

FICCI

FICCI Survey on Exports

June 2010

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Survey Highlights

- ♣ After having seen an improvement in performance over the last few months, **Indian exporters have once again come under stress. Four factors are adversely affecting exports** and exporters are showing signs of concern. These are -
 - 📊 **First**, is the large scale variation seen in the exchange rate.
 - 📊 **Second**, is the evolving situation in Euro zone and attendant risk of slowdown in exports to that region.
 - 📊 **Third**, is the rising cost of raw materials including the price of oil.
 - 📊 **Fourth**, is the expectation of a hike in interest cost once base rate mechanism is introduced.

- ♣ The large sideways movement in the value of the Rupee against the USD and Euro has led to severe problems. While the sudden appreciation in the value of the Rupee **affected the margins adversely as it led to lower realization** for exporters, the recent decline in the value of the Rupee caught exporters off guard and **they lost on account of forward contracts that were booked to hedge currency risk.**

- ♣ To deal with the situation of currency fluctuation, exporters are taking three measures.
 - 📊 **One**, exporters are **putting dedicated forex / treasury teams in place** to help tide over the situation.
 - 📊 **Two**, exporters are negotiating hard with their clients and **evolving dynamic pricing models built in sales contracts** to take care of currency fluctuations.
 - 📊 **Three**, at least some exporters who can afford are **not converting their dollar receivables into Rupees** as the exchange rate risk at this point is simply too high.

- ♣ Many exporters FICCI spoke to mentioned that **at least for exporters the central bank should give a facility like that in China of a fixed exchange rate.** This would enable them to focus on managing their business and save them from the trouble of managing currency movements.

- ♣ The **evolving situation in Euro zone also does not inspire confidence.** Although the European Union and the IMF have come out with a billion dollar package to salvage the situation in the Euro Zone, the uncertainty over the growth trajectory of countries like Greece, Spain, Italy and Portugal remains. It is by now clear that **the second phase of global recovery will be slower as compared to the first phase. And this will have a bearing on pace of expansion of global trade.**

- ♣ There are indications of **buyers in the EU region going slow in placing their orders.** There are also cases where **Indian companies have been asked to hold back the dispatch of consignments.** In a few other cases, **Indian exporters have had to take temporary terminals for parking goods in the EU region as buyers have refused to accept immediate delivery.**

- ♣ While exporters are trying their best to look at alternate markets, they have asked government to **successfully negotiate an FTA with the EU at the earliest**. This they feel could in some way reduce the impact of an otherwise shrinking market in Europe.
- ♣ The **rise in cost of inputs and industrial raw material is another major irritant** for majority of exporters. Oil prices too have been gradually increased over time and this is adding to the cost pressure.
- ♣ To tide over the problem of rising input costs, exporters have requested government to look at **increasing the duty drawback and DEP B rates**.
- ♣ Exporters are anticipating that once the base rate mechanism is introduced, lending rates of banks would go up. **This will be an intimidating factor if it happens in the current circumstances**. Exporters have therefore suggested that **bank loans at concessional rates should remain available to them even in the post 'base rate' period which kicks in from July 1, 2010**.



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About the Survey

This is the eleventh survey on exports conducted during the months of April and May 2010. The FICCI survey monitors the trends, direction and structure of India's exports by gathering direct ground level feedback from India's leading exporters. The survey also monitors the present and expected performance of the Indian exporters.

The survey saw participation from 278 companies with a wide geographical and sectoral spread. The turnover of the companies that participated in the survey ranged from Rs. 1 crore to Rs. 1,40,000 crore and the companies represent sectors like automotive, food and food processing, FMCG, textiles, metal and metal products, heavy engineering, marine products, cement, paper, pharmaceuticals and chemicals, wood and wood products.

Survey Findings

A) Export Conditions

The present survey conducted during the months of April and May 2010 made an attempt to capture the sentiments of Indian exporters with regard to export conditions at the economy, industry and firm levels. As in the past surveys, we also asked our respondents to identify the crucial few constraints to exports among the identified and listed items.

Inputs were received on the current export conditions vis-à-vis the export conditions in the last six months. This was followed by outlook on the export conditions for the next six months at all the three levels - overall economy, industry and firm.

Results of our last survey, which was released in the month of February 2010, showed that the export conditions were improving and an increasing number of survey participants were becoming confident about export performance. This finding was in line with the developments taking place in the international markets.

