

Industrial Outlook Survey: 2012-13*

The Reserve Bank of India monitors trends in various macroeconomic indicators in the process of conducting monetary policy in India. However, most of these indicators are available with a time lag. In order to bridge the gap, the Reserve Bank conducts a few forward looking surveys¹ covering corporate and household sectors. The corporate sector being one of the key sectors in an economy, sentiments that drive current and near term business decisions is a key information for policy formulation.

The Reserve Bank of India has been conducting the Industrial Outlook Survey (IOS) for the Indian manufacturing sector on a quarterly basis since 1998. The survey captures the assessment of business sentiments for the current quarter and expectations for the ensuing quarter, based on qualitative responses on a set of parameters pertaining to the demand conditions, financial conditions, employment condition and price situation. The survey schedule is canvassed among a fixed panel of 2,000 manufacturing companies, mostly with paid-up capital above ₹5 million, representing a good mix of size and industry groups. The panel is periodically updated with addition of new companies or deletion of closed/merged companies as required.

This article analyses the survey responses for four quarters from April-June 2012 to January-March 2013. The response rate lied between 65-78 percent during this period.

I.1 Business sentiments weakened progressively

The business Expectation Index (BEI) which is computed as a weighted average of net responses

* Prepared in the Division of Enterprise Surveys, Department of Statistics and Information Management. The latest round of the survey data was released on May 2, 2013 on RBI Website. The survey schedule is published along with the press release for launching the survey in each quarter. The survey results are those of the respondents and are not necessarily shared by the Reserve Bank of India

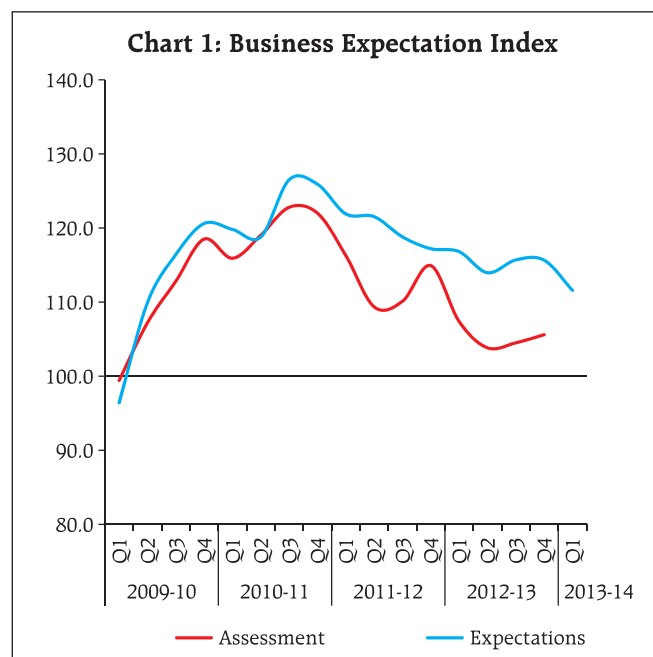
¹ For a detailed reading on forward looking surveys conducted by the Reserve Bank of India and international practices, a reference may be made to the Report of the Working Group on Surveys, RBI Monthly Bulletin, September 2009.

on nine select performance parameter² gives a single snapshot of the industrial outlook in each quarter. For each of the survey round, two indices are computed - one based on assessment of current quarter and another based on expectations of next quarter.

During the year under study, BEI (based on assessment) moderated in the first two quarters when it reached a level seen at the onset of financial crisis in Q3:2008-09 and moved up marginally in the next two quarters. BEI (based on outlook) also indicated similar trend but recorded a sharp drop in Q1:2013-14. It is observed that the index based on expectation has generally been higher than the index based on assessment and the gap has widened since 2011-12 (Chart 1). The BEI has still remained in the growth terrain (*i.e.*, above 100, which is the threshold separating contraction from expansion).

I.2 Demand conditions weakened

The survey collects perceptions of Indian manufacturers on demand conditions through various parameters, namely, production, order books, capacity utilisation, inventory, exports and imports. In respect of most of the above parameters, outlook during

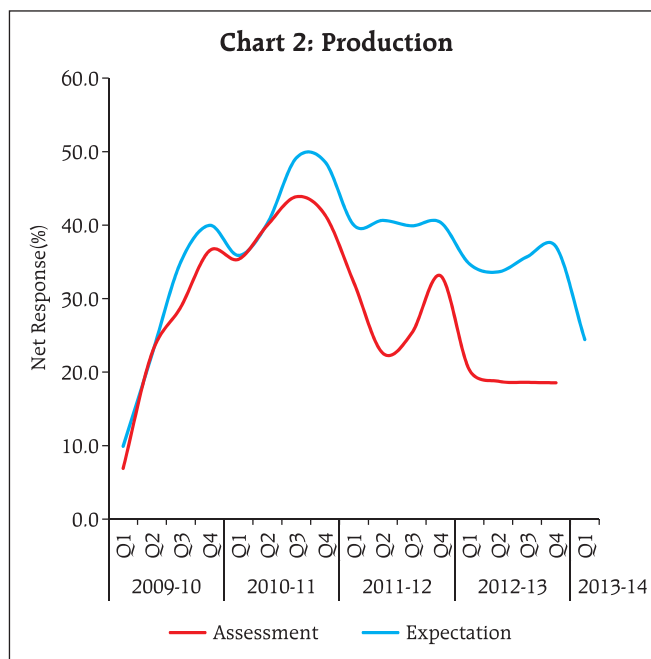


² The detailed methodology used for analysis of survey data is published in the article 'Quarterly Industrial Outlook Survey: Trends since 2000-01' in RBI Monthly Bulletin of October 2009.

