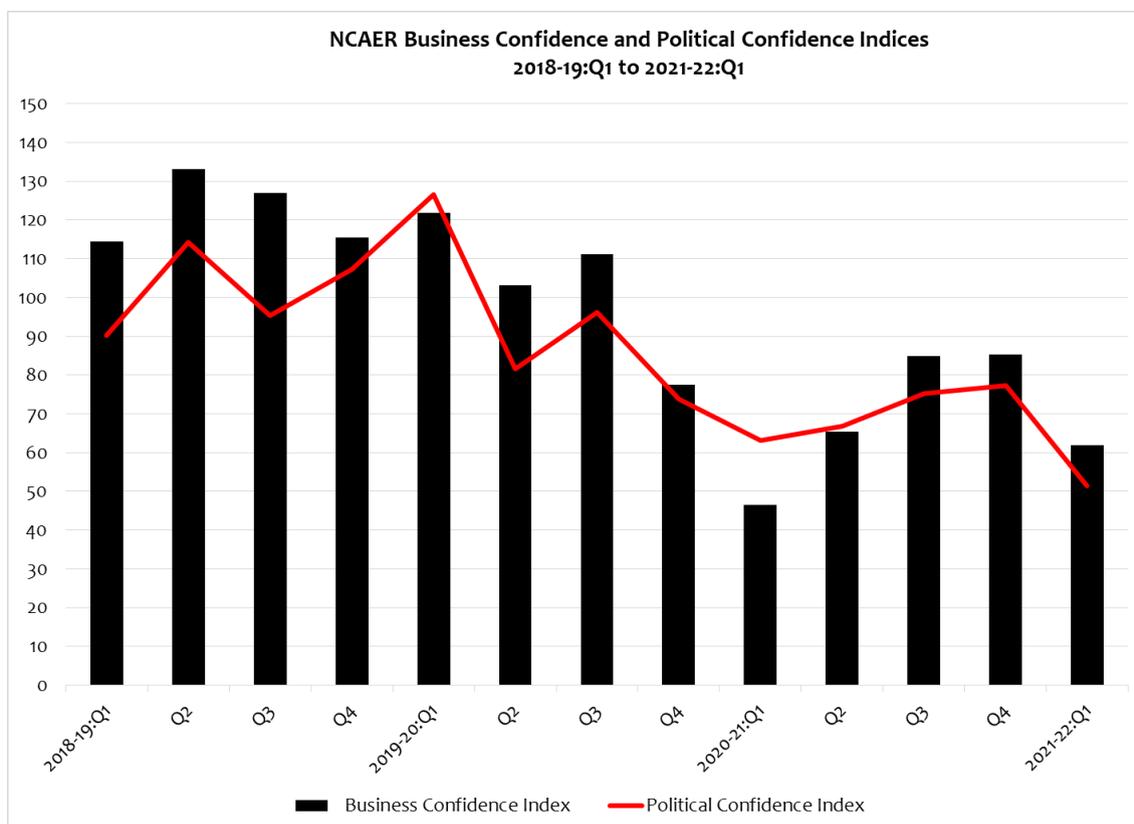
The period covered by the BES, Round 117, saw the abatement of the second wave of the Coronavirus pandemic and unlocking of the State-imposed lockdowns in a phased manner. High-frequency indicators suggest that though economic activity moderated in 2021-22:Q1 as compared to 2020-21:Q4, yet it still outperformed in 2020-21:Q1. It is not surprising that business sentiments worsened in the first quarter of the current fiscal. This worsening was fairly broad-based.

After staying virtually unchanged between Q3 and Q4 of 2020-21, the NCAER Business Confidence Index (BCI) fell to its historically second lowest point in 2021-22:Q1. The lowest level had been witnessed in 2020-21:Q1. The BCI decreased by (-) 27.5 per cent on a quarter-on-quarter (q-o-q) basis, from 85.2 in 2020-21:Q4 (Round 116; April 2021) to 61.8 in 2021-22:Q1 (Round 117; July 2021). However, on a year-on-year (y-o-y) basis, the BCI increased by 33.2 per cent in 2021-22:Q1.

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*'. There was a worsening of sentiments for three out of these four components between the last quarter and this quarter, whereas sentiments for one component remained virtually unchanged. Following are the details pertaining to the changes in sentiments in the components of the BCI between Rounds 116 and 117:

- The proportion of respondents expecting that '*overall economic conditions will improve in the next six months*' declined by 18.7 percentage points on a q-o-q basis, from 36.4 per cent in Round 116 to 17.7 per cent in Round 117. The corresponding figure for July 2020 (Round 113) was 17.1 per cent.
- The proportion of respondents expecting that '*financial position of firms will improve in the next six months*' remained virtually unchanged. It was 26.4 per cent in Round 117, merely increasing by 0.2 percentage points from Round 116 on a q-o-q basis. Sentiments on this component have been stuck at a low equilibrium, averaging around 26 per cent between April 2020 (Round 112) and July 2021 (Round 117). The corresponding figure for July 2020 (Round 113) was 19.8 per cent.

