The NCAER Business Expectations Survey for India

Second Quarter of 2025–26

Business Confidence Index

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NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH

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NCAER Business Confidence Index
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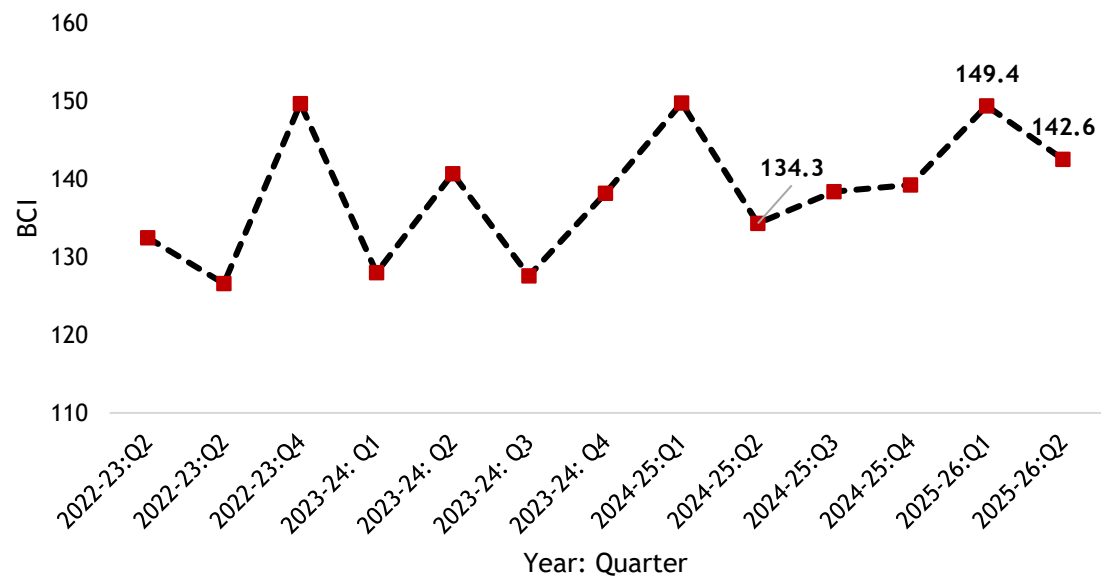
1. Overall Business Confidence[1]

The present round of the Business Expectations Survey was carried out in September 2025 during a period marked by international uncertainties and domestic GST reforms. Announcement of some policies by the US in quick succession in this quarter (specifically in September 2025) added to the uncertainty. The US policies included imposition of additional tariffs, steep hike in H1-B visa fees and imposition of tariff on branded and patented pharmaceutical products. On the domestic side, the new Goods & Services (GST) rates came into effect from September 22, 2025. The number of GST tax slabs were brought down from four to three and GST tax rates rationalised.

On the back of all this, after improving for three consecutive quarters, business sentiments moderated in the second quarter of the current fiscal compared to the first quarter (Figure 1). The BCI eased from 149.4 in 2025-26:Q1 to 142.6 in 2025–26:Q2. However, compared to the corresponding period in the previous fiscal year, business sentiments still remain elevated (142.6 in 2025-26:Q2 compared to 134.3 in 2024-25:Q2).

Figure 1.1: Business Confidence Index. 2022-23 Q2- to 2025-26 Q2



Source: NCAER BES various Rounds

There are four components that make up the BCI- 'overall economic conditions to improve in next six months'; 'financial position of the firms will improve in next six months'; 'present investment climate is positive'; and 'present capacity utilisation was close to or above optimal level'. The BCI was driven down by easing of sentiments in three of the four components, namely 'overall economic conditions to improve in next six months'; 'financial position of the firms will improve in next six months'; and 'present investment climate is

