NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

The NCAER-NSE Business Expectations Survey for India

Second Quarter 2023–24

Business Confidence Index

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National Council of Applied Economic Research
NCAER India Centre, 11 Indraprastha Estate, New Delhi 110 002, India.

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NCAER has been carrying out quarterly surveys of Business Expectations in India since 1992. The surveys from Round 119 onwards (2021–22:Q3)   has been conducted with support from the NSE.

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The findings, interpretations, and conclusions expressed are those of the authors and do not necessarily reflect the views of the Governing Body of NCAER or NSE.

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Executive Summary

The National Council of Applied Economic Research (NCAER), one of India's premier economic policy research think tanks, carried out the 126th Round of its Business Expectations Survey (BES) in September 2023, with support from the National Stock Exchange of India Limited (NSE). NCAER has been carrying out the BES every quarter since 1992, covering 500 firms across East, West, North and South regions.

There has been all-round improvement in business sentiments in this quarter. The BCI rose from 128 in 2023–24:Q1 to 140.7 in 2023–24:Q2 (Figure 1.1). The BCI was also higher than the corresponding quarter in the previous year (132.5 in 2022–23:Q2).

The NCAER-NSE Business Confidence Index (BCI) is driven by four components, with each one of them being assigned equal weights in the Index. The four components are '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', and 'present capacity utilisation is close to or above the optimal level'. The share of positive responses was higher for all four components of the BCI in 2023–24:Q2 compared to 2023–24:Q1.

Business sentiments were relatively more buoyant about domestic markets than external markets. The share of firms expecting production, domestic sales and pre-tax profits to increase was more in 2023–24:Q2 compared to 2023–24:Q1. In contrast, a lower percentage of firms expected exports of own products and imports of raw materials to increase in 2023–24:Q2 compared to 2023–24:Q1.

Regarding the labour market scenario, sentiments about the hiring of workers over the next six months were same as last quarter, with the majority of firms expecting no change in labour employed. The share of firms expecting an increase in wages over the next six months for both skilled and unskilled workers declined in 2023–24:Q2 over 2023–24:Q1.

Regarding expectations about future price trends, sentiments were muted for both prices of inputs and outputs with a lower percentage of firms expecting prices to rise in 2023–24:Q2 over 2023–24:Q1. The share of firms expecting a rise in the unit cost of raw materials, electricity and labour in the next six months decreased between the two periods. Similarly, the percentage of firms expecting their ex-factory prices to rise came down in 2023–24:Q2 over 2023–24:Q1.

1. NCAER-NSE Business Confidence Index Improves in 2023–24:Q2

The NCAER-NSE Business Expectations Survey (BES), Round 126, was carried out in September 2023, covering 500 respondents. The BES is composed of the NCAER-NSE Business Confidence Index (BCI), which is based on positive responses for four components. Annexure 1 reports the methodology, sample composition and summary statistics for the BES.

1.1. The BCI and Its Four Components

There has been all-round improvement in business sentiments in this quarter (Figure 1.1). The BCI rose from 128 in 2023−24:Q1 to 140.7 in 2023−24:Q2 in a statistically significant manner (Annexure 1).   The BCI was also higher than in the corresponding quarter of the previous year (132.5 in 2022−23:Q2).