FY: 2012-13 remained weak and it deteriorated further for Q1: 2013-14. Analysis of data from the previous survey rounds indicates that one-quarter ahead outlook is generally able to track the actual movement in the case of most of the parameters (Box I).

1.2.1 The net response³ on production dropped sharply in assessment quarter of Q1:2012-13 and it remained flat in the remaining quarters. One quarter ahead outlook also showed lower optimism in Q1 and Q2 of 2012-13. Though expectations improved modestly during the next two quarters, the same declined sharply for Q1:2013-14 (Chart 2). The pattern was similar for order books also (Chart 3). However, positive net response is indicative of continued growth.

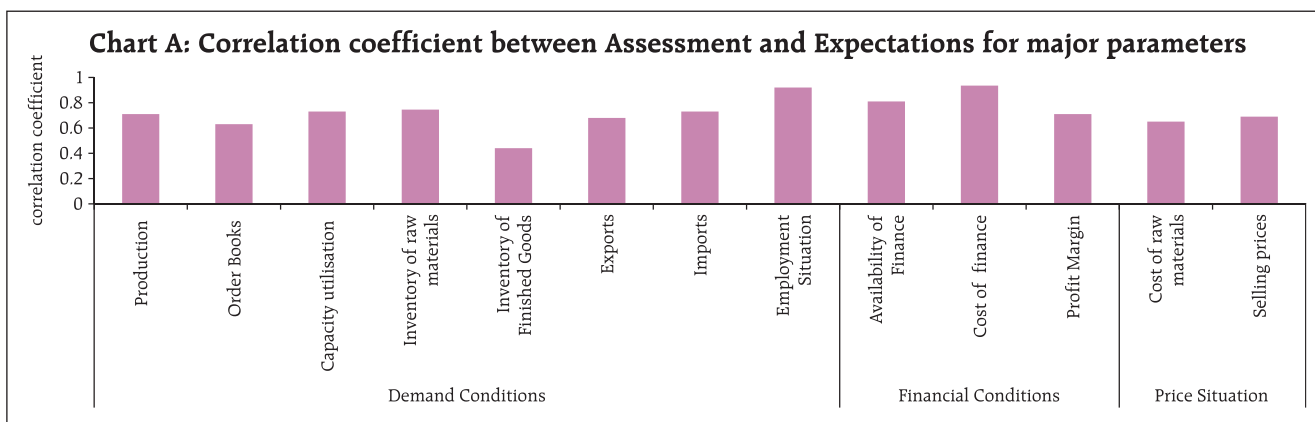
1.2.2 Majority of the respondents (around 55-60 per cent) expected capacity utilisation to remain the same



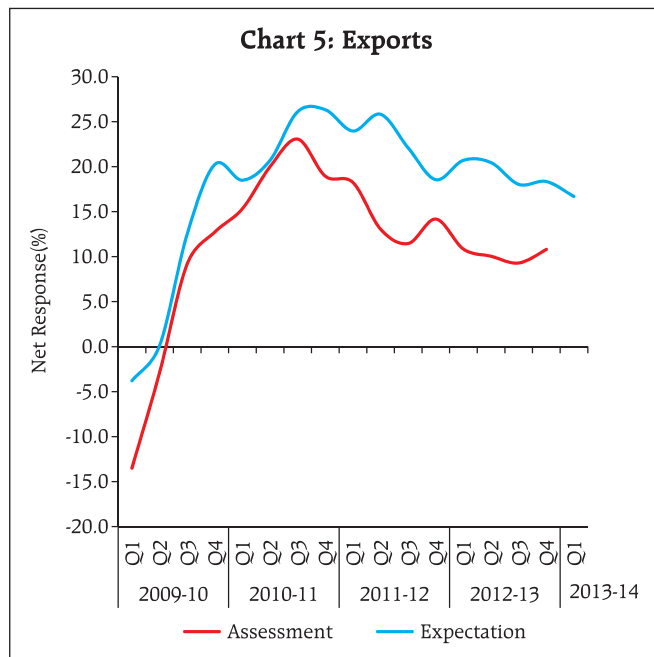
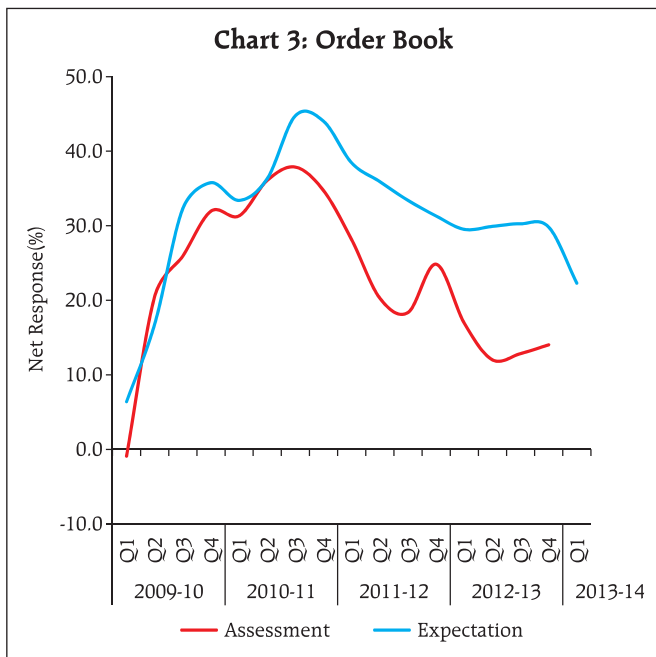
Box I: Validation of Expectation response with succeeding Assessment response

