

Lower Business Confidence in September 2013

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LOWER BUSINESS SENTIMENTS AND IMPROVED POLITICAL CONFIDENCE

THE 86TH ROUND of the Business Expectations Survey carried out in September 2013 shows a significant drop in the NCAER Business Confidence Index (BCI). The BCI is now at 100.4 in the current quarter 2013–14:Q2 compared with 117.7 in the previous quarter 2013–14:Q1, showing a significant drop of 15 per cent. Factors such as high inflation, a falling rupee and low economic growth could have contributed to the waning of business confidence in the current round of the survey (Figure B.1).

All four components of the BCI show a decline in the present round of the survey. Among them, the highest decline is recorded in the 'present investment climate' followed by 'expectations that the financial position will improve ahead' and 'expectations for economic conditions to improve in the short run'. The fourth indicator of the BCI, i.e., 'capacity utilisation', reported the lowest decline among the components. All four components of the BCI have recorded the lowest level of confidence in the past four years, i.e., from July 2009. On the whole, although the confidence level improved in the July survey after showing a continuous fall in the past fiscal year, the overall recovery in the BCI was quite weak as seen in the last round (July 2013).

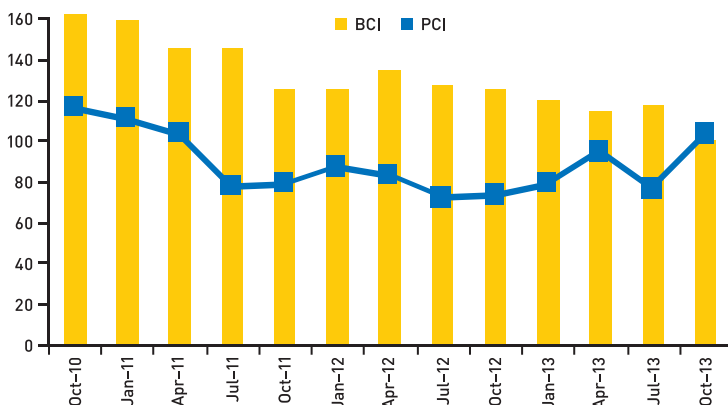
In contrast to the BCI, the Political Confidence Index (PCI) that provides a measure of the confidence of the business sector in the political management of economic policies shows a significant improvement by a whopping 26.7 points, from 76.2 in July 2013 to 102.9 in October 2013. This is the highest improvement since July 2009. The current round shows improvement in all eight indicators over the previous round. The highest improvement has been reported in the case of 'pushing economic reforms forward' by 16.2 points, followed by 'managing the exchange rate' (10.2 points) and 'managing inflation' (10.1 points). The main reasons behind this improvement could have been various policy measures announced by the government during the past couple of months to increase the speed of implementation of infrastructure projects, setting up of new industries, smoothing the supply of coal and containing the fiscal deficit within the budget estimates by reducing non-plan expenditure.

SECTORAL PATTERNS OF BUSINESS CONFIDENCE

The sectoral distribution of responses reveals a drop in business sentiments in all five major sectors of the economy in the current round over the previous round. Overall, the BCI is the highest in the services sector at 113.5, followed by the consumer durables sector (109), consumer non-durables sector (105.4), and capital goods sector (99.2). The intermediate goods sector once again recorded the lowest BCI of all sectors. However, the rate of fall is much higher in manufacturing firms than in service sector firms. Within the manufacturing sub-sectors, the highest decline is being reported in the consumer non-durables sector, followed by the intermediate goods sector and the capital goods sector (Figure B.2).

Among the four components of the BCI, the indicator that has shown the sharpest decline is ratings on the 'investment climate', which shows a decline in all five sectors, with the highest fall being recorded in the intermediate goods and

Figure B.1: Business Sentiments



Source: NCAER, New Delhi.

capital goods sectors. The second highest decline is recorded in ‘expectations that the financial position will improve ahead’. A smaller proportion of firms ‘expect economic conditions to improve in the next six months’ in the manufacturing sub-sectors, while in the services sector it is the other way round. The fourth indicator, i.e., ‘capacity utilisation’, registered the highest decline in intermediate sector firms.