Figure 1.1: Business Sentiments Improved in 2023–24:Q2
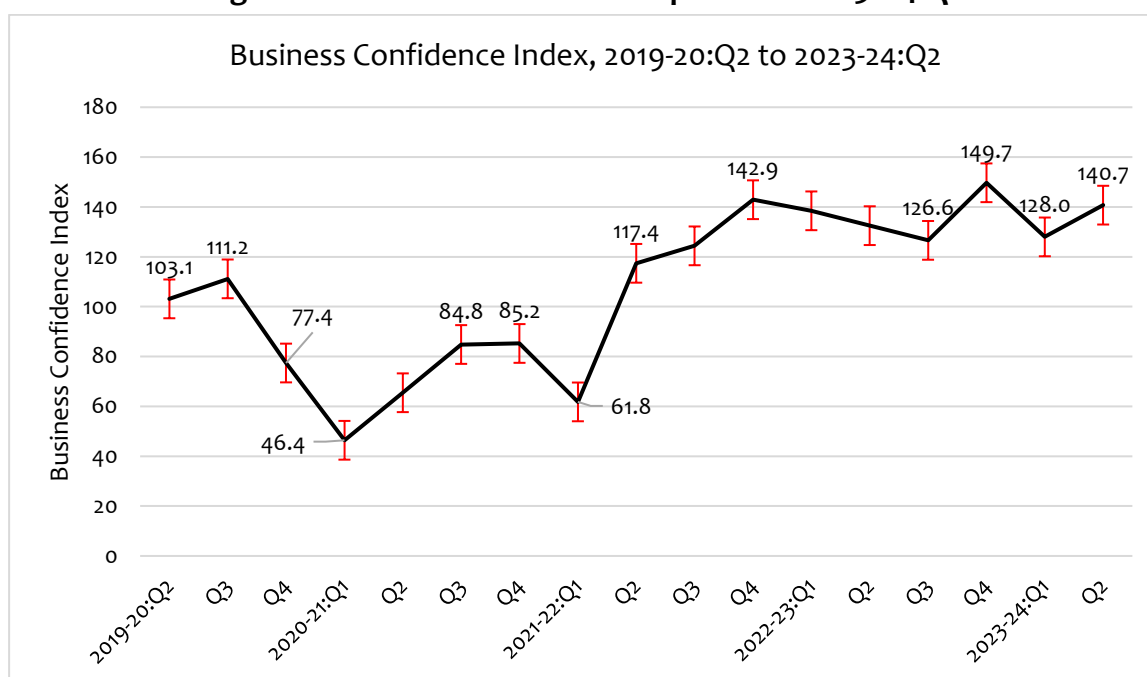
Source: NCAER Business Expectations Survey, several rounds.

Notes:

1. The bars in the graph represent error bars.
2. Business sentiments are typically based on opinion surveys on production, inventory, orders etc. They are used to monitor output growth and anticipate turning points to essentially forecast future economic fluctuations. The advantage of sentiments data are two-fold i.e. they are timely and can capture real time changes. Second, they are not subject to revisions like macroeconomic data." Bhandari, B., Gupta, S., Sahu, A.K., and Urs, K.S. 2021. "Business sentiments during India's national lockdown: Lessons for second and potential third wave". *Indian Economic Review*, 56(2): 335–350. December.

The NCAER-NSE Business Confidence Index (BCI) is driven by four components, with each of them being assigned equal weights in the Index. The four components are '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', and 'present capacity utilisation is close to or above the optimal level'.

The share of positive responses improved for all four components of the BCI in 2023–24:Q2 compared to 2023–24:Q1. Annexure 1 (Table A1.2) shows the confidence interval for each of these components.

