

The Highs and Lows of GST

The latest round of the Business Confidence and Performance Index (BCPI) Survey was conducted at the end of June, just before India moved to the GST regime. IMA queried member corporations on their expectations for the macro economy and for their firm's performance and preliminary results suggest an industry that is guarded in its outlook, particularly in view of the uncertainties that the transition to GST may entail.

Illustratively, a substantial proportion (30 per cent) of the firms said they were not fully prepared for the onset of the GST. A quarter of the firms said GST will be inflationary for their product/service and another 18.6 per cent were uncertain about its inflationary impact. Further, 22.2 per cent of the sample said GST will have a negative impact on growth in their sector of operation, while 23.8 per cent were unsure of its impact. This uncertainty is reflected in a 10-point downswing in the headline BCPI to 58.5, with the index

Chart 1: The Business Confidence and Performance Index (BCPI)

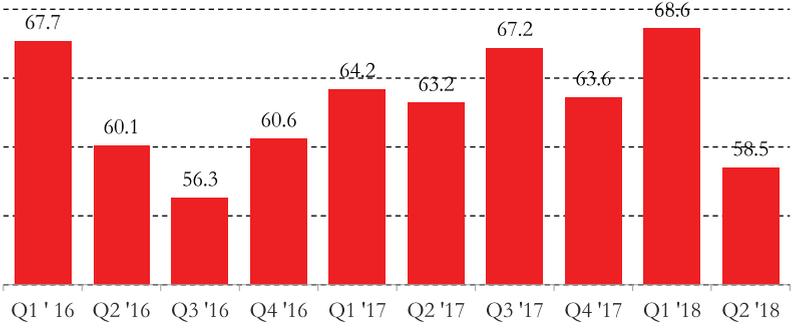


Chart 2: Actual versus expected performance

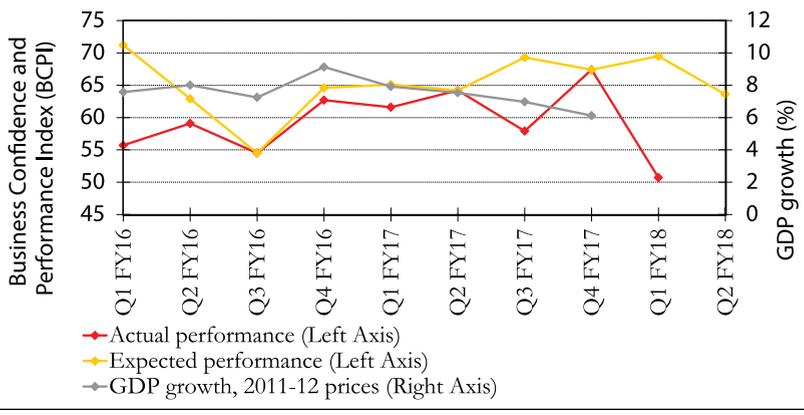


Chart 3: The Business Confidence and Performance Index

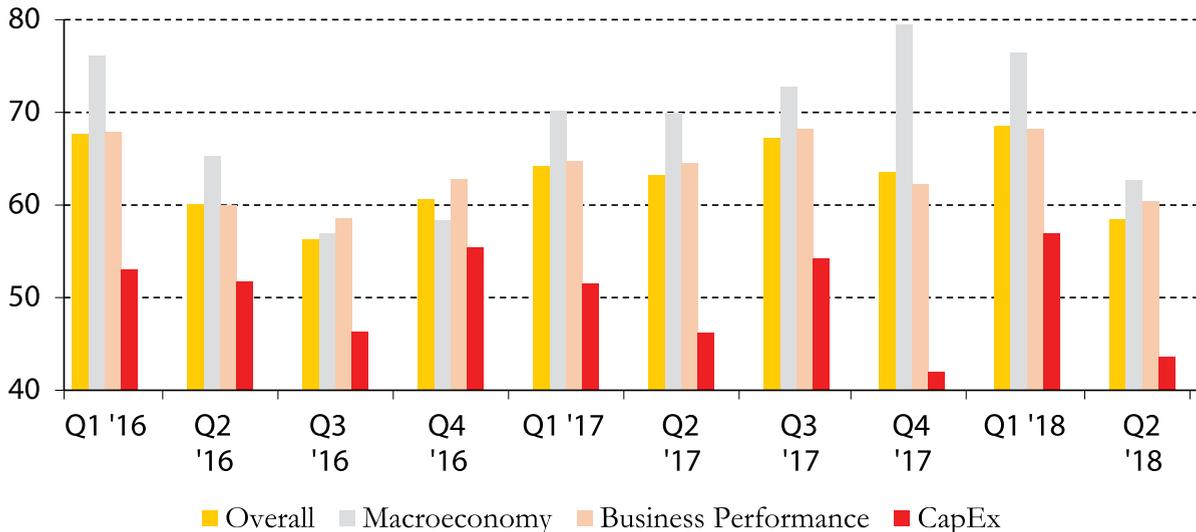
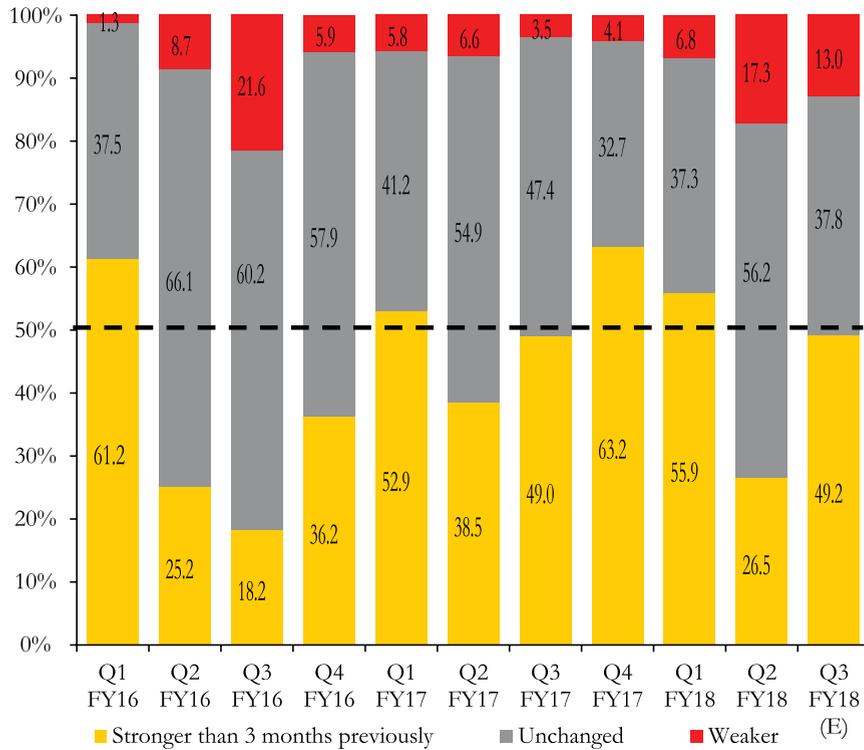


Chart 4: Macroeconomic conditions