The survey collects assessment for current quarter and expectations for next quarter on various business parameters. In order to examine, how close is the assessment for a given quarter to corresponding expectation captured a quarter back, correlation between the assessment during the current survey round and expectations for that parameter given during the last survey round is computed for some major parameters (Chart A). The survey responses during Q1:2000-01 to Q4:2012-13 (52 quarters) is

taken for this validation. It is found that these parameters are positively correlated though the extent of correlation varies. Assessment and expectations for major parameters under demand conditions, financial conditions and price situation are highly correlated implying that three months ahead expectations nearly coincide with assessment given during current quarter. This indicates that the expectations captured for each quarter by the survey, is a very good lead indicator for its subsequent behaviour.



³ Net response is the percentage difference between the optimistic (positive) and pessimistic (negative) responses; responses indicating status quo (no change) are not reckoned

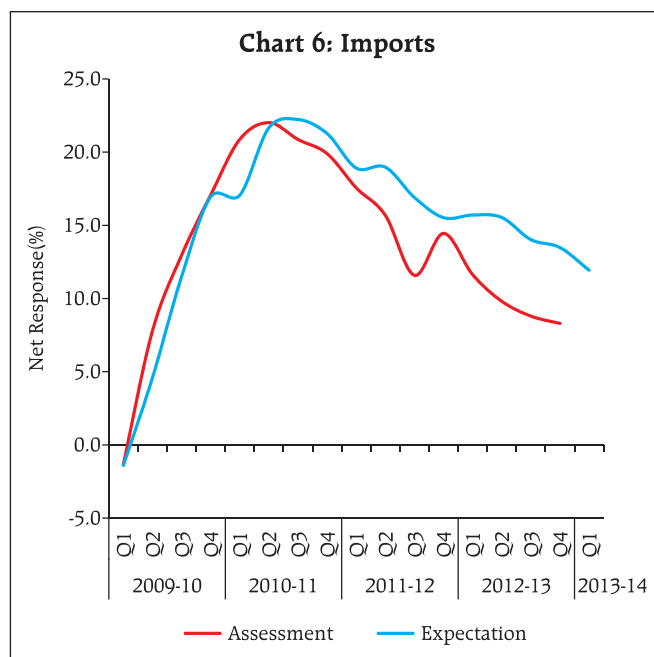
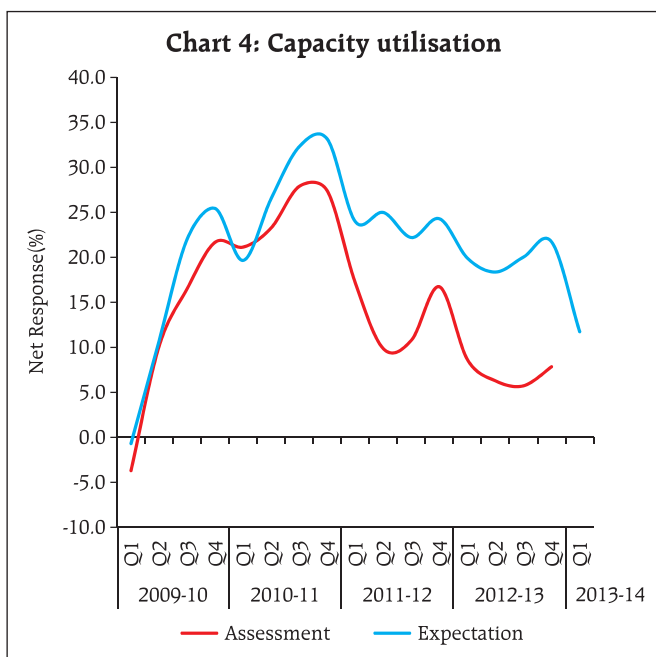


in FY:2012-13 and the net response remained flat during this period. However, outlook for Q1:2013-14 revealed lower optimism (Chart 4).

1.2.3 Outlook on exports growth remained less optimistic throughout the year (Chart 5). Lack of domestic demand also impacted the growth in imports and net response fell during the year (Chart 6). Outlook though remained positive for Q1:2013-14, indicated

further decline. Lack of domestic and external demand had been reported to be a major constraint by majority of the reporting companies.

