

FICCI SURVEY: MIXED SIGNALS FOR UPTURN IN MANUFACTURING GROWTH IN Q-4

Falling Capacity Utilisation along with Rising Inventory Levels Reported: FICCI Survey

9 March 2013, New Delhi: FICCI's latest Quarterly Survey on Manufacturing for quarter four of 2012-13, provides mixed signals on the growth of manufacturing. While the number of respondents reporting higher levels of production in quarter four of 2012-13 vis-à-vis last year has dropped to 36% as compared to over 40% in previous few quarters, but at the same time only 20% respondents expect any fall in their production level in quarter four. Also, there is some improvement seen in terms of order books of the manufacturers in current quarter, noted the survey. Some upturn in industrial sector is particularly evident in sectors like leather, textiles, food products and cement. But some major sectors like automotive and capital goods are expected to witness sluggish growth in the current quarter. Some major initiatives taken by the Government in the last few months and coupled with some budget announcements are expected to improve the prospects for manufacturing in coming months, observed FICCI.

Quarter	% of Respondents Expecting Higher Production in the Respective Quarter vis-à-vis last year
Q-4 (2012-13)	36%
Q-3 (2012-13)	45%
Q-2 (2012-13)	44%
Q-1 (2012-13)	46%
Q-4 (2011-12)	36%

Source : FICCI Survey

The demand conditions remain subdued but some improvement has been witnessed in Q-4 for 2012-13 as compared to Q-3 of 2012-13, noted FICCI Survey. In Q-4, over 39% respondents reported higher order books for January-March 2012-13 as compared to 33% in Q-3 of 2012-13 and 31% in Q-2 2012-13.

FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-4 (January-March 2012-13) for major sectors such as textiles, capital goods, metals, chemicals, tyres, cement, electronics, automotive, leather & footwear, machine tools, Food, Ceramics, textiles machinery etc. Responses have been drawn from 327 manufacturing units from both large and SME segments.

The advance estimates of Government of India for national income see slight improvement in manufacturing sector's growth in Q-4 of 2012-13. Manufacturing is expected to register around 3-4% growth in Q-4 as compared to 2.5% growth in Q-3 and less than 1% growth in Q-2.

Capacity Addition & Utilization

In terms of investment, it remains subdued in manufacturing sector with 74% respondents not having plans for capacity additions in next six months. Implying that currently, around 25% respondents reported any plans for capacity additions as compared to around 33% respondents reported plans for capacity addition in the previous survey (Q-3). Sector wise, on the one hand we have sectors like textiles where capacity utilization has improved over the last few months, with an average capacity utilization level reported at around 81%, on the other hand we have sectors like electronics, capital goods, metals where the average capacity utilization is less than 70%.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilisation (%)
Auto	73
Capital Goods	68
Cement	77
Chemicals	74.5
Textiles	81
Electronics & Electricals	58
Food Products	80
Leather & Footwear	73
Metals	66
Tyres	80

Also, due to excess capacities manufacturers are looking at optimal utilization of existing capacities rather than any fresh investments. The current average capacity utilization as reported in the survey is around 74% for manufacturing.

Inventories

Looking at the inventory levels, currently around 30% respondents reported that they are carrying more than their average levels of inventories and another 50% are maintaining their average levels of inventories. Higher than average inventory levels are reported particularly in sectors like automotive, capital goods, metals and textiles machinery. Whereas, sectors like leather, cement and textiles have reported less than their average levels of inventories currently.

Exports

After reporting some improvement in export scenario in the previous quarter survey, the export outlook for manufacturing seems to have again turned bleak. For the current quarter (Q-4) 40% respondents expect their export levels to be higher than last year for the same quarter. In the previous survey, we had 54% respondents expecting exports to be higher in Q-3 vis-avis same quarter last year.

Hiring

Around 76% of the respondents are not likely to hire new workforce in next three months. This proportion has increased as compared to previous survey in which around 70% respondents did not expect to hire new workforce in coming months.

Sectoral Growth

Based on expectations in different sectors, the Survey pointed out that seven out of twelve sectors were likely to witness low (less than 5%) growth and three sectors to witness moderate growth (less than 10% and greater than 5%) in Q-4.

Table : Growth expectations for Q-4 2012-13 compared with Q-4 2011-12

Sector	Growth Expectation
Chemicals	Low
Food Products	Moderate
Electronics & Electricals	Low
Textiles	Moderate
Capital Goods	Low
Steel & Metals	Low
Automotive	Low
Cement	Strong
Leather & footwear	Moderate
Tyre	Low
Machine Tools	Low
Textiles Machinery	Moderate

Note: Strong > 10%; 5% < Moderate < 10%; Low < 5% (Source: FICCI Survey)

Full Survey: <http://ficci.com/Sedocument/20226/FICCI-MANUFACTURING-SURVEY-REPORT-MARCH-2013.pdf>