

Subdued Growth to Continue in Q-3 for Manufacturing: FICCI Survey

Concern Over High Interest Rates Rising Significantly

11 November 2013, New Delhi: FICCI's latest Quarterly Survey on Manufacturing for third quarter (Q-3) of 2013-14, indicates continuation of growth, though subdued, in the manufacturing activity in Quarter-3 of 2013-14. Releasing the survey today during FICCI's National Executive Committee Meeting, Mrs Naina Lal Kidwai, President, FICCI said "This low or subdued growth is supported primarily by some improvement on export front. However, we are seeing rising concerns over the cost of credit by the manufacturers as compared to previous surveys".

The proportion of respondents reporting higher levels of production in third quarter of 2013-14 has slightly increased to 52% as compared to over 48% in previous quarter and 45% for the same quarter last year, FICCI survey observed. Upturn in industrial sector is particularly evident in sectors like leather, textiles, cement, chemicals and textiles machinery. At the same time, sectors like automotive, capital goods and electronics are expected to witness sluggish growth in Q-3.

"Notably, the proportion of respondents availing credit above 12% per annum rose significantly in the current survey to 58% as compared to 42% in previous survey", said Mrs Kidwai. Interest rate paid by the manufacturers, as reported in the survey, ranges from 8 to 16% with average interest rate at around 12% per annum.

FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-3 (October-December 2013-14) for thirteen major sectors namely textiles, capital goods, textiles machinery, metals, chemicals, cement, electronics, automotive, leather & footwear, machine tools, Food processing, Paper and tyre. Responses have been drawn from 276 manufacturing units and sectoral associations from both large and SME segments with a combined annual turnover of over Rs 5 lac crore.

Quarter	% of Respondents Expecting Higher Production in the Respective Quarter vis-à-vis last year
Q-3 (2013-14)	52%
Q-2 (2013-14)	48%
Q-1 (2013-14)	35%
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 also seem to be slightly better than the previous quarter with 44% respondents reporting higher order books for October-December 2013-14 quarter as compared

to 32% respondents reporting higher order books for July-September 2013 in the previous survey. In previous four quarters (Q-2 2013-14; Q-1 2013-14; Q-4 2012-13 and Q-3 2012-13) between 31 to 39% respondents reported higher order books. Again, this seems to be more because of exports.

Export outlook for manufacturing remains positive, though proportion of respondents expecting higher exports in quarter-3 (Oct-Dec 2013-14) has slightly fallen to 48% from 52% in previous quarter (quarter-2, July-Sep 2013-14). At the same time, proportion of respondents reporting no change in exports increased significantly from 21% in previous quarter to 37% in Q-3. Hence, overall, export scenario is showing some improvement in current quarter as compared to previous quarter.

In terms of investment, it remains subdued in manufacturing sector as was the case for previous quarter also with 72% respondents not having any plans for capacity additions for the next six months as compared to 74% respondents in the previous survey. Though, the proportion of respondents reporting plans for capacity additions in next six month has slightly increased from 26% in previous survey to 28% in the current survey but it could hardly be construed as any upturn in investment activity as of now

On the one hand we have sectors like chemicals, capital goods, food products, metals where capacity utilization has either improved or almost remained same in the July-September quarter, on the other hand we have sectors like automotive where the average capacity utilization has fallen over the previous quarter.

Table: Current Average Capacity Utilization Levels As Reported in Survey

Sector	Average Capacity Utilisation (%) in Q-4 2012-13	Average Capacity Utilisation (%) in Q-1 2013-14	Average Capacity Utilisation (%) in Q-2 2013-14
Auto	73	72	60
Capital Goods	68	70	70
Cement	77	75	73
Chemicals	74.5	77	78
Textiles	81	80	78
Electronics & Electricals	58	56	60
Food Products	80	75	86
Leather & Footwear	73	82	71
Metals	66	63	70
Machine Tools	NA	NA	NA
Textiles Machinery	NA	NA	60
Tyre	NA	NA	60

The current average capacity utilization as reported in the survey is around 70% for manufacturing which is somewhat less than that reported in previous quarter.

Outlook on hiring looks bleak in manufacturing. Over 75% of the respondents are not likely to hire additional workforce in next three months. This proportion is the same as in previous

quarter but has increased as compared to earlier quarters in which the proportion was around 70%.

Based on expectations in different sectors, the Survey pointed out that five out of thirteen sectors were likely to witness low growth (less than 5%). Only two sectors namely, leather and paper are expected to have a strong growth of over 10% in October-December 2013-14 and rest all the sectors are likely to witness moderate growth.

Table: Growth expectations for Q-3 2013-14 compared with Q-3 2012-13

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

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

Detailed Survey -

<http://ficci.com/Sedocument/20271/FICCI-MANUFACTURING-SURVEY-REPORT.pdf>

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