1.2.4 According to the survey results, most of the responding firms (about 80 per cent) reported 'no change' in the inventory levels of both raw materials and finished goods on a quarterly basis. Of the remaining, slightly higher percentage of respondents



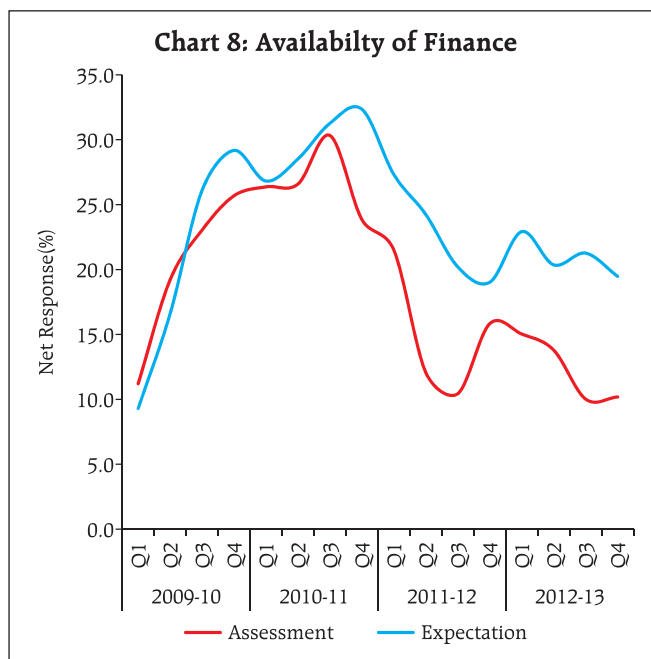
reported carrying above average level of inventory during the year.

1.3 Financial Situation yet to revive

The survey assesses sentiments about the financial situations based on several parameters. While the respondents are required to evaluate the overall financial situation, responses are specifically obtained on availability of finance, cost of external finance and profit margin.

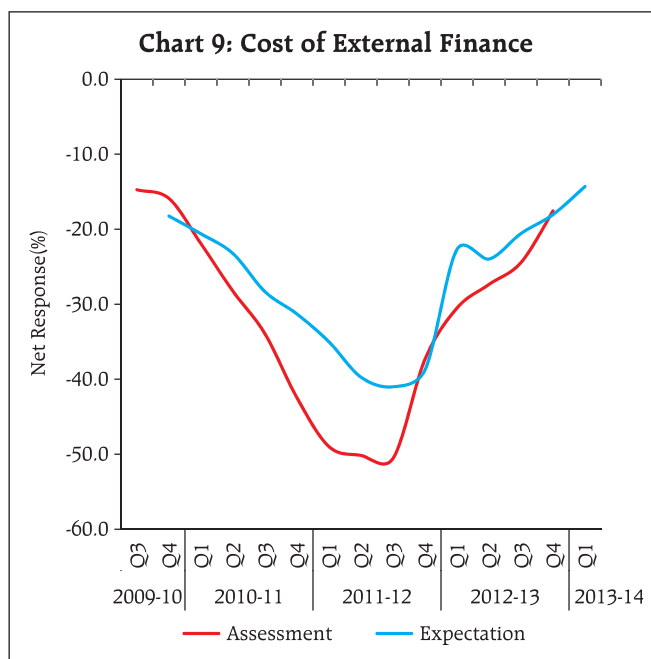
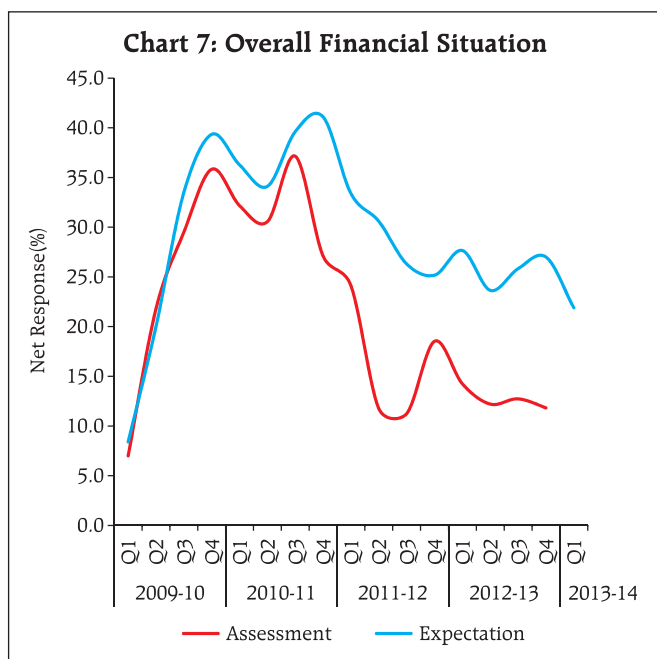
1.3.1 Optimism level for overall financial situation had been lower since 2011-12, and the outlook deteriorated further for Q1: 2013-14 (Chart 7). During Q1:2012-13 to Q3:2012-13, majority of companies (89 per cent) reported their availability of finance either unchanged or improve. Expectations too reveal almost similar trend, with majority of the respondents expecting the availability of finance to remain stagnant (Chart 8).

