



**Business Confidence Survey
August 2022**

Business Confidence Survey

Summary

Overall Business Confidence Index slips to 65.0 in the latest survey round

Geopolitical stress, elevated price levels, and currency volatility impacting businesses

•The latest round of FICCI's Business Confidence Survey reported a fall by a little over two notches in the optimism level of members of India Inc. The Overall Business Confidence Index stood at 65.0 in the current round, vis-à-vis a value of 67.6 in the previous survey round.

•The moderation in the overall index value was backed by a fall in both the Current Conditions Index as well as the Expectations Index – with the moderation being more conspicuous in case of current conditions. In the present round, a decline was noted in the proportion of participants citing improved current conditions relative to last six months at all three levels- economy, industry and firm.

•Persistent geopolitical tensions and escalating inflation levels have had an impact on the confidence levels of corporate India. While business activity in the economy was picking up with the abating of the COVID-19 pandemic, elevated domestic inflation as a result of rising input cost pressures, policy rate hikes, and a volatile Rupee, once again increased uncertainty levels.

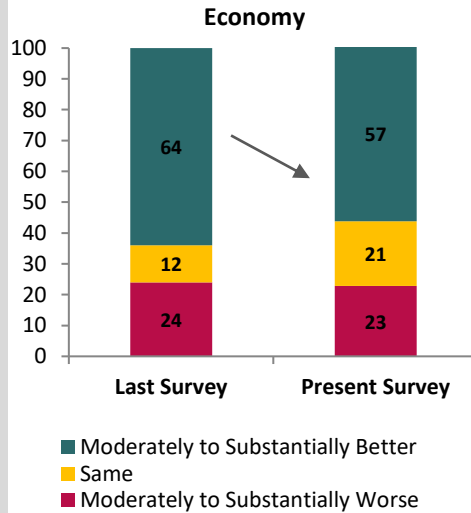
• Results pertaining to operational parameters were mixed. While on one hand a moderation in optimism levels was noted in case of sales, investments and exports; on the other hand, outlook with regard to employment levels noted an improvement.

• In the present survey round, 45% of the participating companies anticipated an increase in investments over coming six months as compared to 52% respondents reporting likewise in the previous round. While 53% of the participating companies anticipated an increase in sales over next two quarters, vis-à-vis 62% respondents reporting likewise in the previous round. Exports are also expected to moderate. An increase was noted in the proportion of participants anticipating lower outbound shipments going ahead, with 32% citing the same in the latest survey, as opposed to 23% in the previous round. The slowdown being witnessed across major economies – United States/Eurozone/China is having a clear bearing on export prospects.

• Accelerating prices of raw materials/ inputs remain as one of the key concerns for Indian businesses and is exerting pressure on the company margins. Moreover, 62% of the respondents said they are being impacted by the recent volatility in the Indian Rupee. Some of the participants indicated that they have been unable to pass on the cost implications of a volatile Rupee to consumers and therefore, have been forced to absorb the impact, cut volumes, while some have resorted to hedge contracts.

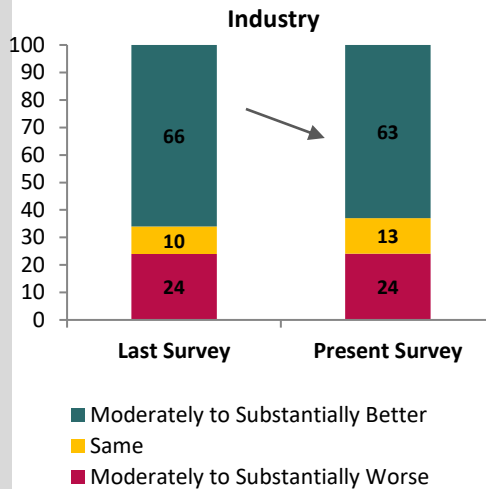
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Current conditions vis-à-vis last six months



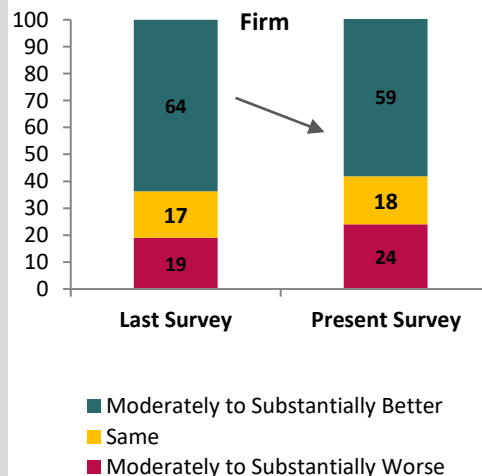
FICCI's latest Business Confidence Survey reported a moderation in the proportion of respondents citing better overall current conditions relative to last six months. Geopolitical tensions, lower global growth prospects, rising raw material costs, volatile Rupee- has had an impact on the sentiment of Corporate India.