After witnessing a steep fall, global trade was showing signs of improvement as major economies of the world moved out of the recessionary phase. This rekindled hope amongst exporters, including those from India, and a large proportion of survey participants reported that export conditions at the economy, industry and firm level were better as compared to the situation prevailing six months back. In that same survey (Feb 2010), we also saw a significant jump in the proportion of respondents who made a positive assessment about near term export conditions at all the three levels.

Between February 2010 and June 2010, there have been a series of developments at the global level that can have a material impact on world trade this year. And the most important amongst these is the outbreak of the sovereign debt crisis in the Euro Zone. This crisis, which initiated in Greece, is now threatening to spill over to some of the other European countries. Although the European Union and the IMF have come out with a billion dollar package to salvage the situation in the Euro Zone, the uncertainty over the growth trajectory of countries like Greece, Spain, Italy and Portugal remains. The developments taking place in the EU region have once again raised a question over the sustainability of the incipient recovery which the world economy was seeing.

Although a double dip recession has been ruled out by several agencies that monitor the global economy, it is by now clear that the second phase of global recovery will be slower as compared to the first phase. And this will have a bearing on pace of expansion of global trade.

With apprehensions over the evolving situation in Euro Zone gaining ground, the sentiments of exporters from India have also been somewhat tempered. There is a concern we see amongst exporters building over near term export performance.

Table 1 – Current export conditions via-a-vis last six months (% of respondents)

	Moderately to Substantially Better	Same / No Change	Moderately to Substantially Worse
FICCI Export Survey February 2010			
Overall export conditions	52	34	14
Industry level export conditions	48	43	9
Firm level export conditions	53	34	12
FICCI Export Survey June 2010			
Overall export conditions	55	25	20
Industry level export conditions	52	32	16
Firm level export conditions	50	32	18

Table 2 – Expectations regarding export conditions in next six months (% of respondents)

	Moderately to Substantially Better	Same / No Change	Moderately to Substantially Worse
FICCI Export Survey February 2010			
Overall export conditions	70	19	11
Industry level export conditions	64	29	7
Firm level export conditions	61	32	7
FICCI Export Survey June 2010			
Overall export conditions	56	28	16
Industry level export conditions	58	20	22
Firm level export conditions	51	29	20

The results given in the above tables show that while there is not much of a change between the last and the present survey in terms of how exporters have evaluated current conditions, there is certainly some moderation seen when one looks at the responses received to the question about near term export conditions.

Based on feedback received from exporters, FICCI had reported in its last export survey that although the pace of new business is still low as compared to the pace seen during the pre crisis level, market enquiries have resumed and buyers are coming forward and placing new orders. It was further reported that there were indications of further improvement in the coming months. However, developments in the Euro Zone have made exporters cautious and they are once again in a wait and watch mode.

B) Projections – Export volumes, export prices and export direction

In addition to capturing the views of exporters on the current and expected export conditions, the survey also elicited response on the nature and quantum of movement companies expect in the next six months with regard to both their export volumes and their export prices. In addition to providing information on export volumes and prices, the exporting community was also asked to indicate likely movements in their export volumes to regions / countries in the next six months. The results obtained are presented below –

Table 3 – Expected change in export volumes in the next six months (% of respondents)

	Decline	No Change	Increase 0% -5%	Increase 5% -10%	Increase 10%-20%	Increase 20%-30%	Increase > 30%
Feb 2010	11	26	18	18	19	7	2
June 2010	17	22	24	19	12	4	2

The figures shown in the above table again confirm that the trend of improvement in exports that we were seeing building up till some time back may lose some momentum in the coming six months. While the strong growth in exports in recent months comes on the back of a low base, it was certainly an indicator of improving global demand situation. Feedback gathered from exporters shows that they are now a little wary about orders coming from the EU region, which accounts for almost a fifth of India’s exports.

In fact nearly a third of exporters who do business in the EU region have said that there has been some decline in their exports in the last three months. Exporters have mentioned that their clients in Europe are going a little slow in placing fresh orders. With many countries in the EU region adopting austerity measures and growth in the region once again showing signs of slowing down, import demand is expected to moderate.