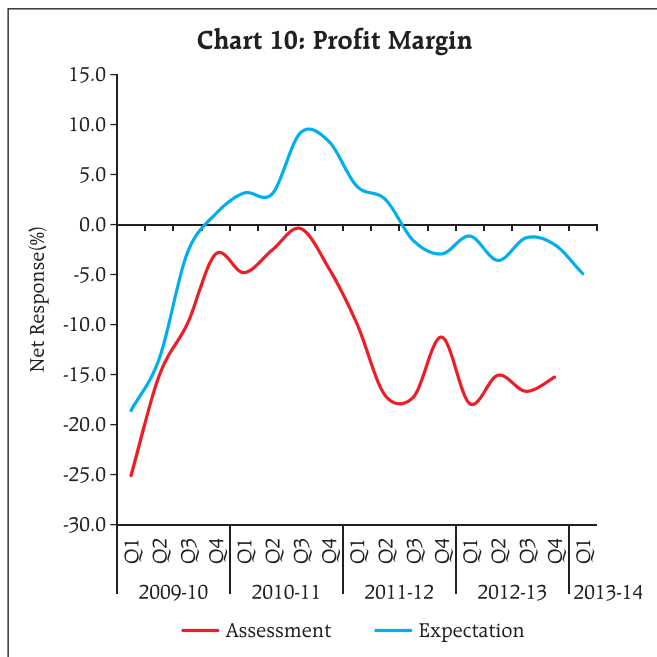
1.3.2 In Q4:2012-13, the question on availability of finance was divided into three questions viz., availability of finance from internal accruals, availability of finance from banks and other financial institutions and availability of finance from overseas (if applicable). It was seen that majority of the companies responded no change for all the three questions. Only less than



10 per cent of respondents expected the situation to worsen in Q1:2013-14 (Table-11(a)).

1.3.3 The sentiments on cost of finance have remained negative for a long time and the lowest level was reached in Q3:2011-12. The net response improved gradually thereafter and percentage of respondents who experienced higher cost of finance has been declining throughout the year (Chart 9).

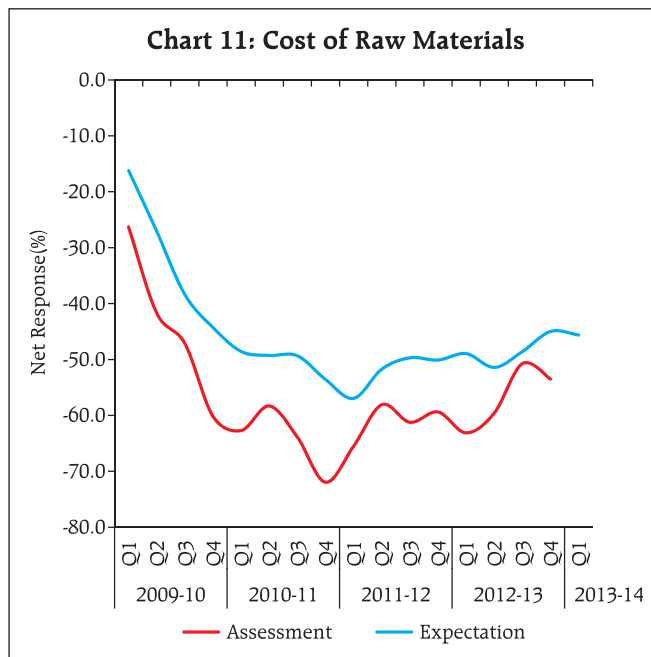




1.3.4 On profit margin, a higher percentage of respondents reported either decrease or no change during the year. As regards outlook, though the sentiments of corporates were evenly balanced, the net response dropped substantially for Q1:2013-14 (Chart 10).

1.4 Employment and Price Situation

The survey seeks from the companies their perceptions on employment. Generally, 70-75 per cent of companies responded 'no change' in the employment level and only less than 10 per cent of the manufacturing companies witnessed a contraction in their employment levels during the year under study. As regards the price situation, the survey elicits current assessment/one-quarter ahead outlook on cost of raw material and selling prices from the respondent companies. The sentiment on cost of raw materials, though remained negative during the year, showed some improvement as compared with the previous year. However, a much lower percentage of respondents reported/expected rise in selling price, which could be an indication of continued lack of pricing power which is in consistent with falling profit margins (Chart 11 and 12).



1.5 Conclusion

The weakening growth in demand conditions and the BEI huddling around the levels seen at crisis period of Q2:2008-09, indicates that the growth of manufacturing sector has been plummeting throughout the year. Lack of domestic and external demand along with shortage of power persisting as the major constraints in production, weighed to this modest pace of growth.