dropping below 60 for the first time since Q3 FY16 (see Chart 1). Further, as Chart 2 indicates, performance in Q1 FY18 was significantly below expectations.

Driving this is a 14-point quarter-on-quarter drop in the macro-economy index to 62.7. Worryingly, this is the first time since Q4 FY16 that this index has dropped below 70 (see Chart 3). Moreover, as shown in Chart 4, only 26.5 per cent of the respondent firms said that current macroeconomic conditions are better than a quarter ago and a significant proportion (17.3 per cent) said they are actually worse.

The decline in the BCPI is also due to a drop in the business performance index, from 68.2 in Q1 to 60.4 in Q2 (see Chart 3). Across all the five parameters of business performance that are tracked by the survey – sales growth, new orders, profitability growth, capacity utilisation, and net new (not replacement) hiring – actual performance in Q1 FY18 was worse than anticipated. Illustratively, 54.6 per cent of the firms had projected higher sales growth in Q1, but only 39.7 per cent actually saw this (see Chart 5). Moreover, 10.6 per cent had expected lower sales growth, but more (23.4 per cent) actually saw a slowdown in sales growth. Further, in the Q2 FY18 survey, the CapEx index also fell, from an already subdued to 57 to 43.6 (it has been in the red in four of the last eight quarters) (see Chart 3). ■

Chart 5: Business Parameters