In the current round, a decline was noted in the proportion of participants citing improved current conditions relative to last six months at all three levels- economy, industry and firm.



In the present survey, the proportion of participants citing current economic conditions as 'moderately to substantially better' compared to previous six months declined to 57% from 64% in the previous round. The proportion stating current economic conditions to be the same compared to previous six month, increased to 21% in the current round, vis-à-vis 12% stating likewise in the last survey round.

At the industry level, about 63% respondents reported 'moderately to substantially better' current conditions vis-à-vis last six months, while the proportion was higher at 66% in the previous round. Those citing conditions to be the same rose marginally to 13% from 10% in the previous round.



At the firm level, 59% respondents cited current conditions as 'moderately to substantially better' vis-à-vis last six months, lower than 64% stating likewise in the previous round. An increase was noted in the proportion of respondents citing current conditions to be 'moderately to substantially worse' at the firm level in the present round.

With increasing global volatility, the assessment of respondents regarding overall current conditions has noted a moderation...

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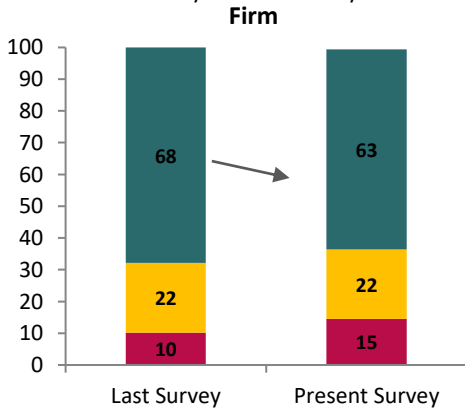
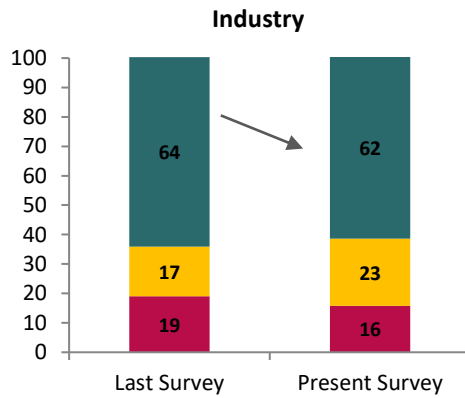
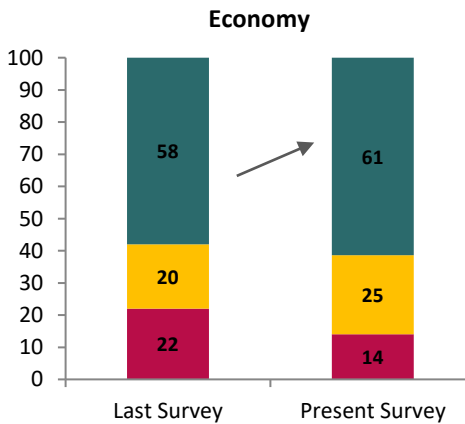
Expected conditions over next six months

Results of the latest survey indicate a marginal deterioration in the optimism level of respondents about near-term prospects at the industry and firm level; nonetheless, an improvement was noted in optimism at the economy level.

At the economy level, the proportion of respondents foreseeing 'moderately to substantially better' performance over next six months improved to 61% in the current round compared to 58% participants citing the same in the previous survey. Those expecting economy-wide conditions to deteriorate in the next six months declined to 14% in the current round from 22% earlier.

At the industry level, 62% of the surveyed companies reported that they expect better performance over next six months, while 23% expected no change. The proportion of respondents anticipating conditions to worsen over the second half of the year declined by 3 points; from 19% in the last survey round to 16% in the present round.

Further, the proportion of participating companies hopeful of better prospects at the firm level witnessed a deterioration as well. About 63% participating companies expected a 'moderately to substantially better' performance over the next two quarters in the current survey, vis-à-vis 68% stating likewise during the previous round. In contrast, the proportion of participants expecting firm-level prospects to worsen rose to 15% in the present round from 10% last time.