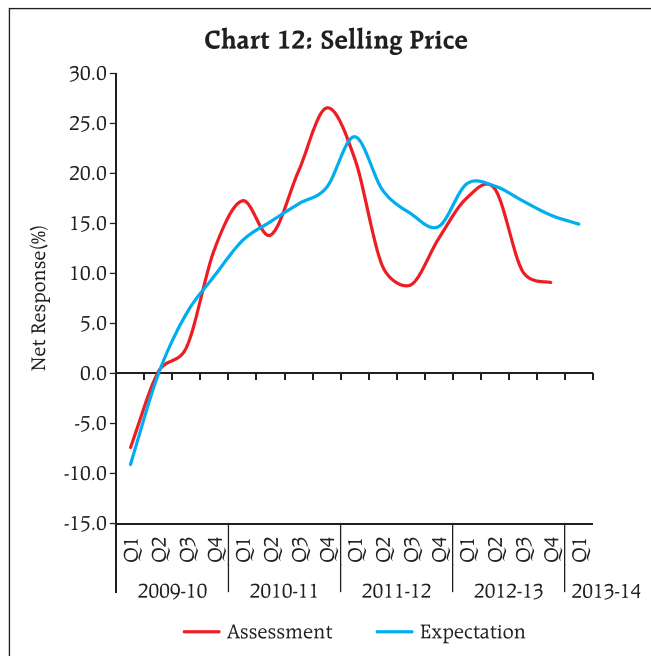


Table 1: Assessment & Expectations for Production

(Percentage responses) @

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	45.6	12.5	41.9	33.1	49.8	9.5	40.7	40.4
Q1: 2012-13	1404	38.8	18.5	42.7	20.3	45.4	10.6	44.0	34.7
Q2: 2012-13	1561	37.9	19.2	42.9	18.8	45.4	11.7	42.9	33.6
Q3: 2012-13	1388	37.5	18.8	43.7	18.6	46.1	10.4	43.4	35.7
Q4: 2012-13	1301	36.8	18.2	45.0	18.6	46.3	9.2	44.4	37.1
Q1:2013-14						38.3	13.8	47.9	24.4

'Increase' in production is optimistic.

Table 2: Assessment & Expectations for Order books

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	38.9	14.1	47.0	24.8	42.3	11.0	46.7	31.3
Q1: 2012-13	1404	34.2	17.3	48.5	16.9	39.3	9.8	50.9	29.5
Q2: 2012-13	1561	31.9	19.8	48.3	12.0	41.0	11.1	47.9	29.9
Q3: 2012-13	1388	32.0	19.2	48.8	12.9	41.2	10.9	48.0	30.3
Q4: 2012-13	1301	32.7	18.6	48.7	14.0	40.0	10.2	49.8	29.8
Q1:2013-14						35.5	13.2	51.2	22.3

'Increase' in order books is optimistic.

Table 3: Assessment & Expectations for Pending Orders

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Below Normal	Above Normal	Normal	Net response	Below Normal	Above Normal	Normal	Net response
Q4: 2011-12	1234	15.9	5.4	78.7	10.5	13.7	6.5	79.8	7.3
Q1: 2012-13	1404	17.0	5.7	77.3	11.3	13.3	4.6	82.1	8.8
Q2: 2012-13	1561	18.7	5.6	75.7	13.1	14.6	6.2	79.2	8.4
Q3: 2012-13	1388	18.8	4.4	76.8	14.3	14.4	7.0	78.6	7.4
Q4: 2012-13	1301	19.3	4.7	75.9	14.6	14.6	4.5	80.9	10.1
Q1:2013-14						16.9	5.3	77.7	11.6

Pending orders 'Below Normal' is optimistic.

Table 4: Assessment & Expectations for Capacity Utilisation

(Percentage responses)

Parameter	Options	Assessment for Quarter				Expectations for Quarter			
		Q1:2012-13	Q2:2012-13	Q3:2012-13	Q4:2012-13	Q2:2012-13	Q3:2012-13	Q4:2012-13	Q1:2013-14
Capacity Utilisation (CU)-(main product)	Increase	25.8	24.0	23.3	23.7	30.4	30.4	31.1	24.9
	No Change	57.1	58.3	59.0	60.5	57.6	59.3	59.6	62.0
	Decrease	17.1	17.7	17.6	15.9	12.0	10.3	9.3	13.1
	Net Response	8.6	6.3	5.7	7.8	18.4	20.0	21.7	11.7
Level of CU (compared to the average in last 4 quarters)	Above normal	10.1	9.7	9.1	10.0	11.4	10.3	10.7	10.5
	Normal	71.9	71.3	70.9	71.3	75.6	77.4	76.6	74.5
	Below Normal	17.9	18.9	20.0	18.7	13.0	12.3	12.7	15.0
	Net Response	-7.8	-9.2	-10.8	-8.7	-1.5	-2.0	-2.1	-4.4
Assessment of Prod. Capacity (with regard to expected demand in next 6 months)	More than adequate	12.4	13.1	14.2	13.4	13.0	13.0	13.0	13.7
	Adequate	79.6	79.0	77.5	77.4	80.0	80.5	79.6	78.4
	Less than adequate	8.0	7.9	8.3	9.2	7.1	6.4	7.4	7.9
	Net Response	4.4	5.2	5.9	4.2	5.9	6.6	5.6	5.7

'Increase' in capacity utilisation is optimistic.

