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Business confidence back as slowdown slows down

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NEW DELHI: With the economy getting its bounce back, corporates are now a lot more optimistic about the future, a survey of business confidence has revealed.

Business confidence among the country's 545 large firms has surpassed even the level that prevailed before the global financial crisis hit sentiments, according to the latest National Council of Applied Economic Research (NCAER)-MasterCard Worldwide Index of Business Confidence released on Thursday.

The index reported a sharp rise of 21 per cent in October, compared to the previous readings on July. All the firms surveyed were optimistic about the overall economic conditions and also their own financial position in the next six months and current levels of capacity utilisation.

The response also points out that investment climate is significantly better in September as compared to July.

The rise in business confidence as measured by the index is in line with projections suggested by the Edelweiss-ETNOW lead economic indicator and surveys conducted by various industrial bodies.

Survey by industrial body Ficci released last week also suggested that the growth of Indian manufacturing sector will be robust, despite the truant monsoon rains. This year, India received the weakest monsoon rains in the last seven years and more than 40 per cent of districts in the country were declared drought hit.

Robust sales in cars and commercial vehicles, steady performance of sectors like cement and steel and a buoyant capital market also supports the bounce in the business confidence. Steady increases in purchasing manager's index, cargo handling at ports and airports and the revival in property markets corroborates this trend further.

"The recovery of economic growth appears to be more robust in view of the continuing consolidation of business confidence," says the report. The index had hit bottom in April, after the global financial crisis hit world economies.

The improvement in the industrial production in recent months, as measured by the index of industrial production, was anticipated by the subjective expectations of the business confidence index released in July.

However, Citi economist Rohini Malkani pointed out that the upturn in industrial production in the past four months was due to the stimulus measures, improvement in the macro environment and the impact of new hydrocarbon discoveries coming on stream.

Economists are also of the opinion that the timing of exit from the stimulus measures will have an impact on growth. Ficci secretary-general Amit Mitra recently warned against an early exit from the stimulus measures. "This growth momentum still needs to ride on continued demand stimulation for another six months, after which we can review inflationary pressures, if any," Mr Mitra had said.

While the government has made it clear that rolling back of stimulus measures will start from next year, the Reserve Bank of India (RBI) has already signalled a hardening of its monetary policy stance, with a one percentage point increase in the statutory liquidity ratio last month.

While the business confidence index continued on the upward trajectory, the political confidence index released by NCAER showed a slight dip from the previous quarter. As it was at its all-time high in the previous quarter, since its inception in October 2004, the marginal downward correction is on expected lines.

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