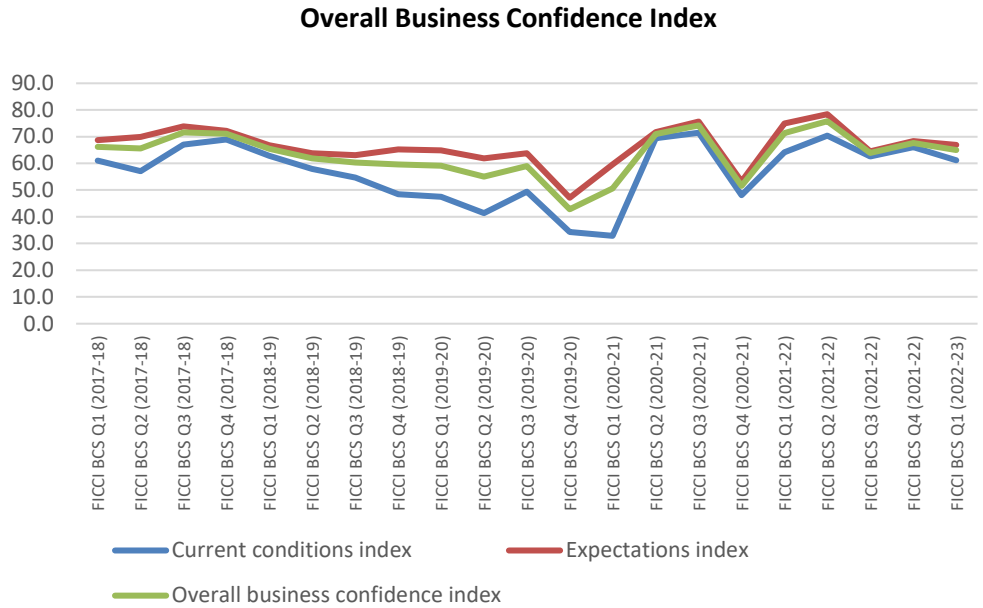
The expectations of respondents regarding performance over the period July-December 2022 witnessed marginal deterioration at the industry and firm levels, while an improvement was noted at the economy level



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Business Confidence Index

Overall Business Confidence Index moderated from the levels observed in the previous round



In the current survey round, a marginal moderation was noted in the confidence levels of corporate India. Overall Business Confidence Index stood at 65.0 in the present survey round as compared to an index value of 67.6 in the last round.

While both the Current Conditions Index and the Expectations Index noted a deterioration, the decline was more conspicuous in case of the former.

The Current Conditions Index declined to 61.1 in the latest round from a value of 66.1 in the previous survey; while the Expectations Index decreased to 66.9 in the present round from a value of 68.3 last time.

Persistent geopolitical tensions and escalating inflation levels globally has had an impact on the confidence levels of corporate India. While business activity in the economy was picking up with the abating of the COVID-19 pandemic, heightened domestic inflation as a result of rising input cost pressures, policy rate hikes, and an increasingly volatile Rupee, have once again increased uncertainty for businesses.

Overall Business Confidence Index stood at 65.0 in the current survey round vis-à-vis 67.6 in the last round

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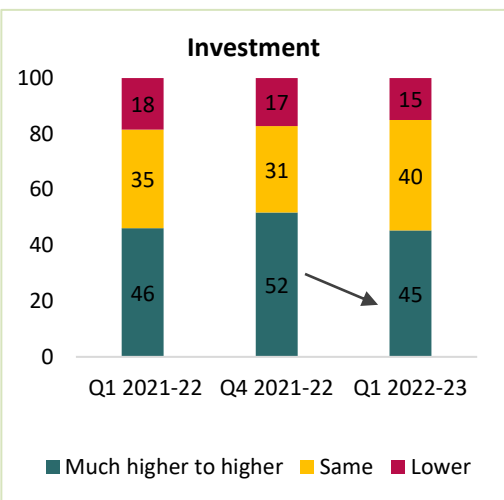
Operational Parameters

Investments

The proportion of respondents citing 'higher to much higher' investments in the coming six months declined in the latest round of the survey, while those citing investment levels to remain the same noted an increase.

45% of the participating companies anticipated an increase in investments over coming six months in the latest survey as compared to 52% respondents reporting likewise in the previous round, while 40% respondents expected investment levels to stay the same.

