Negative growth have come down to 17% from 27% : FICCI's latest Manufacturing Survey

Hiring outlook for the manufacturing sector remains subdued, unlikely to hire additional workforce in next three months : FICCI Manufacturing Survey

Outlook for Manufacturing Improves Slightly in First Quarter of 2017-18 : FICCI Survey

Rising Input Cost Impacts More Sectors as 69% Respondents Reported Cost Pressure in Q-1 as Against 60% in Previous Quarter : FICCI Survey

New Delhi, 17 July 2017: FICCI's latest Quarterly Survey on Manufacturing suggests slight improvement in the manufacturing sector outlook in the first quarter (April – June 2017-18) of the fiscal as the percentage of respondents reporting higher production in first quarter have increased vis-à-vis previous quarter. More importantly, FICCI Survey suggests that the percentage of respondents reporting lower production has reduced considerably over the previous quarter thereby indicating a more positive outlook in months to come. The proportion of respondents reporting higher output growth during the April – June 2017-18 quarter has risen slightly from 47% January – March 2016-17 to 49%. Respondents reporting negative growth have come down to 17% in April – June 2017-18 from 27% as reported in the previous quarter, noted FICCI Survey.

FICCI's latest quarterly survey assessed the expectations of manufacturers for Q-1 (April – June 2017-18) for eleven major sectors namely auto, capital goods, cement and ceramics, chemicals and fertilizers, electronics & electricals, leather and footwear, machine tools, metal and metal products, paper products, textiles and technical textiles, and textiles machinery. Responses have been drawn from over 300 manufacturing units from both large and SME segments with a combined annual turnover of over ₹3.5 lac crore.

However, the cause for worry was the rising cost of production (for a little over two-thirds of the respondents), the Survey noted. The cost of production as a percentage of sales for product for manufacturers in the survey has risen significantly as 69% respondents in Q-1 2017-18, against 60% respondents reported cost escalation in last quarter. This is primarily due to rise in minimum wages and raw material cost.

In terms of order books, about 47% respondents in April – June 2017-18 quarter reported higher order numbers which is almost the same as that recorded in the previous quarter.

Quarter	% of Respondents Expecting Higher Production in the Quarter vis-à-vis Respective Last Year's Quarter
Q-1 (2017-18)	49%
Q-4 (2016-17)	47% (Revised)
Q-3 (2016-17)	48%
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

Capacity Addition & Utilization

The average capacity utilization as reported in the survey for the manufacturing sector is about 75% for Q-4 2016-17 which is similar to that of Q-3 2016-17. The future investment outlook remains less optimistic. Even now, 74% respondents in Q-1 2017-18 as against 75% respondents in Q-4 2016-17 reported that they don't have any plans for capacity additions for the next six months. Although, the bleak investment outlook seems to be waning if Q-3 2016-17 is taken into consideration (when 77% respondents had no plans for capacity addition). High percentage implies slack in the private sector investments in manufacturing is here to continue for some more months. Large volumes of imports, under-utilised capacities and lower domestic demand from industrial sectors and OEMs are some of the major constraints which are affecting the expansion plans of the respondents.

On a broader perspective, in some sectors (like chemicals, capital goods, textiles machinery, cement, metals and paper) average capacity utilization has either remained same or declined in Q-4 of 2016-17. On the other side, some sectors including auto, textiles and electronics and electricals reported a rise in the average capacity utilization over the same period.

Table: Current Average Capacity Utilization Levels As Reported in Survey (%)

Sector	Average Capacity Utilisation in Q-4 2016-17	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	78	75	80	77
Capital Goods	71	74	70	80
Cement	72	80	80	87.5
Chemicals	76	76	83	83
Textiles	82	79	84	84

Electronics & Electricals	68	58	70	65
Food	NA	60	60	57
Leather & Footwear	55	60	60	60
Metals	76	82	70	70
Textiles Machinery	60	60	60	50
Paper	80	87.5	85	80
Machine Tools	80	NA	80	NA

NA : Not Available due to lack of data

Inventories

As for the inventory levels, 87% of the participants in Q-4 (January – March 2016-17), as against an overwhelming 97% in Q-3 (October-December 2016), have maintained either more or same levels of inventory as their average inventory levels.

Exports

Export outlook of manufacturing sector for the first quarter of this fiscal also seems to be marginally improving as percentage of respondents expecting fall in Q-1 (2017-18) has come down from 22.8% in Q-4 (2016-17) to 18.5%.

Hiring

Hiring outlook for the sector remains subdued in near future as 73% of the sample participants in Q-1 2017-18 said that they are unlikely to hire additional workforce in next three months. However, when compared on a sequential basis, this proportion reflects a mild improvement over the previous quarter when 77% of the respondents were reportedly averse to hire additional workforce.

Interest Rate

Average interest rate paid by the manufacturers still remain high though have shown some sign of moderation with average rate of 11% but highest rates continue to be upwards of 14.5%.

Sectoral Growth

Based on expectations in different sectors, the Survey suggests that moderate growth is expected in metals, leather and footwear, machine tools and capital goods sector in Q-1 2017-18. Low growth is expected in sectors like chemicals, automotive, textiles and cement. Only in case of electronics and electricals high growth is expected for Q-1 2017-18.

Table: Growth expectations for Q-1 2017-18 compared with Q-1 2016-17

Sector	Growth Expectation
Cement and Ceramics	Low
Chemicals	Low
Auto	Low
Textiles and Technical Textiles	Low
Electronics & Electricals	Strong
Machine Tools	Moderate
Metals & Metal Products	Moderate
Leather and Footwear	Moderate
Capital Goods	Moderate

Note: Strong > 10%; 5% < Moderate < 10%; Low < 5%

Source: FICCI Survey

Weblink: http://ficci.in/SEDocument/20407/MANUFACTURING-SURVEY-REPORT-July-2017.pdf

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