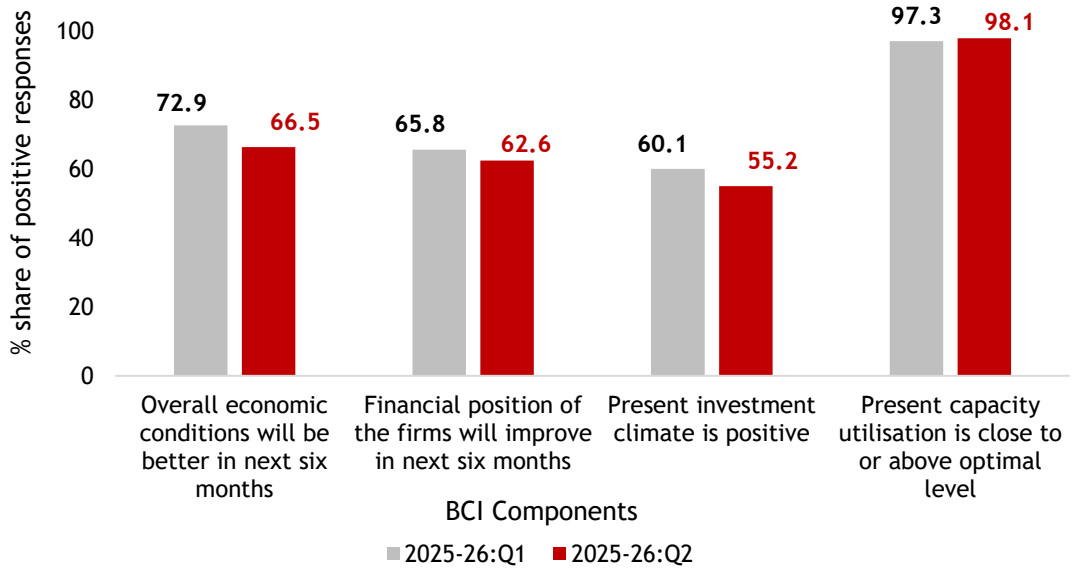
[1] NCAER has been carrying out quarterly surveys of Business Expectations in India since 1992 to assess business sentiments. The recent round (134th) was carried out in September 2025 covering 484 respondents spread across six cities.

positive'. However, there was improvement in sentiments regarding 'present capacity utilisation being close to or above optimal level'. Overall, the share of positive responses remained above 50 per cent in 2025–26:Q2 for all four components signalling slower growth momentum going forward.

The components dealing with macro sentiments were relatively more negatively affected. The share of firms expecting 'overall economic conditions to improve in next six months' fell from 73 per cent in 2025-26:Q1 to 66.5 per cent in 2025-26:Q2. (Figure 1.2). The share of firms perceiving that 'present investment climate is positive' also declined from 60.1 per cent in 2025-26:Q1 to 55.2 per cent in 2025-26:Q2.

The impact was mixed on the components dealing with micro sentiments. The share of firms expecting their own 'financial position to improve in next six months' decreased from 65.8 per cent in 2025-26:Q1 to 62.6 per cent in 2025-26:Q2. Though a higher number of firms -- 98.1 per cent firms in 2025-26:Q2 perceived the present capacity utilisation to be close to or above optimal levels, which is marginally higher compared to the share of firms in the previous quarter, 97.3 per cent in 2025-26:Q1.

Figure 1.2: Components of BCI, 2025-26Q1 and 2025-26Q2



Source: NCAER BES Rounds 133 and 134

Sentiments differed across firm size, sectors and regions.[2] Firms with annual turnover of less than or equal to Rs 100 crore are defined as micro, small and medium enterprises (MSMEs) and firms with annual turnover of more than Rs 100 crore as 'large' firms.

The BCI for MSMEs marginally went up from 137.1 in 2025-26:Q1 to 138.2 in 2025-26:Q2, signalling virtually unchanged sentiments. While for large firms, the BCI went down from 171.6 in 2025–26:Q1 to 149.9 in 2025–26:Q2. Interestingly, only 31.8 per cent of the MSMEs

[2] The BCI of the services sector went up from 132.8 in 2025-26:Q1 to 137.8 in 2025-26:Q2. The BCIs of the manufacturing sectors- consumer durables, consumer non-durables and capital goods eased while the BCI of the intermediate goods sector remained virtually unchanged.
Regionally, while business sentiments improved in the North and the East, it deteriorated in the South and the West. The BCI of the East went up from 148.6 in 2025–26:Q1 to 161.9 in 2025–26:Q2. The BCI of the North also went up from 140.6 in 2025–26:Q1 to 163.7 in 2025–26:Q2. The BCI of the South fell from 174.1 in 2025–26:Q1 to 134.8 in 2025–26:Q2. The BCI of the West fell from 131.5 in 2025–26: Q1 to 110.2 in 2025–26:Q2.

in the sample were exporting firms as compared to 61.5 per cent large firms being exporting firms. The evidence clearly suggests that larger firms were relatively more negatively affected by international uncertainties as they are more outward looking. Despite the decline experienced this quarter, the BCI of large firms was higher than that of the MSMEs.

2. Business Prospects

Business prospects exhibited mixed trends due to divergence in different parameters. The share of all firms expecting production to increase in the next six months went up from 78.7 per cent in 2025-26:Q1 to 82.4 per cent in 2025-26:Q2. However, 44 per cent of all firms expected this increase to be between zero to five per cent.