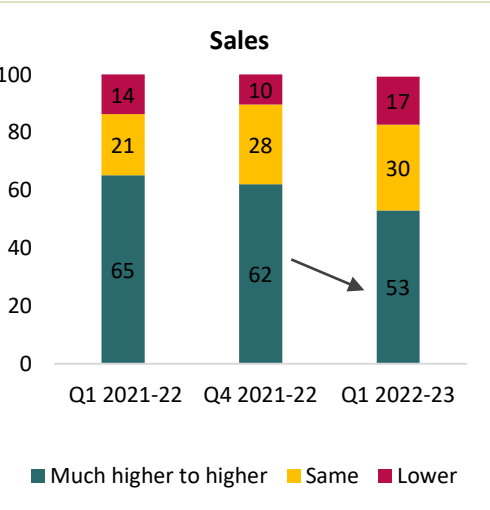
(Proportion of respondents)



Investment outlook remains muted...

Sales

(Proportion of respondents)



Latest survey results reported a noticeable moderation in the outlook of respondents with respect to sales.

53% participating companies anticipated an increase in sales over next two quarters, this is quite a significant change over the previous round's assessment, when 62% respondents had reported likewise. 30% of the participants expected sales to remain same in near future. This can be attributed to increasing cost pressures that may dampen sales volumes going ahead.

...while sales prospects noted a decline...



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Survey results indicate improvement in outlook on profits and employment...

Export outlook notes deterioration...

Operational Parameters

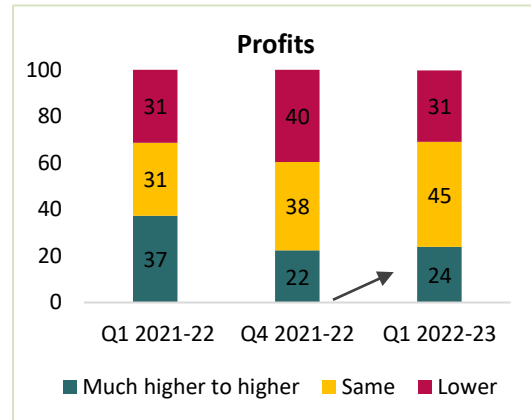
Profits

A majority 45% of the companies participating in the survey expected no change in profit levels over the coming six months. The corresponding numbers in the previous round was 38%. Further, about 24% participants cited higher profits over the near term, vis-à-vis 22% stating likewise in the previous survey round.

(Proportion of respondents)



(Proportion of respondents)



Employment

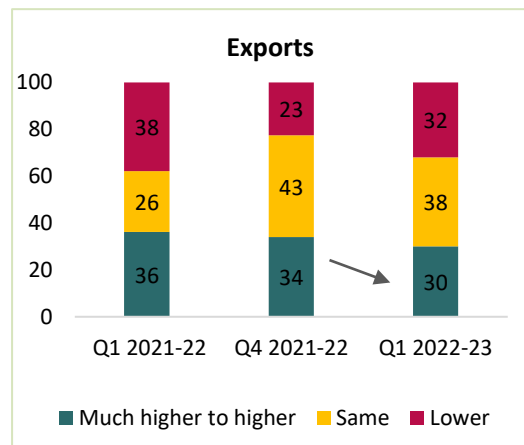
In the present survey round, 42% respondents said that they foresee hiring new employees over the next six months, which is quite a substantial increase compared to 24% respondents stating the same in the previous round. However, rising manpower cost was reported to be a concern by some participants.

(Proportion of respondents)

Exports

In the latest survey, 30% respondents said that they foresee higher to much higher exports over next two quarters, a lower percentage compared to the corresponding number of 34% in the previous round.

An increase was noted in the proportion of participants anticipating lower outbound shipments going ahead, with 32% citing the same in the latest survey, as opposed to 23% in the previous round.



