

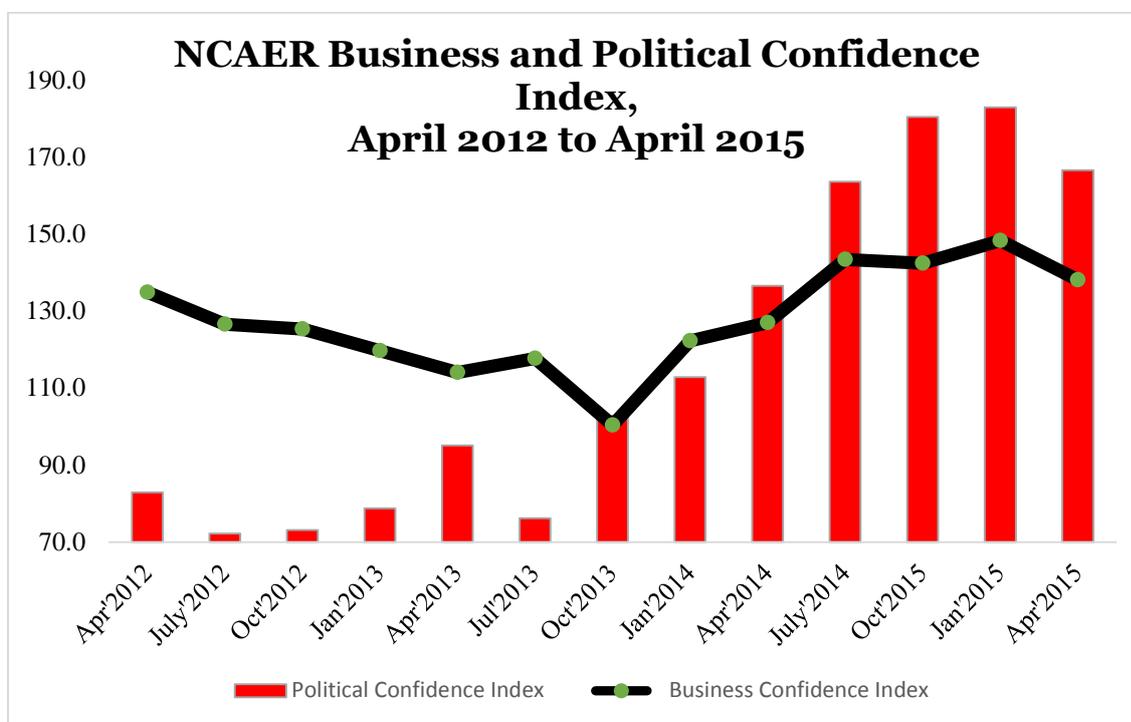
Press Release

NCAER's Business Confidence Index falls sharply in the fourth quarter of 2014–15

Highlights of NCAER's most recent Business Expectation Survey for Quarter 4, 2014–15

- The 92nd round of Business Expectations Survey (BES) carried out in March 2015 reveals that business sentiment has fallen sharply. The BCI decreased by 6.9 per cent over the previous quarter.
- All components of BCI declined between January and April 2015. Firms' views about macro factors - 'overall economic conditions will be better in next six months' and 'present investment climate is positive' declined the most compared to January 2015.
- All sectors of the economy, other than the Consumer durables sector registered a fall in BCI over the last quarter, with the Services sector showing the largest fall (13.6 per cent) followed by the Capital goods sector at 13.1 per cent. The consumer durables sector registered a marginal increase in BCI of 0.8 per cent over the previous quarter. This sector has the highest BCI.
- The regional distribution of responses reflects mixed perceptions. All regions, other than the South, show a decline in BCI, with the East falling the most. The BCI of the East fell by as much as 18.9 per cent followed by the West, 9.5 per cent. The BCI of the South increased by 0.8 per cent.
- The disaggregation of responses by firm size also exhibits pervasive gloomy sentiments. The BCI of the ₹100 to 500 crores firms declined the maximum, 9.2 per cent. This was followed by the less than ₹1 crore firms whose BCI declined 8.6 per cent. The only group that showed a marginal increase in BCI is the ₹10 to 100 crores firms, whose BCI increased 0.4 per cent.
- The distribution of firms by ownership type reveals deterioration in all categories, with Partnership/ individual-owned firms falling the most.
- Sentiments regarding production, domestic sales, exports, imports of raw materials and pre-tax profits are mixed. While sentiment regarding sales and exports was subdued, with larger firms not expecting an increase in either, sentiments regarding production was discouraging.
- The trend of a continuous rise in the Political Confidence Index (PCI) was reversed in April 2015 when PCI fell 8.9 per cent over the last quarter. Components of PCI show mixed results, with only two improving and six deteriorating.
- Across industries, PCI fell for all groups, with the 'Consumer non-durables' group falling the most. With regard to regions, only the East showed a marginal rise in PCI while others fell sharply. Firm size wise, the ₹100 to 500 crores companies are the only ones to show an increase in PCI.
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Dr Bornali Bhandari, Fellow, NCAER, noted that “the downturn in (relative to December 2015) sentiments about the macro economy is a matter of concern. Declining sentiments about the investment climate is worrisome in the back ground of patchy and uneven growth in 2014–15 and does not foretell improvement investment scenario in 2015–16.”



Brief Methodology: The National Council of Applied Economic Research (NCAER) has been conducting Business Expectations Survey (BES) every quarter since 1991. It tracks the business sentiments of over 500 Indian companies to compute the composite index, Business Confidence Index (BCI). The survey consists of responses from firms/industries across six cities to assess business sentiments in four regions of India. Delhi NCR represents the North, Mumbai and Pune represent West, Kolkata represents the East and South is represented by Bangalore and Chennai. Industries are adequately represented with regard to ownership type (namely, public sector, private limited, public limited, partnership/individual ownership, and MNCs), industry sector (namely, consumer durables, consumer non-durables, intermediate goods, capital goods, and services sector), and firm size based on their annual turnover (in the range of less than ₹1 crore, ₹1 to 10 crores, ₹10 to 100 crores, ₹100 to 500 crores and more than ₹500 crores). The sample is drawn randomly from a list of industries in each city drawn from various sources. A sizeable number of units taken in one round are retained in the next round to maintain continuity of analysis.

The Business Confidence Index (BCI) is developed based on four questions. Two are devoted to macro factors and another two to micro factors. All four questions carried equal weight. The BCI is a simple average of all the positive responses to three questions and in the case of fourth question (capacity utilisation), an average of sum of the responses to improvement and no improvement is taken. Then BCI is compared with the base value to know the change. If the BCI increases for a particular round, it is due to the larger proportion of positive responses in that round. The positive responses may increase for a specific question. An increase in the level of BCI reflects optimism in the business sector on 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 at the behest of Prime Minister Jawaharlal Nehru to inform policy choices for both the public and private sectors. Over nearly six decades, 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 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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