Similar trends are seen in other parameters. The share of all firms expecting domestic sales to increase went up from 79 per cent in 2025-26:Q1 to 83 per cent in 2025-26:Q2 (Figure 1.3A). However, 43 per cent of all firms expected this increase to be between zero to five per cent.

The share of all firms expecting new orders over the next six months decreased from 71 per cent in 2025-26:Q1 to 67.2 per cent in 2025-26 Q2. The share of all firms expecting a decrease in domestic sales in the next six months went up from the first quarter to the second quarter. Interestingly, 5.1 per cent of all firms responded that they were uncertain about new orders over the next six months.

The share of all firms expecting exports of final products to increase went up from 66.5 per cent in 2025-26:Q1 to 73.4 per cent in 2025–26:Q2 (Figure 1.3B). However, 47.3 per cent of all firms expected this increase to be between zero to five per cent.

In contrast, the share of all firms expecting import of raw materials to rise, decreased from 54.3 per cent in 2025-26:Q1 to 40.7 per cent in 2025-26:Q2.

The sentiments about pre-tax profits eased with 54.3 firms in 2025-26:Q2 expecting it to rise as compared to 61 per cent of firms in 2025-26:Q1. About, 10 per cent of firms were uncertain about their sentiments regarding pre-tax profits in this round. Sentiments regarding ex-factory prices also witnessed moderation with less share of firms expecting these to rise in 2025-26:Q2 (43.3 per cent) compared to 2025-26:Q2 (51.1 per cent).

Figure 1.3A: Production, Domestic Sales, and New Orders to Increase Over Next Six Months

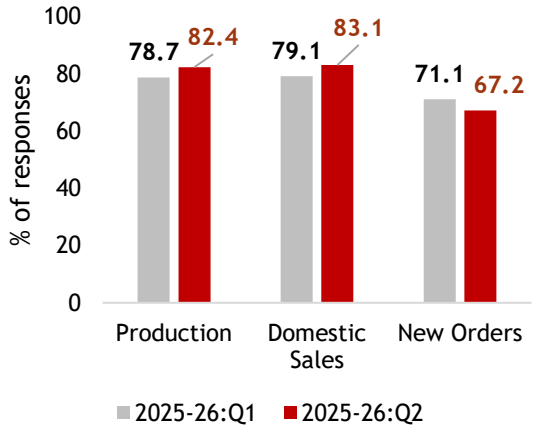
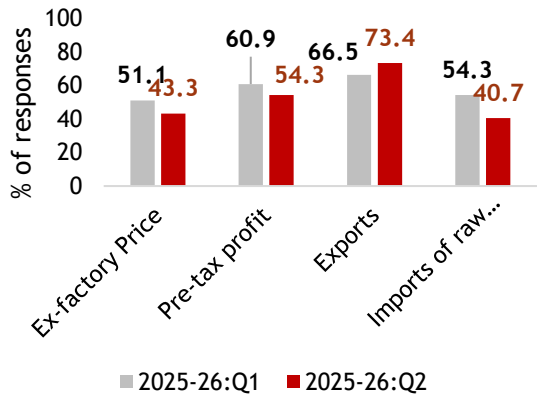


Figure 1.3B: Ex-factory price, Pre-Tax Profits, Exports, Imports of Raw Materials to Increase Over Next Six Months



Source: NCAER BES Rounds 133 and 134.

3. Employment

Labour markets are showing signs of stagnation with majority of firms expecting no change in hiring of various types of labour in next six months (Figure 1.4A). More than 70 per cent of firms expect no change in hiring over the next six months across three of the four types of workers. Further, the share of firms expecting 'no change' in hiring permanent workers over the next six months was 75.2 per cent in 2025-26:Q2 versus 77 per cent in 2025-26:Q1. Only 20 per cent of firms expect hiring of permanent workers to increase in the next six months.

Likewise, 68 per cent firms expect hiring of casual temporary workers to remain unchanged and only 29 per cent of firms expect hiring of casual temporary workers to increase over the next six months. The corresponding numbers for the first quarter were 75 percent and 25 per cent, respectively. This signals that the temporary workers' market is likely to experience some improvement compared to the market for permanent workers in the next six months.

The share of firms expecting 'no change' in hiring managerial/skilled workers over the next six months eased to 72.2 per cent in 2025-26:Q2 versus 74.8 per cent in 2025-26:Q1. Only 25 per cent of firms expected hiring of managerial/skilled workers to increase.

The share of firms expecting 'no change' in hiring unskilled workers over the next six months was 74.7 per cent in 2025-26:Q2 versus 73.6 per cent in 2025-26:Q1. About 22 per cent of firms expected hiring of skilled workers to increase over the next six months.