Figure 1.2: Four Components of the Business Confidence Index
2019–20:Q2 to 2023–2024:Q2
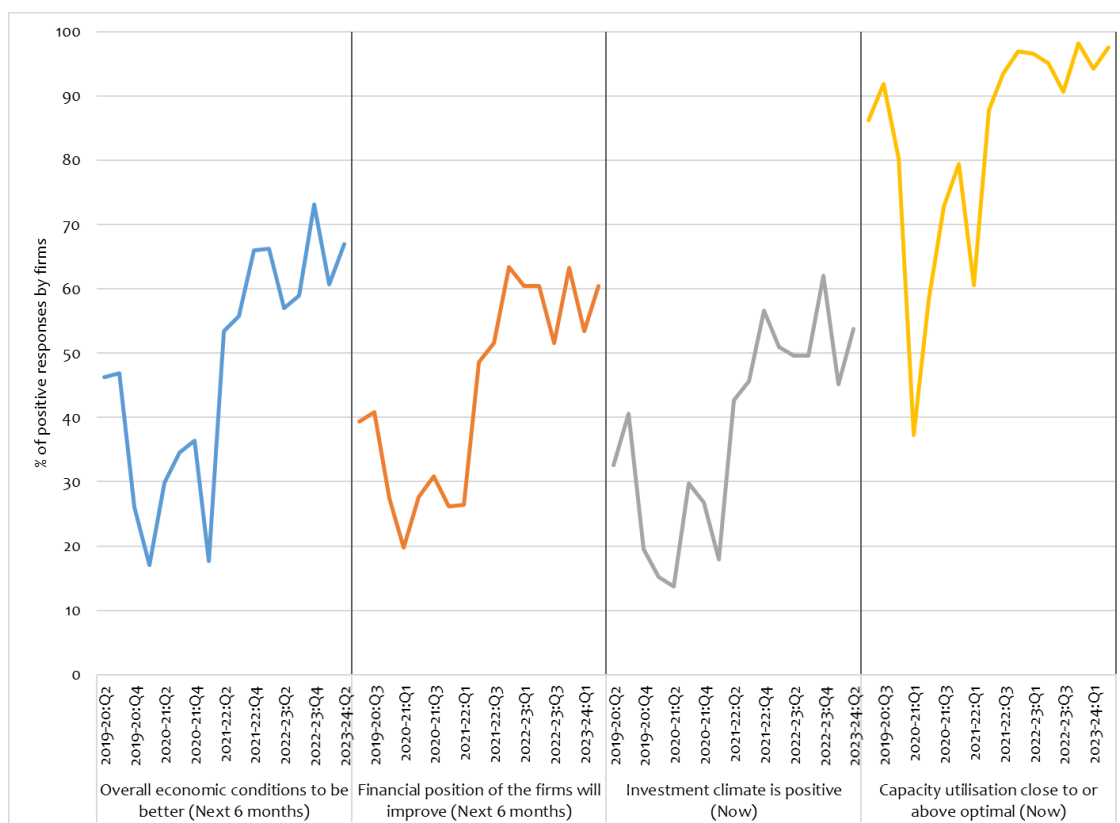
Source: NCAER Business Expectations Survey, several rounds.
Note: Firms are asked to give their responses as 'better', 'same', and 'worse'. Only positive responses ('better' for the first three components and 'better' & 'same' for the fourth component) are taken into account for determining the BCI.

Following are some key findings of the current BES:

- The share of positive responses for the component 'overall economic conditions will be better in the next six months' increased from 60.7 per cent in 2023–24:Q1 to 67.0 per cent in 2023–24:Q2.

- The share of positive responses for the component 'financial position of the firms will improve in the next six months' increased from 53.4 per cent in 2023–24:Q1 to 60.4 per cent in 2023–24:Q2.

- The share of positive responses for the component 'present investment climate is positive' increased from 45.2 per cent in 2023–24:Q1 to 53.8 per cent in 2023–24:Q2.

- The share of 'better' and 'same' responses for the component 'present capacity utilisation is close to or above optimal level' increased from 94.3 per cent in 2023–24:Q1 to 97.6 per cent in 2023–24:Q2.

2. Trends in Firm-specific Business Outlook Indicators

2.1. Business Prospects over the Next Six Months

There was an improvement in sentiments about business prospects for the next six months compared to sentiments in the previous quarter (Table 2.1). Business sentiments improved with regard to domestic parameters like production, domestic sales, new orders, and pre-tax profits, with a larger percentage of firms expecting these to rise in the next six months in 2023–24:Q2 as compared to 2023–24:Q1. In contrast, a lower percentage of firms expected export of their final products and import of raw materials to rise in 2023–24:Q2 as compared to 2023–24:Q1. In absolute terms also, sentiments about domestic parameters (production, domestic sales, new order, and pre-tax profits) were relatively better than sentiments about external parameters (exports and imports of raw materials).