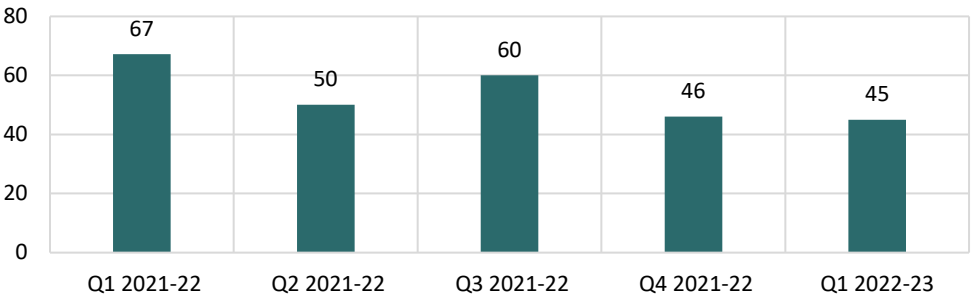
Business Confidence Survey

Constraining Factors

Weak demand a concern for 45% of the surveyed respondents

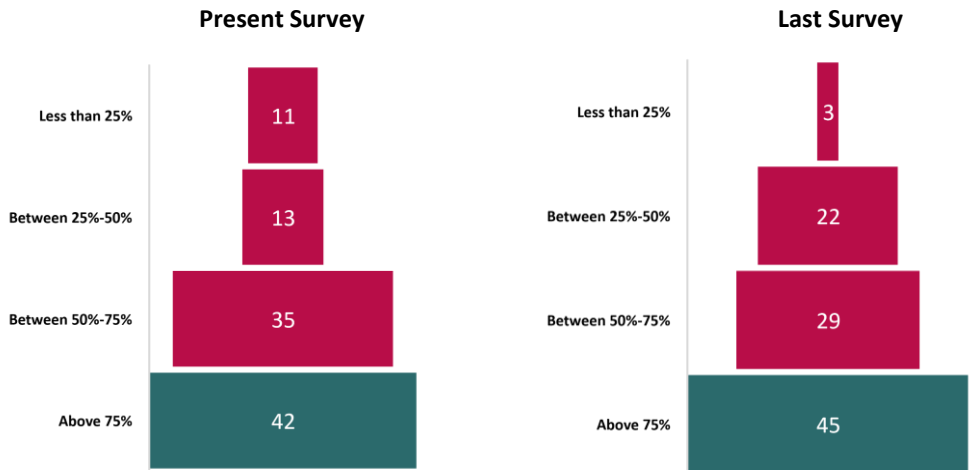
About 45% participating companies cited weak demand as a bothersome factor for their businesses in the latest round, vis-à-vis 46% in the previous round and 67% a year back. Even though survey results indicate a lower proportion of participants citing weak demand as a concern over the past one year, however downside risks to consumption remain with high inflation levels eroding purchasing power. The forthcoming festive season should reflect how the demand situation is panning out in the coming quarter.

(Proportion of respondents)



Capacity Utilization

(Proportion of respondents)



Moreover, proportion of respondents anticipating better order books over next six months declined in the current survey. About 57% companies expected an improvement in their order book position in coming six months vis-à-vis 60% who stated likewise in the previous round.

...around 45% respondents cite weak demand as a constraining factor...

...capacity utilization rate of over 75% reported by 42% of the respondents...

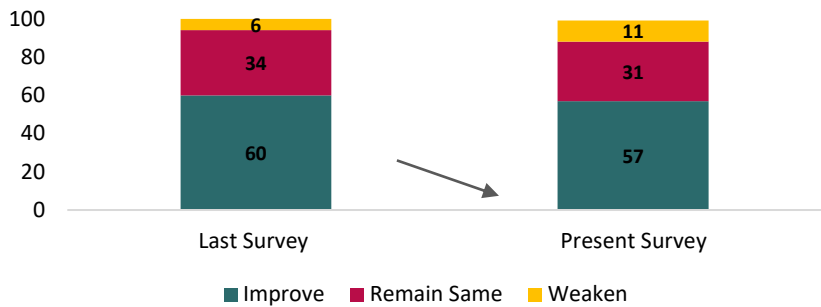


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Constraining Factors

(Proportion of respondents)

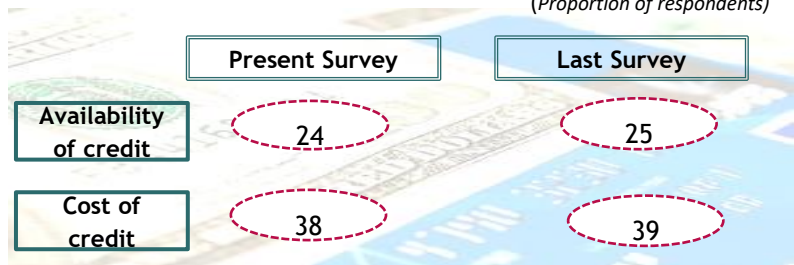
Expected order book position over next two quarters



Credit Situation

In the present survey, proportion of respondents citing availability of credit as a worrisome factor was reported at 24% from 25% in the last round; while the proportion of those citing cost of credit as a cause of concern also noted a marginal fall to 38% in the present round from 39% in the previous round