Sentiments about expected wage rates in next six months, however, experienced some buoyancy with close to half of firms expecting wage rates to rise for both types of labour (Figure 1.4B). This signals that firms are soft about hiring workers but they intend to pay them improved wage rates.

Figure 1.4A: Expectations about Employment over Next Six Months

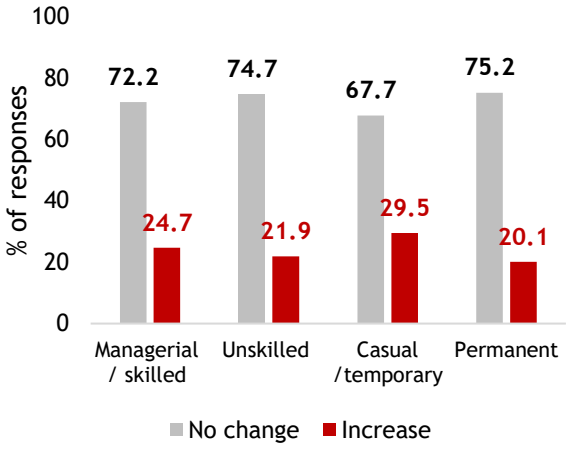
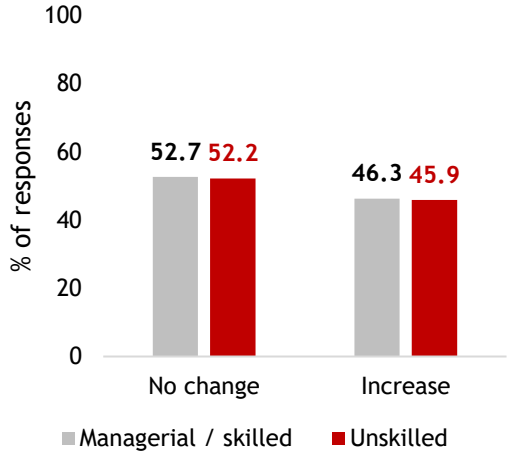


Figure 1.4B: Expectations about Wage Rates over Next Six Months



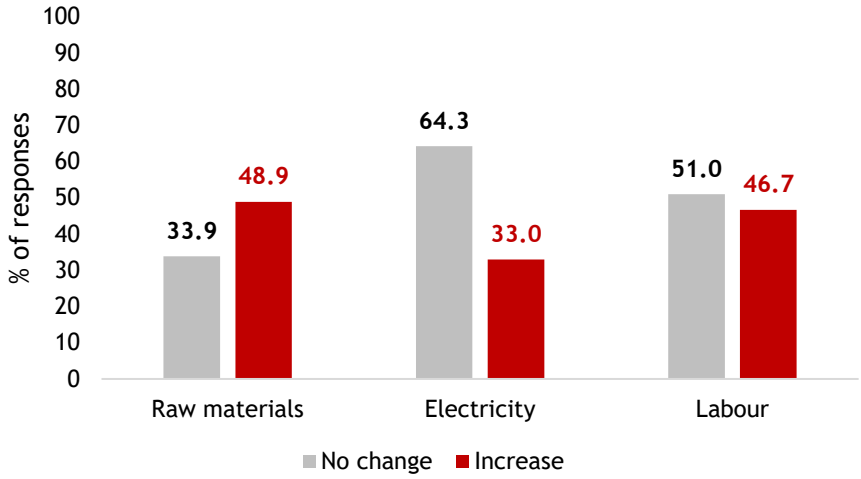
Source: NCAER BES Rounds 133 and 134.

4. Unit costs of Raw Materials, Electricity, and Labour

Sentiments about changes in unit cost of raw materials, electricity and labour were mixed in 2025-26:Q2 (Figure 1.5). About 49 per cent of all firms expected rise in unit cost of raw materials in the next six months and 43.7 per cent of all firms expected the rise to be between zero and five per cent. However, 33.9 per cent of all firms expected costs of raw materials to remain unchanged and 6.4 per cent of firms expected it to decline.

A significant number of firms (64.3 per cent) expected no change in unit costs of electricity and 33 per cent expected it to rise (with majority of them expecting the increase to be between zero and five per cent).

Figure 1.5: Expectations of Unit Costs of Raw Material, Electricity, and Labour over Next Six Months



Source: NCAER BES, Rounds 133 and 134.

Approximately 46.7 per cent of firms expected rise in unit costs of labour (though majority of them expected the rise to be between zero and five per cent) and 51 per cent expected labour costs to remain unchanged.

The above shows that cost sentiments about electricity are muted but for raw materials and labour, these are elevated. However, majority of all firms expected the rise in costs to be between zero and five per cent.