Table 2.1: Business Prospects in the Next Six Months (Expected Change)
June and September 2023

%age Distribution of Respondents	Round	Decrease	No change	Increase by		
				0–5%	5–10%	>10%
			Prospects of			
Production	Sept-23	0.3	27.5	12.7	23.9	35.6
	Jun-23	1.6	31.4	22.7	23.8	20.5
Domestic Sales	Sept-23	0.6	24.5	14.6	30.2	30.0
	Jun-23	1.9	29.9	26.2	24.2	17.7
Exports	Sept-23	0.4	42.9	24.7	19.4	12.6
	Jun-23	1.3	39.8	37.7	13.9	7.4
Imports of Raw Materials	Sept-23	1.0	62.4	14.3	10.5	11.8
	Jun-23	1.5	52.6	31.0	11.7	3.3
Pre-tax Profits	Sept-23	0.4	31.5	20.2	37.4	10.5
	Jun-23	1.8	37.7	30.0	21.4	9.1
Ex-factory Output Price	Sept-23	0.0	64.0	23.5	12.5	0.0
	Jun-23	0.0	62.4	26.9	10.8	0.0
New Orders	Sept-23	0.4	37.8	10.2	29.4	22.1
	Jun-23	1.4	38.9	28.2	23.0	8.6

Source: NCAER-NSE Business Expectations Survey, Rounds 125 and 126.
Note: 'New orders' implies orders being expected by a firm.

The percentage of firms expecting production, domestic sales, new orders, and pre-tax profits to rise in the next six months were 72.2 per cent, 74.8 per cent, 61.7 per cent, and 68.1 per cent, respectively. The percentage of firms expecting a rise in exports and imports of raw materials were relatively lower at 56.7 per cent and 36.6 per cent, respectively.

The share of firms expecting no change in production, domestic sales, new orders, and pre-tax profits declined between the two periods. The same is the case for the share of firms expecting these parameters to decline between the two periods. However, the share of firms expecting no change in exports of goods and imports of raw materials increased in 2022–23:Q2 compared to 2022–23:Q1.

2.2. Labour Market Prospects

Labour market prospects remained stagnant with the majority of firms reporting no change in the hiring of various types of workers over the past three months (Figures 2.1 & 2.2, Table 2.2). The share of firms reporting a decline in hiring over the past three months was relatively higher in the case of unskilled workers (4.6 per cent) compared to managerial/ skilled workers (0.4 per cent). Similarly, between casual/ temporary and permanent workers, the share of firms reporting a decline in hiring over the past three months was relatively higher in the case of casual/ temporary workers (7.7 per cent) compared to permanent workers (2.4 per cent).

Sentiments about the hiring of workers over the next six months were also stagnant with the majority of firms expecting no change in labour employed. The share of firms expecting hiring to increase in the next six months was relatively higher in the case of casual/ temporary workers versus permanent workers (35.6 per cent and 15.9 per cent, respectively). The percentages for firms expecting an increase in the hiring of managerial/ skilled and unskilled workers were 24.9 per cent and 21.1 per cent, respectively.

In sum, the labour market situation in 2023–24:Q2 was mixed with the majority of firms expecting hiring of labour of various types to remain unchanged. Plus, a very small percentage of firms expected hiring of various types of workers to decline.