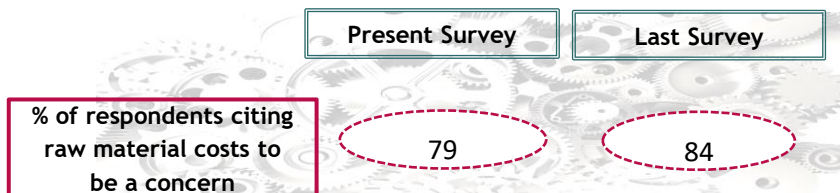
(Proportion of respondents)



Rising Raw Material Costs

In the present survey, rising raw material prices continued to be a major constraining factor, although the percentage of respondents citing the same has come down to 79% in the present round from 84% in the previous survey. The Russia-Ukraine conflict has constrained the supplies of key raw materials, leading to high global commodity and input prices, which have exerted tremendous pressures on import dependent businesses. However, prices of some key commodities have indicated softening recently.

(Proportion of respondents)



Rising raw material costs posing a challenge for 79% of the participating companies...

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Impact of Surging Inflation

The current economic environment continues to remain volatile. The twin supply shocks (COVID-19 pandemic and Russia-Ukraine conflict) and the ensuing globalization of inflation has raised input costs significantly. Both wholesale and retail prices in India are also trading at multi-year highs. With the upside risks on prices expected to remain escalated over the near term, the Reserve bank of India has raised the repo rate by 90 bps over the past month.

Amidst this backdrop, businesses were asked to share the impact of surging inflation levels on their company. Majority of participants highlighted that rising global commodity prices have led to an increase in the prices of imported raw material. Prices of critical inputs, especially fuel and metals have risen substantially. Inflation in food and fuel has also contributed to an increase in firms' labor costs, owing to higher salaries and logistics expenses. Further, demand in the economy has been subdued and monetary policy tightening has increased firms' borrowing cost. All these factors have raised firms' cost of production drastically and, as a result, gross margins are being impacted.

Suggested Measures

With commodity markets continuing to remain volatile, respondents were also asked their opinion on what actions should be prioritized by the government to minimize the impact of such a price shock.

Bring input prices under control (especially fuel)

Stabilize the supply of critical inputs (coal/oil)

Subsidies and tax relief to businesses

Reduce/ Review the GST rates

Check currency volatility

Enhance Logistics support

Incentivize exports through duty cuts

Financial support for MSMEs

Lowering borrowing cost for sunrise sectors

Stimulate demand

Protect the vulnerable sections

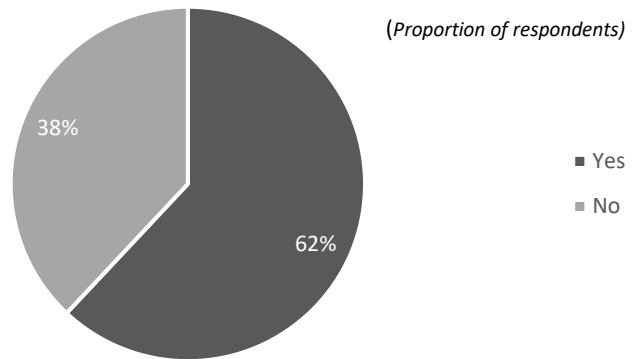
Enhance ease of doing business

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Impact of Currency Volatility

Participating companies were also asked whether their business is being impacted by the recent volatility in the value of the Indian Rupee, and what measures have they adopted to mitigate the impact therefrom.

Business Impacted by Rupee Volatility



62% participants cited being impacted by the recent volatility in the Indian Rupee. Several of them have been unable to pass on the increased cost of raw materials to consumers and therefore, have been forced to absorb the impact, cut volumes, and reduce other input costs, while the others have resorted to hedge contracts.

.... participating businesses are absorbing the losses from fall in Rupee value or undertaking forex hedging....

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Survey Profile

The survey drew responses from about 175 companies with a turnover ranging from Rs 1 crore to Rs 11,000 crore and belonging to a wide array of sectors. The survey gauges expectations of the respondents for the period July to September 2022.

Broad Sectoral Coverage			
Agricultural Equipment	Textile/Apparel	Chemicals	Infrastructure
Services	Real Estate	Metals	Electronics & Electricals
Energy	Engineering Goods	Food Processing	Banking & Financial Services
Automotive	Wood & Wood Products	Travel & Tourism	Pharmaceutical
Packaging	Satellite Communication	Consumer Products	Transport & Logistics

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