

***93% of Surveyed Firms Expect Food Inflation to Spill Over to Manufacturing Sector***  
**INDIA INC SEES INDUSTRIAL GROWTH SLOWING DOWN IN NEXT SIX MONTHS,**  
**SAYS FICCI BUSINESS CONFIDENCE SURVEY**  
***Rising Raw Material and Manpower Costs take toll of Business Sentiment***

**NEW DELHI, February 22, 2011.** Buffeted by rising raw material and manpower costs and the threat of food inflation spilling over to the manufacturing sector, the confidence level of corporate India has slipped ahead of the Union Budget 2011-12. India Inc sees industrial growth slowing down in the next six months, FICCI's latest Business Confidence Survey (BCS) reveals.

FICCI's latest survey reveals a fall in the overall business confidence index from 76.2 in the previous to 63.8 in the current survey. The indices relating to current conditions and expectations in the next six months have also slipped from 75.2 to 63.5 (current conditions index) and 76.6 to 64, (expectations index) respectively.

The major problem area is input cost inflation which is hitting industry hard. Close to 90 per cent of the firms that participated in FICCI's BCS point to rising cost of raw materials and industrial inputs as a 'negative factor' impeding their business performance.

The respondents to the survey also expect the build-up in food prices to spill over to manufacturing sector. Ninety three (93) per cent of the surveyed firms concur with this view. Companies are increasingly facing demands for higher wages and salaries and this is complicating their cost structure further. In fact, nearly 70 per cent of the respondents are under pressure due to rising manpower costs, the second most important factor hurting members of Indian industry.

A fall out of the rising raw material prices and increasing manpower costs is the compression in profit levels. In the present survey, every 1 out of 4 firms [nearly 25 per cent] expects its profit level to be lower in the next six months.

Importantly, companies appear to be struggling to hold the price line any further. Nearly 53 per cent of the firms say that they would increase selling prices in the next six months. This marks a huge jump from the results of the previous survey where 26 per cent of the firms had expressed this view.

The survey notes that while current demand situation appears satisfactory, the near term order book position is showing signs of some moderation.

It seems that the successive hikes introduced by RBI in the key monetary variables [seven times since March 2010] have started impacting industry's performance. Nearly 53 per cent of the firms have said that high lending rates by banks are having an impact on their operations.

Nearly 60 per cent of the surveyed companies opine that while market demand is firm it has not reached a point where they face capacity constraints. This same set of companies feels that Indian economy is not overheating.

The key points mentioned by surveyed companies on their expectations from Union Budget 2011-12 are:

- There should be no further rollback of the stimulus measures. Excise rates in particular should not be raised.
- Budget must clear the direction on introduction of Goods and Services Tax [GST].
- Benefits given to exporters must continue as the global economy is still not out of the woods.
- Provide some additional relief to individuals/consumers facing the brunt of inflation.
- Modulate the taxation structure on oil products to limit increase in fuel prices.
- Focus on infrastructure development giving adequate emphasis to infrastructure in rural areas.
- Incentivize states to remove taxes including octroi on interstate movement of agricultural products.

The latest FICCI's BCS drew responses from 296 companies with a wide geographical and sectoral spread. Companies participating in this survey had a turnover ranging from Rs. 1 crore to Rs. 2, 00, 000 crore. Respondents to the survey represent sectors such as textiles, steel, chemicals and fertilizers, oil and gas, auto and auto components, rubber and rubber products, food processing, electrical equipment and machinery, FMCG, pharmaceuticals, paper, metal and metal products, insurance, hospitality and other business services. The survey was conducted during the months of January and February 2011.

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