Figure 2.1: Sentiments about hiring managerial/ skilled and unskilled workers during the past three months and expectations about the next six months
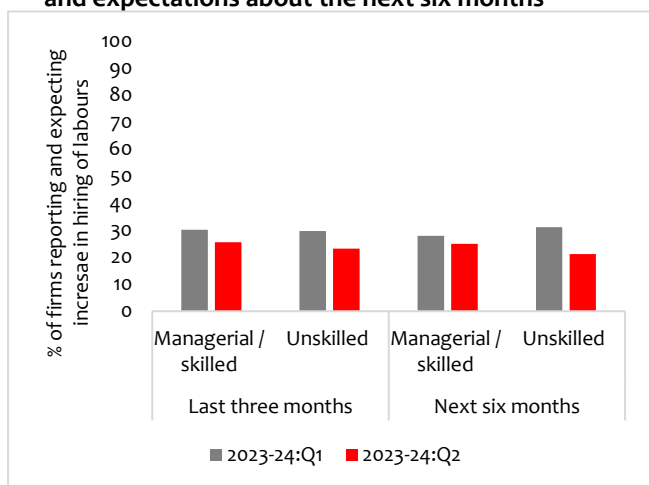
Figure 2.2: Sentiments about hiring casual/ temporary and permanent workers during the past three months and expectations about the next six months
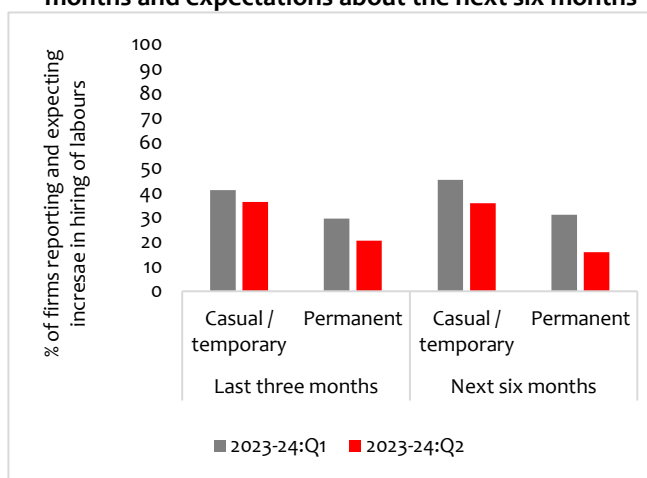
Source: NCAER-NSE Business Expectations Survey, Rounds 125 and 126.

The share of firms reporting an increase in wage rates over the past three months decreased between the last round and this one. For unskilled workers, the share of firms reporting an increase in wage rates over the past three months was 55.2 per cent in 2023–24:Q1, which went down to 38.9 per cent in 2023–24:Q2 (Table 2.2). The corresponding numbers for managerial/ skilled workers were 54.7 per cent and 39.9 per cent, respectively.

Akin to the wage rate trends over the past three months, firms' expectations that wages would rise over the next six months for both skilled and unskilled workers declined between 2023–24:Q1 and 2023–24:Q2. The share of firms expecting an increase in unskilled workers' wage rates over the next six months declined from 38.6 per cent to 32.1 per cent between

2023–24:Q1 and 2023–24:Q2 (Table 2.2). The corresponding decline for skilled workers was from 37.4 per cent to 30.7 per cent.

**Table 2.2: Percentage of Responses in Employment and Wages by Labour Type September 2023**

		Managerial / Skilled	Unskilled	Casual/ Temporary	Permanent
Over the Past Three Months					
Employment	Decrease	0.4	4.6	7.7	2.4
	No change	74.0	72.2	56.1	77.2
	Increase	25.5	23.2	36.2	20.4
	Increase by >10%	0.2	0.0	1.2	0.0
Wages	Decrease	0.2	0.2	N.A.	N.A.
	No change	59.9	60.8	N.A.	N.A.
	Increase	39.9	38.9	N.A.	N.A.
	Increase by >10%	5.8	4.4	N.A.	N.A.
Over the Next Six Months					
Employment	Decrease	0.0	0.5	2.4	0.9
	No change	75.1	78.4	62.0	83.3
	Increase	24.9	21.1	35.6	15.9
	Increase by >10%	0.2	0.0	0.7	0.0
Wages	Decrease	0.0	0.2	N.A.	N.A.
	No change	69.3	67.7	N.A.	N.A.
	Increase	30.7	32.1	N.A.	N.A.
	Increase by >10%	1.1	0.5	N.A.	N.A.

Source: NCAER-NSE Business Expectations Survey, Round 126.

2.3. Costs of Raw Materials, Electricity, and Labour per Unit of Output

The percentage of firms reporting an increase in unit costs of labour and electricity during the past three months declined in 2023–24:Q2 compared to 2023–24:Q1, whereas the percentage of firms reporting an increase in unit costs of raw materials remained unchanged between the two periods. The share of firms expecting a rise in the unit cost of raw materials, electricity and labour in the next six months decreased between the two periods (Figure 2.3).