Table 5: Assessment & Expectations for Exports

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	27.8	13.6	58.6	14.2	29.0	10.4	60.6	18.6
Q1: 2012-13	1404	25.7	14.9	59.4	10.8	30.1	9.4	60.5	20.7
Q2: 2012-13	1561	25.3	15.2	59.5	10.0	31.0	10.5	58.5	20.5
Q3: 2012-13	1388	24.3	15.0	60.6	9.3	29.0	10.9	60.1	18.0
Q4: 2012-13	1301	25.9	15.0	59.1	10.8	28.5	10.1	61.4	18.4
Q1:2013-14						27.1	10.4	62.5	16.7

'Increase' in exports is optimistic

Table 6: Assessment & Expectations for Import

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	22.5	8.0	69.5	14.4	23.0	7.5	69.4	15.5
Q1: 2012-13	1404	21.8	10.1	68.1	11.6	22.4	6.7	70.8	15.7
Q2: 2012-13	1561	20.7	10.9	68.5	9.8	22.9	7.4	69.7	15.5
Q3: 2012-13	1388	19.0	10.2	70.7	8.8	22.1	8.1	69.8	14.0
Q4: 2012-13	1301	19.8	11.5	68.8	8.3	20.9	7.4	71.7	13.5
Q1:2013-14						20.4	8.5	71.1	11.9

'Increase' in imports is optimistic

Table 7: Assessment & Expectations for level of Inventory (Raw material and Finished goods)

(Percentage responses)

Parameter	Options	Assessment for Quarter				Expectations for Quarter			
		Q1:2012-13	Q2:2012-13	Q3:2012-13	Q4:2012-13	Q2:2012-13	Q3:2012-13	Q4:2012-13	Q1:2013-14
Inventory of raw material	Below average	8.0	6.9	7.6	7.9	6.6	5.1	5.5	6.3
	Average	81.0	80.9	79.8	79.8	83.7	85.2	83.9	84.2
	Above average	11.0	12.3	12.6	12.2	9.7	9.7	10.6	9.5
	Net Response	-2.9	-5.4	-5.0	-4.3	-3.1	-4.7	-5.1	-3.3
Inventory of Finished goods	Below average	6.8	7.0	7.0	7.4	7.2	6.1	7.0	6.3
	Average	81.6	78.5	78.0	76.5	83.6	83.9	83.1	83.1
	Above average	11.7	14.5	15.0	16.1	9.2	10.0	9.9	10.6
	Net Response	-4.9	-7.4	-8.0	-8.7	-2.1	-4.0	-3.0	-4.3

Inventory of raw material and finished goods 'Below average' is optimistic

Table 8: Assessment & Expectations for Employment Outlook

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	19.8	6.9	73.3	12.9	19.3	5.7	75.0	13.6
Q1: 2012-13	1404	19.8	9.7	70.5	10.0	19.9	5.2	74.9	14.6
Q2: 2012-13	1561	17.9	9.6	72.5	8.3	20.5	8.3	71.2	12.3
Q3: 2012-13	1388	16.4	9.7	73.9	6.7	19.2	5.9	74.9	13.3
Q4: 2012-13	1301	15.3	9.8	74.9	5.5	17.2	6.9	75.8	10.3
Q1:2013-14						16.0	8.0	76.1	8.0

'Increase' in employment is optimistic

Table 9: Assessment & Expectations for Overall Financial Situation

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Better	Worsen	No change	Net response	Better	Worsen	No change	Net response
Q4: 2011-12	1234	30.4	11.9	57.8	18.5	35.3	10.2	54.5	25.2
Q1: 2012-13	1404	27.8	13.5	58.7	14.2	35.7	8.1	56.2	27.7
Q2: 2012-13	1561	27.1	14.9	58.0	12.2	33.2	9.5	57.3	23.6
Q3: 2012-13	1388	26.4	13.7	59.9	12.7	34.8	9.0	56.2	25.8
Q4: 2012-13	1301	26.9	15.1	58.0	11.8	34.9	7.9	57.2	27.0
Q1:2013-14						31.5	9.6	58.9	21.9

'Better' overall financial situation is optimistic

Table 10: Assessment & Expectations for Working Capital Finance Requirement

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	40.0	5.1	54.8	34.9	38.0	4.2	57.8	33.8
Q1: 2012-13	1404	36.6	6.1	57.3	30.4	36.2	4.3	59.6	31.9
Q2: 2012-13	1561	37.5	6.8	55.8	30.7	34.9	4.8	60.3	30.1
Q3: 2012-13	1388	35.0	5.7	59.4	29.3	37.3	4.4	58.3	32.9
Q4: 2012-13	1301	35.2	6.3	58.5	29.0	35.8	3.8	60.5	32.0
Q1:2013-14						33.0	6.5	60.4	26.5

'Increase' in working capital finance is optimistic

Table 11: Assessment & Expectations for Availability of Finance

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q4: 2011-12	1234	26.1	10.3	63.5	15.8	28.2	9.1	62.7	19.0
Q1: 2012-13	1404	26.2	11.1	62.7	15.0	29.9	7.0	63.1	22.9
Q2: 2012-13	1561	25.0	11.2	63.8	13.8	28.0	7.7	64.3	20.4
Q3: 2012-13	1388	21.2	11.2	67.6	10.0	29.1	7.8	63.1	21.3
Q4: 2012-13						26.7	7.2	66.0	19.5

'Improvement' in availability of finance is optimistic

Table 11(a): Assessment & Expectations for Availability of Finance

(Percentage responses)

Parameter	Options	Assessment for Quarter	Expectations for Quarter
		Q4:2012-13	Q1:2013-14
Availability of Finance (from internal accruals)*	Improve	23.3	25.6
	No Change	65.6	67.4
	Worsen	11.1	7.0
	Net Response	12.1	18.7
Availability of Finance (from banks & other sources)*	Improve	18.3	18.7
	No Change	76.8	77.9
	Worsen	4.9	3.4
	Net Response	13.4	15.3
Availability of Finance (from overseas, if applicable)*	Improve	9.6	11.0
	No Change	84.2	84.4
	Worsen	6.2	4.6
	Net Response	3.4	6.3

'Improvement' in availability of finance is optimistic.

