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Business confidence down, but not out

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India, being no exception to the global crisis and economic downturn worldwide, has witnessed a slump in its economic activities on the ground and has hit corporate finances in the second half of FY09. As a result the Business Confidence Index (BCI)

fell in this quarter too. The ET-NCAER BCI peaked last in Jan' 08. The BCI has been falling since then. So far, it has declined by 47% from its peak. The BCI fell 10.7% in the latest round of the survey for the quarter ended Mar' 09 on sequential basis. The plunge in the latest round was not as steep as a fall of 23.8% in the previous quarter. However, it recorded a decline of 45% on y-o-y basis and reached 81.9, the lowest level since Oct '01. It clearly shows that the measures taken so far, both fiscal and monetary measures, to resolve the economic crisis were unable to bring cheer to India Inc.

The BCI and its components:

All the four components of BCI—the overall economic condition, financial position in the next six months, the current investment climate in the economy and the capacity utilisation of the firms relative to the optimal level of operations—have shown a decline over the previous quarter. Actually, the south-bound rally in these components continued even in this quarter.

The steep fall of 27% and 22.5% in confidence was observed in case of current investment climate and bleak outlook on overall economic conditions in future, respectively. Despite fall in benchmark interest rates, lending rates of the banks did not fall to that extent. Thus, cost of funds for companies continued to be higher. Weak global economic conditions and no revival in domestic demand resulted into a cautious outlook on economic situation.

The pessimism was not that deep in case of the micro level factors. The number of respondents expecting improvement in their financials reduced marginally by 7% in this round against a fall of 31% in positive responses in the previous round. Also, the number of firms operating at full capacities declined by 2% during the quarter ended Mar '09 compared to a fall of 11% in the previous quarter.

The BCI and sectors:

There is a drop in the BCI amongst all the sectors; namely consumer durables, intermediate goods, capital goods and services except consumer non-durables. The drop is the sharpest in the case of consumer durables (25.5%) followed by capital goods (19.9%), the worst hit sectors of the current events. Least optimism over economic conditions and unfavourable investment climate were the dampening factors in both the cases. However firms belonging to capital goods segment were not as pessimistic as the consumer durable firms when it pertained to the financial health of the firms. Services sector and intermediate goods also witnessed a fall in confidence.

Consumer non-durable was the only sector to record increase in business confidence this round. It was led by anticipation of an improvement in future conditions. The future component of the index- financial position and overall economic conditions- posted a rise while the present conditions in terms of investment climate and number of firms operating at optimal level recorded a fall.

In short, relatively a marginal fall in number of firms operating near optimal capacity level suggests that the firms were attempting to find opportunities in adversity. But the overall pattern of sentiments across the major sectors was dominated by perception of weak economic conditions.

Regional patterns of business confidence

There is a greater disparity in perceptions across regions than across sectors. The south and the west showed rise in BCI in the current round of the survey on account of the improvement in investment climate and expectation of better financial position for the firms. As a result, level of capacity utilisation also increased in these regions. The Western region recorded sharp rise of 20% while the South recorded a modest rise of 1% in BCI in the current round. The east and north have recorded steep decline in optimism as their BCI dropped by more than 20% from their respective January 2009 levels.

Business confidence by firm size

The firms at extreme ends—smallest with turnover less than Rs 1 crore and the largest firms with turnover above Rs 500 crore—recorded a steep fall in business confidence. Mid sized firms with turnover in the range of Rs 10-500 crore were relatively less optimistic about business conditions. However, there is no slippage in BCI for the group of firms in the annual turnover category of Rs 1-10 crore.

Business confidence by ownership type

The public sector firms seems more pessimistic about future economic outlook than their counterparts in the private sector. However, the individually owned firms or partnership firms hold on to their expectations on the back of improvement in capacity utilisation and improved expectations of financial position in the next six months.

Conclusion:

The important feature to be highlighted in this round is a marginal improvement in the firm specific sentiments over the previous round. But, the perception over macro conditions like overall economic situation and investment climate continued to be negative. In the latest round, firms had cautious outlook over the domestic sales, operating profits and pricing power, vis-à-vis negative outlook in the previous round. So, once clouds over macroeconomic factors get clear there may be improvement in business confidence.

Moreover, the current round has not factored in the recent rally in equity market as the survey was conducted in March 09. It was the time when the rally had just begun and there was no surety regarding the sustenance of the rally. Also, few data sets were released later hinting towards economic recovery. So if we consider positive cues in recent weeks such as revival of recent foreign capital inflows, growing in sales of cement, steel and automobiles, there could be a turnaround in the sentiments in India Inc in the coming months.

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