Figure 2.3: Firms' reporting of and expectations about change in unit cost of Raw Materials, Electricity, and Labour: Over past three months and next six months
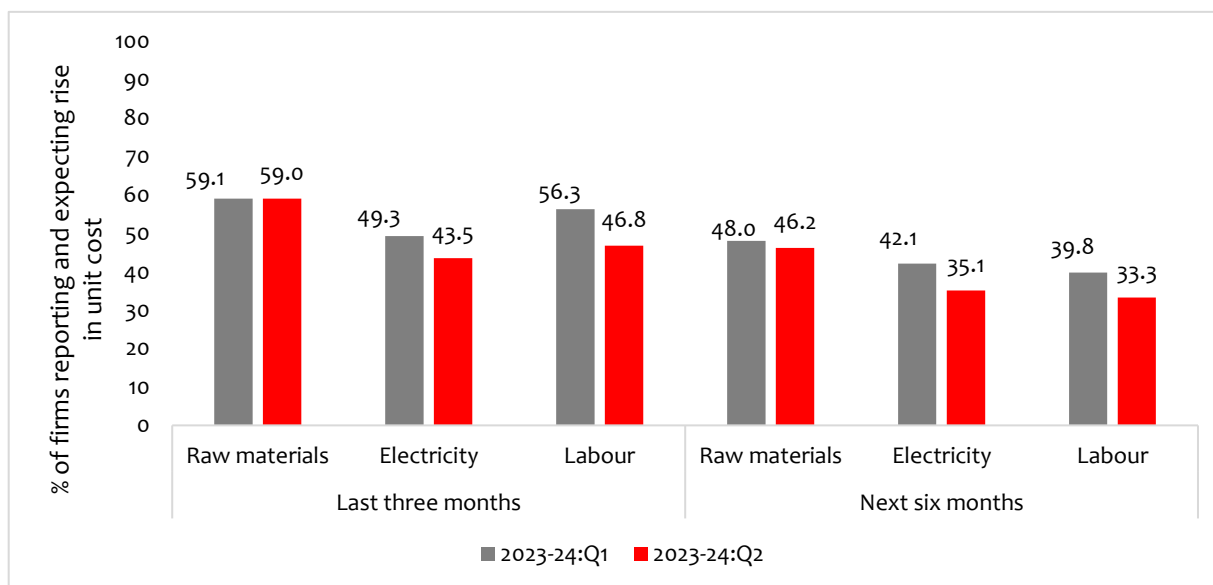
Source: NCAER-NSE Business Expectations Survey, Rounds 125 and 126.

Overall, as also seen during the last quarter, past trends and future sentiments about costs remain muted (Table 2.3). The percentage of firms expecting their ex-factory prices to rise came down from 37.6 per cent to 36.0 per cent between 2023–24:Q1 and 2023–24:Q2.

Table 2.3: Firms' Responses for Unit Raw Materials, Electricity & Labour Cost and Ex-factory Price for the Past Three Months and Next Six Months (%), September 2023

Time Period	Type of Input	Decrease	No Change	Increase
Over the past three months	Raw Material	1.0	40.0	59.0
	Electricity	0.0	56.5	43.5
	Labour	0.0	53.2	46.8
Over the next six months	Raw Material	0.0	53.8	46.2
	Electricity	0.0	64.9	35.1
	Labour	0.0	66.7	33.3
	Ex-factory Price	0.0	64.0	36.0

Source: NCAER-NSE Business Expectations Survey, Round 126.

Annexure: Survey Methodology

1.1. Methodology and Sample Composition

The NCAER-NSE Business Expectations Survey (BES) is a quarterly survey of firms/ industries across six cities, undertaken to assess business sentiments in the four regions of India—North (Delhi-National Capital Region), South (Bangalore and Chennai), East (Kolkata), and West (Mumbai and Pune). The BES covered 500 firms in the 126th round.