REGIONAL PATTERNS OF BUSINESS CONFIDENCE

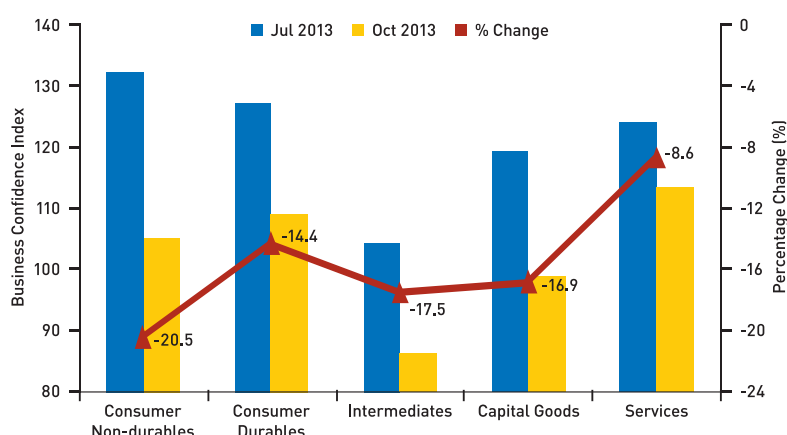
The regional distribution of responses is in line with the sectoral distribution. The present round of the survey reveals a decline in business sentiments across all four regions. Overall, the BCI is the highest in the South at 126.5, followed by the North (100.2) and the East (94.3). The West, which has performed poorly in the past few rounds, has again registered the lowest BCI at 73.9 in October 2013 (Figure B.3).

In terms of growth rate, the highest drop is registered in the East where, except for ‘capacity utilisation’, all other indicators show a drop. This is followed by the West, where the optimism level declined by 18.4 per cent in October 2013 over July 2013; this region reports a drop in all four components of the BCI. Although the remaining two regions, i.e., North and South, reflect lower optimism in the present survey, the situation is still under control compared with the other two regions. This is because of the four components in the BCI, only two components report a decline for these regions in the October survey. However, the rate of decline in North is higher than in South.

BUSINESS CONFIDENCE BY FIRM SIZE AND OWNERSHIP

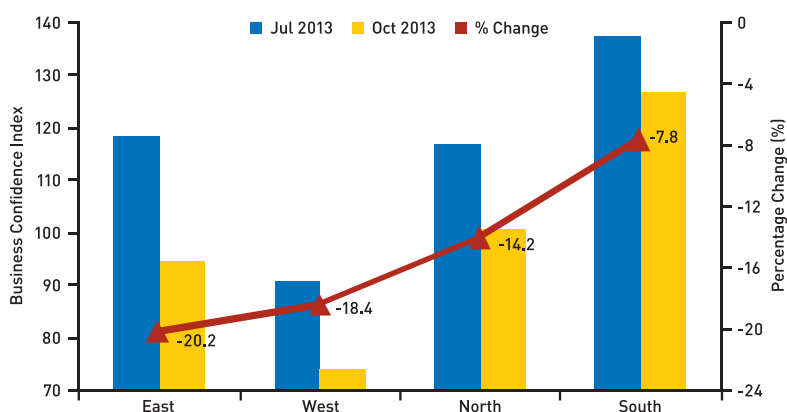
The disaggregation of firms by size reveals lower business sentiments among all sizes of firms in the present survey. While the largest-sized firms registered the highest BCI of all, the smallest-sized firms registered the lowest BCI in October 2013. Among the four components of the BCI, except for ‘expectations on economic conditions to improve in the next six months’, the remaining three indicators reflect lower optimism across all firm sizes. Overall, the present survey clearly distinguishes a pattern of changes between larger and smaller firms, as larger firms performed poorly in the case of ‘investment climate’, whereas for smaller firms it is lower ‘expectations that the financial position will improve in the short run’.

Figure B.2: Pattern of Business Expectations across Sectors



Source: NCAER, New Delhi.

Figure B.3: Business Sentiments across Regions



Source: NCAER, New Delhi.

The distribution of firms by type of ownership reveals that both public and private sector firms reflect lower business confidence in the present round of the survey over the previous quarter. However, the rate of decline is comparatively higher in private sector firms than in public sector firms. The main reason behind the huge fall in the private sector is lower optimism for ‘economic conditions to improve in the next six months’ and lower ratings for ‘capacity utilisation’. Overall, among all categories of firms, the BCI is the highest in public sector firms at 110.1, followed by partnership firms at 107.8, private limited firms at 98.1, and public limited firms at 97.3 points.

Overall, the present survey reveals lower business sentiments across all sectors and regions of the economy. The main reasons behind this fall are due to significant drop in the ratings of the ‘investment climate’ and lower ‘expectations for the financial position to improve in the short run’, which emerges as a major area of concern.

The present round of the survey reveals a decline in business sentiments across all four regions.