- The share of positive responses on the component, ‘present investment climate is positive compared with six months ago’ decreased by 8.9 percentage points on a q-o-q basis from 26.8 per cent in Round 116 to 17.9 per cent in Round 117. The corresponding figure for July 2020 (Round 113) was 15.2 per cent.
- The proportion of respondents saying that ‘present capacity utilisation is close to or above the optimal level’ fell by 18.9 percentage points, from 79.5 per cent in Round 116 to 60.6 in Round 117. The corresponding figure for July 2020 (Round 113) was 37.2 per cent.



Source: NCAER Business Expectation Surveys.

The NCAER BCI by Sector

All five industry sectors experienced a worsening of sentiments between Rounds 116 (2020–21:Q4) and 117 (2021–22:Q1). The BCI decreased on a q-o-q basis in 2021–22:Q1 by 35.3 per cent for the **services** sector, by 32.9 per cent for the **consumer durables** sector, by 32.3 per cent for the **capital goods** sector, by 17 per cent for the **intermediate goods** sector, and by 14.3 per cent for the **consumer non-durables** sector.

The NCAER BCI by Region

Business sentiments improved in the West and deteriorated in the remaining three regions. On a q-o-q basis, the BCI increased in the **West** by 6.6 per cent in 2021–22:Q1, whereas it declined in the other three regions, that is, by 61.6 per cent in the **East**, by 50.6 per cent in the **South**, and by 10.8 per cent in the **North**.

The NCAER BCI by Firm Size

Analysed on the basis of annual turnovers in 2021–22:Q1 of firms grouped into five categories, business sentiments showed a worsening for all the five groups as follows on a q-o-q basis:

- ↓ by 43 per cent for firms with annual turnovers of ≤ ₹1 crore;
- ↓ by 26.5 per cent for firms with annual turnovers of > ₹1 crore and ≤ 10 crore;
- ↓ by 20.8 per cent for firms with annual turnovers of > ₹10 crore and ≤ 100 crore;
- ↓ by 22.3 per cent for firms with annual turnovers of > ₹100 crore and ≤ 500 crore; and
- ↓ by 30.1 per cent for firms with annual turnovers of > ₹500 crore.

The NCAER BCI by Ownership Type

Business sentiments deteriorated in 2021–22:Q1 as compared to 2020–21:Q4 as follows on a q-o-q basis for firms grouped into four categories based on ownership:

- ↓ by 37.2 per cent for public sector firms;
- ↓ by 23.9 per cent for private limited firms;
- ↓ by 24.6 per cent for public limited firms; and
- ↓ by 34.4 per cent for partnerships and individually owned firms.

Trends in Firm-specific Business Outlook Indicators

Sentiments pertaining to production, domestic sales, exports, new orders, imports of raw materials, and pre-tax profits worsened in 2021–22:Q1 on a q-o-q basis. While a larger share of firms reported worsening of sentiments about ‘hiring workers’ over the ‘last three months’, ‘hiring sentiments’ improved over the next six months. Sentiments about costs were mixed. While 70 per cent of the firms reported an increase in costs of raw materials per unit of output, sentiments about the next six months remained largely unchanged. In contrast, a larger share of firms experienced higher costs in electricity per unit of output in the last three months and also expected higher costs in the next six months. A larger share of firms experienced higher labour costs per unit of output in the last three months and expected this trend to remain unchanged in the next six months.

The NCAER PCI

The Political Confidence Index (PCI) decreased by 33.5 per cent in 2021–22:Q1 on a q-o-q basis, and by 18.6 per cent on a y-o-y basis. Sentiments worsened for seven of the eight components on a q-o-q basis, namely, ‘managing overall economic growth’, ‘managing government finances’, ‘managing inflation’, ‘managing unemployment’, ‘managing the exchange rate’, ‘managing a conducive political climate’, and ‘external trade negotiations (both bilateral and multilateral)’. The share of positive responses in the case of the component, ‘managing unemployment’ was barely 4.2 per cent. Sentiments were unchanged for the component, ‘pushing the economic reforms forward’.

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 (that is, 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 Poonam Gupta, the institution's first woman head, who assumed office on 1 July 2021, and it is governed by an independent Governing Body currently chaired by Mr Nandan M. Nilekani.

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