

**Cost of production increases significantly impacting manufacturing competitiveness: FICCI Survey**

***Rising minimum wages & raw material cost impacts the competitiveness***

***Survey sees a decline in manufacturing sector outlook in Q-4***

***Growth to stabilise in coming quarters***

**New Delhi, 10 April 2017:** FICCI's latest quarterly survey reported a decline in the outlook for the sector for Q-4 of 2016-17 due to rising cost of production which has impacted the competitiveness of the sector in the last few months. FICCI's latest Quarterly Survey on Manufacturing suggests slight decline for the manufacturing sector outlook in the fourth quarter (January-March 2017) of the fiscal as the percentage of respondents reporting higher production and exports in fourth quarter have declined vis-à-vis previous quarter. *However, it is also notable in the survey that the percentage of respondents reporting lower production has reduced by half over the previous quarter thereby indicating a more stable outlook in months to come.*

The proportion of respondents reporting higher growth during the January-March 2017 quarter has slightly fallen from 48% (revised) in October-December 2016-17 to 46%. The percentage for the third quarter i.e. October-December 2016-17 has undergone a revision with this survey. Respondents reporting negative growth has come down to 14% in January-March 2017 from 29% as reported in the previous quarter.

The slight dip in the outlook for manufacturing production in fourth quarter of the current financial year is attributable to primarily increased cost of production impacting the competitiveness of the sector and to a little extent also due to uncertain outlook on export front. Though, the percentage of respondents reporting fall in exports has reduced from 30% in the previous quarter to 18% in the January-March quarter.

FICCI's latest quarterly survey assessed the expectations of manufacturers for Q-4 (January-March 2017) for twelve major sectors namely auto, capital goods, cement and ceramics, chemicals, electronics & electricals, food products, leather and footwear, machine tools, metal and metal products, paper products, textiles and technical textiles and textiles machinery. Responses have been drawn from 320 manufacturing units from both large and SME segments with a combined annual turnover of over ₹3.8 lac crore.

In terms of order books, almost 47% respondents in January-March 2017 quarter as compared to 48% respondents in October-December 2017 quarter, reported higher order books which is almost the same.

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-4 (2016-17)	46%
Q-3 (2016-17)	48% (Revised)

Q-2 (2016-17)	55%
Q-1 (2016-17)	53%
Q-4 (2015-16)	60%
Q-3 (2015-16)	55%
Q-2 (2015-16)	63%
Q-1 (2015-16)	44%
Q-4 (2014-15)	52%
Q-3 (2014-15)	50%
Q-2 (2014-15)	62%
Q-1 (2014-15)	50%
Q-4 (2013-14)	56%
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*

### **Production Cost**

The cost of production as a percentage of sales for product for manufacturers in the survey has risen significantly as 60% respondents in Q-4 2016-17, against 51% respondents in previous quarter reported cost escalation. This is primarily due to rise in minimum wages and raw material cost.

### **Capacity Addition & Utilization**

In terms of capacity utilisation also, there is a decline. Over 35% respondents in the January-March 2017 quarter as compared to 43% respondents in previous quarter reported to have higher capacity utilization. Accordingly, the future investment outlook is also less optimistic. 75% respondent in Q-4 (Jan-March 2017) as against 77% respondents in Q-3 (October-December 2016) reported that they don't have any plans for capacity additions for the next six months. The high percentage implies slack in the private sector investments in manufacturing is here to continue.

On a broader perspective, in some sectors (like Capital goods, cement, food, leather, metals and paper) average capacity utilization has either remained same or increased in Q-3 of 2016-17 as was in previous quarters. The auto, textiles and chemicals sector recorded a dip in the average capacity utilisation over the same period.

**Table: Current Average Capacity Utilization Levels As Reported in Survey**

Sector	Average Capacity Utilisation (%) in Q-3 2016-17	Average Capacity Utilization (%) in Q-2 2016-17	Average Capacity Utilization (%) in Q-1 2016-17
Auto	75	80	77
Capital Goods	74	70	80
Cement	80	80	87.5
Chemicals	76	83	83
Textiles	79	84	84
Electronics & Electricals	58	70	65
Food	60	60	57
Leather & Footwear	60	60	60
Metals	82	70	70
Textiles Machinery	60	60	50
Paper	87.5	85	80
Machine Tools	NA	80	NA

*\*NA: Not Available due to lack of data*

The average capacity utilization as reported in the survey for the total manufacturing sector is around 75% for Q-3 2016-17, marginally down from the 77% for Q-2 2016-17.

### **Inventories**

Inventory levels have seen a sharp rise 97% respondents in Q-3 (October-December 2016) as compared to 81% respondents in Q-2 (July-September 2016) have maintained either more or same levels of inventory as their average inventory levels. This is much more than the average levels been maintained by the industry in earlier quarters.

### **Exports**

Export outlook for third quarter's manufacturing also witnessed a fall as the proportion of respondents expecting higher exports in the fourth quarter (2016-17) was 40% as compared to 46% in third quarter 2016-17 and 41% in second quarter of 2016-17.

### **Hiring**

Hiring outlook remains subdued in manufacturing in coming months as 77% of the participants in Q-4 2016-17 said that they are unlikely to hire additional workforce in next three months. The proportion remains almost similar to that recorded for Q-3 and Q-2 2016-17. Maximum increase in hiring is at 7% in certain cases.

### **Interest Rate**

Average interest rate paid by the manufacturers still remain high though have shown some sign of moderation with average rate at 11% but highest rates continued at 15%.

**Link- FICCI Manufacturing Survey Report:**

**<http://ficci.in/SEDocument/20399/MANUFACTURING-SURVEY-REPORT-March-2017.pdf>**

**FICCI MEDIA DIVISION**