Table 4 – Expected change in export prices in the next six months (% of respondents)

	Decline	No Change	Increase 0% -5%	Increase 5% -10%	Increase 10%-20%	Increase 20%-30%	Increase > 30%
Feb 2010	19	43	13	20	6	0	0
June 2010	16	30	27	18	7	2	0

The outlook for prices is a little better as compared to the outlook for export volumes. While in the previous survey, nearly 40 percent of exporters had mentioned that there will be some increase in export prices in the near term, in the present survey close to 55 percent of the survey participants have reported likewise. There is an evident build up of cost pressure. We have seen this happening for some time now. It looks like exporters are looking at increasing prices to beat this cost pressure as well as maintain their margins which are getting eroded due to the appreciation of INR against the USD and Euro.

C) Order book position

In the present survey we asked the participating companies to indicate the current status of their order book position vis-à-vis the order book position prevailing six months back. Companies were also asked to indicate their expectations about order book position six months from now. The results obtained are presented in the following table.

Table 5 – Status of order book position (% of respondents)

	Increase	Decrease	No change
FICCI Export Survey February 2010			
Current order book position compared to order book position six months back	49	16	35
Expected order book position six months from now	65	9	26
FICCI Export Survey June 2010			
Current order book position compared to order book position six months back	53	15	32
Expected order book position six months from now	58	14	28

As the above table shows, nearly 53 percent of the participants have said that their current order book position is better compared to the order book position six months back. In the previous survey 49 percent of the respondents had reported likewise. This indicates that the improvement in demand has been maintained. While this is encouraging, it is important to note that there is a slight dip in the proportion of respondents expecting order book position to improve further in the near term. In the last survey 65 percent of the companies had said that they expect order book position to improve in the near term. In the present survey this figure has come down to 58 percent. These numbers also indicate that exporters are expecting some moderation in performance in the coming six months.

D) Direction of exports

The survey participants were asked to report what they felt about the likely direction of exports and changes therein in the next six months. Respondents were asked to indicate whether exports would increase / decrease / remain the same in different parts of the world. Based on the responses received the following results emerged.

Table 6 - Expected movement in exports in key markets in the next six months (% of respondents)

	Increase	Same / No Change	Decrease
Africa	61	39	0
USA	55	38	7
South East Asia	49	46	6
Latin America	46	46	8
European Union	40	38	22
Middle East	38	38	25
SAARC	36	64	0

United Kingdom	36	46	18
UAE	35	46	19
Canada	22	65	13
China	22	74	4
Australia	20	64	16
Russia	19	76	5
Japan	14	77	9
CIS	11	83	6

As the above table shows, members of the Indian exporting community feel that countries / regions like Africa, USA, South East Asia, Latin America and SAARC would see improved demand in the coming six months. European Union notably has moved down the list with nearly 60 percent of the exporters expecting exports to this region either to remain same or to go down in the coming six months.

E) Factors adversely affecting Indian exports

FICCI has been constantly making efforts in bringing out issues confronting the Indian exporters. We made a selection of 12 factors that directly or indirectly have a bearing on international trade. These factors were presented to the respondents and they were asked to indicate the areas which they feel were acting as impediments in the way of improving their export performance.

Table 7 – Factors adversely affecting export performance (% of respondents)

Rank	FICCI Export Survey Feb 2010	%	FICCI Export Survey June 2010	%
1	Rising cost of raw material	67	Exchange rate	88
2	Exchange rate	66	Rising cost of raw material	74
3	Weak demand in int'l market	60	Weak demand in int'l market	52
4	Competitive environment	53	Increase in oil prices	48
5	Cost of credit	36	Competitive environment	45
6	Government procedures	24	Cost of credit	32
7	Increase in oil prices	24	Government procedures	30
8	Inadequate infrastructure	22	Inadequate infrastructure	24
9	Tariff / Non tariff barriers	21	Government promotional schemes	24
10	Excess productive capacity	19	Availability of credit	14
11	Availability of credit	19	Tariff / Non tariff barriers	12
12	Government promotional schemes	17	Excess productive capacity	12

A look at the numbers given in table 7 shows that exchange rate, rising cost of raw materials and weak demand in international market have emerged as the top three factors adversely affecting export performance of Indian companies. While this list of top three impediments is the same as was obtained in the previous survey, we see that the intensity of the problem on account of exchange rate fluctuation and increase in input prices has gone up over time. This is expected as the INR value against USD and Euro has seen large sideways movement in recent times. Raw material prices too including prices of oil and oil products have been on the rise and this putting additional pressure on the exporters. Although the proportion of respondents citing



weak demand in the international market has come down from 60 percent in the last survey to 52 percent in the present survey, yet this latter figure is sizable and points to the gradual pace of recovery underway in the global markets.