*These questions are newly added by splitting the question on Availability of Finance (both internal and external sources) in the 61st Round (Jan-March 2013)

Table 12: Assessment & Expectations for Cost of External Finance

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Decrease	Increase	No change	Net response	Decrease	Increase	No change	Net response
Q4: 2011-12	1234	3.8	41.1	55.1	-37.4	4.1	42.8	53.1	-38.8
Q1: 2012-13	1404	7.3	37.8	54.9	-30.5	9.9	32.6	57.6	-22.7
Q2: 2012-13	1561	5.8	33.1	61.1	-27.4	8.6	32.6	58.9	-24.0
Q3: 2012-13	1388	5.8	30.3	63.9	-24.4	7.6	28.1	64.3	-20.6
Q4: 2012-13	1301	9.5	27.0	63.5	-17.6	7.5	25.5	67.0	-18.1
Q1:2013-14						9.7	24.0	66.3	-14.3

'Decrease' in cost of external finance is optimistic

Table 13: Assessment & Expectations for Cost of Raw Material

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Decrease	Increase	No change	Net response	Decrease	Increase	No change	Net response
Q4: 2011-12	1234	3.4	62.7	33.9	-59.4	4.0	54.1	41.9	-50.1
Q1: 2012-13	1404	3.1	66.2	30.7	-63.1	2.2	51.2	46.5	-49.0
Q2: 2012-13	1561	3.0	62.6	34.4	-59.6	3.5	54.9	41.6	-51.4
Q3: 2012-13	1388	5.4	56.2	38.4	-50.7	3.5	52.1	44.3	-48.6
Q4: 2012-13	1301	4.3	57.8	37.9	-53.5	3.3	48.3	48.3	-45.0
Q1:2013-14						3.6	49.2	47.1	-45.6

'Decrease' in cost of raw material is optimistic

Table 14: Assessment & Expectations for Selling Price

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	25.1	11.6	63.3	13.5	25.0	10.3	64.7	14.7
Q1: 2012-13	1404	28.0	10.5	61.4	17.5	26.3	7.3	66.4	19.0
Q2: 2012-13	1561	29.3	10.9	59.8	18.5	27.8	9.0	63.2	18.8
Q3: 2012-13	1388	22.5	12.3	65.1	10.2	25.6	8.3	66.1	17.3
Q4: 2012-13	1301	22.3	13.2	64.5	9.1	22.8	7.0	70.2	15.8
Q1:2013-14						23.1	8.1	68.8	14.9

'Increase' in selling price is optimistic

Table 15: Assessment & Expectations for Profit Margin

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q4: 2011-12	1234	17.5	28.7	53.8	-11.3	20.1	23.1	56.8	-2.9
Q1: 2012-13	1404	15.4	33.3	51.3	-17.9	20.4	21.6	58.0	-1.2
Q2: 2012-13	1561	16.2	31.2	52.6	-15.1	20.1	23.6	56.3	-3.6
Q3: 2012-13	1388	14.5	31.2	54.2	-16.7	20.5	21.8	57.7	-1.3
Q4: 2012-13	1301	16.2	31.5	52.3	-15.3	18.8	20.8	60.4	-2.0
Q1:2013-14						17.7	22.7	59.6	-4.9

'Increase' in profit margin is optimistic

Table 16: Assessment & Expectations for Overall Business Situation

(Percentage responses)

Survey Quarter	Total response	Assessment for Current Quarter				Expectation for Next Quarter			
		Better	Worsen	No change	Net response	Better	Worsen	No change	Net response
Q4: 2011-12	1234	37.8	11.3	50.9	26.5	43.6	10.0	46.5	33.6
Q1: 2012-13	1404	32.9	14.6	52.5	18.3	43.0	8.1	49.0	34.9
Q2: 2012-13	1561	32.8	16.7	50.5	16.1	40.2	9.7	50.1	30.6
Q3: 2012-13	1388	32.3	15.0	52.7	17.2	41.4	9.2	49.4	32.2
Q4: 2012-13	1301	32.8	14.4	52.8	18.4	44.8	7.2	48.0	37.5
Q1:2013-14						39.3	9.7	51.1	29.6

'Better' Overall Business Situation is optimistic

Table 17: Business Expectation Index (BEI)

Quarter	BEI-Assessment Quarter	BEI-Expectation Quarter
Q4: 2011-12	114.9	117.2
Q1: 2012-13	107.4	116.8
Q2: 2012-13	103.8	114.0
Q3: 2012-13	104.5	115.7
Q4: 2012-13	105.6	115.6
Q1:2013-14		111.6

Note: @Due to rounding off percentage may not add up to 100. This is applicable for all the tables from 1 to 16.