Industries are adequately represented in the BES with regard to ownership type, covering public sector, private limited, public limited, partnerships/individually owned firms, and multinational corporations (MNCs); industry sector, covering the consumer durables, consumer non-durables, intermediate goods, capital goods, and services sectors; and firm size, based on the annual turnovers of the firms, covering firms with turnovers of less than ₹1 crore, ₹1 to 10 crore, ₹10 to 100 crore, ₹100 to 500 crore, and more than ₹500 crore.

The sample has been drawn randomly from a list of industries in each city obtained from various sources. Around 90 per cent of the sample has been drawn from the list and 10 per cent of new firms have been taken from outside the list, which have been added to the list for the next round.

2.1. Conduct of the Survey and Quality Assurance

The respondents are contacted through e-mail and details of the survey along with the survey on a Google form link are shared with them. Thereafter, multiple follow-ups are done through both phone and email. Conducting the survey through Google forms facilitates the receipt of responses on a real-time basis. This also allows for a review of the responses on a daily basis. Any discrepancies/anomalies in the responses are discussed with the respondents on the day when the responses are received, and necessary changes are made in such responses. The responses are also checked against the figures available on the websites and through independent validation. This kind of daily review helps maintain distribution across the various groups and the quality of the survey.

3.1. Response Rates

Table A1.1 depicts the response rates across regions and type of firm ownership.

Table A1.1: Response Rate across Regions and Ownership Type (%)

Region	Public Sector	Private Limited	Public Limited/ MNC	Partnership/ Individual Ownership	All
East	78.6	74.0	87.0	59.7	72.7
West	50.0	73.9	54.3	54.5	59.7
North	68.0	84.4	68.5	82.5	76.2
South	14.8	88.5	54.0	66.0	65.6
All	49.0	83.8	63.9	64.3	67.8

Source: NCAER-NSE Business Expectations Survey, Round 126.

4.1. Confidence Intervals of the BCI Components

The confidence intervals are delineated in Table A1.2.

Table A1.2: Confidence Intervals of the BCI Components

Statistic	In looking ahead 6 months from now, overall business conditions for the economy as a whole will be	Compared to now, your firm's own financial position over the next six months will be	How do you rate present investment climate for the economy as a whole compared to six months ago?	How do you rate the current level of operation of your firm relative to its optimal capacity utilisation?	BCI Components average
R126 (2023–24: Q2)					
Sample size	500	500	500	500	500
Proportion of positive responses	0.67	0.60	0.54	0.98	0.70
Relative Standard Error	0.00022	0.00024	0.00025	0.00002	0.00021
Confidence interval @95% level of significance	0.6703	0.6043	0.5383	0.9761	0.6973
	0.6697	0.6037	0.5377	0.9759	0.6967
BCI Range					140.83
					140.73
R125 (2023–24: Q1)					
Sample size	489	489	489	489	489
Proportion of positive responses	0.61	0.53	0.45	0.94	0.63
Relative Standard Error	0.00024	0.00025	0.00025	0.00006	0.00024
Confidence interval @95% level of significance	0.6077	0.5341	0.4522	0.9429	0.6343
	0.6070	0.5334	0.4517	0.9426	0.6336
BCI Range					**128.10**
					127.99
R124 (2022–23: Q4)					
Sample size	498	498	498	498	498
Proportion of positive responses	0.73	0.63	0.62	0.98	0.74
Relative Standard Error	0.00025	0.00025	0.00025	0.00009	0.00019
Confidence interval @95% level of significance	0.7313	0.6329	0.6208	0.9820	0.7418
	0.7306	0.6322	0.6201	0.9819	0.7411
BCI Range					**149.81**
					149.71

Note: t-statistic significance value at 95 per cent level of significance is 2.33; at 90 per cent, it is 1.96.
Change in BCI between two rounds is statistically significant if there is no overlap between the respective ranges.
Given that there is no overlap between the BCI ranges in all three rounds given above, the changes between the rounds are statistically significant.