FICCI Survey on Exports

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FICCI, Federation House, 1, Tansen Marg, New Delhi - 110001

Survey Highlights

- Results of FICCI's latest Export Survey show that the **outlook of exporters with regard to export performance is getting somewhat tempered** and we can **expect some moderation in near term export performance**.

- The exporters have highlighted the following factors that have dampened their spirits.

  - The **interest subvention scheme** announced to support exporters during the period of global **crisis came to an end in March 2011**. This has led to a hike in the interest rates being charged by banks for export credit.

  - Further, as withdrawal of interest subvention scheme has happened at a time when **lending rates are in any case going up following increase in the base rates of banks**, the impact on production cost structure is aggravated.

  - **The DEPB scheme is also likely to end soon**[1]. As this is coming in quick succession following the withdrawal of the 2 percent interest subvention scheme, **exporters are under reasonable pressure to maintain competitiveness** in the global market.

- Exporters have drawn attention to the fact that Asia has contributed to strong growth performance of our exports in recent times. Given this situation exporters are trying to build more inroads into the Asian markets. However, **with inflation emerging as a key macro challenge in many of the countries and with interest rates being hiked, demand in the Asian region is likely to ease somewhat** in the coming months. This too will have a bearing on India's export performance.

- Rising cost of raw materials and rising price of oil are also adversely affecting performance of exporters.

- In the present survey **nearly 75 percent of the respondents mentioned rising cost of raw materials as one of the factors that is troubling them**. A few examples to consider here are

  - Textiles [due to increasing cotton and yarn prices]
  - Chemicals [due to increasing polymer prices]
  - Metal products [due to high coal prices that is affecting power generation costs]
  - Engineering goods [due to increasing steel prices]
  - Tyres [due to increasing natural rubber prices]
  - Processed foods [due to increasing prices of fruits and vegetables]

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[1] Responses to the survey were obtained before the government announced extension of DEPB by another three months till September 2011.

- Further, **nearly 50 percent of the surveyed firms reported rising cost of oil as having a negative bearing on their export performance**. Hardening of international crude prices has had two affects.

    - First, it has led to an **increase in the inland transportation costs** with exporters pointing towards higher charges being demanded by transporters for moving cargo from factory to ports.

    - Second, **international ocean freight rates have moved up** and this has further increased the transportation costs.

- The rising price of oil, industrial inputs / raw materials and credit is forcing many exporters to consider increasing prices even at a time when heightened international competition calls for restraining price revisions. In the present survey nearly 68 percent of the respondents said that they will **increase prices of exports** in the coming six months. **This is expected to lead to a reduction in orders from overseas markets**.

- A few exporters who have decided to hold on to their prices despite cost pressures are **compromising on their ability to extend substantial credit to international buyers**. **This too is affecting business.**

- Although the proportion of respondents complaining about 'exchange rate' as a factor adversely affecting their exports has come down from 65 percent in the last survey to 43 percent in the present survey, this issue cannot be discounted. Exporters have mentioned that **currency fluctuations are making the task of forecasting revenue all the more difficult**.

About the Survey

This is the thirteenth survey on exports conducted during the months of March and April 2011. The FICCI survey monitors the trends, direction and structure of India's exports by gathering direct ground level feedback from India's leading exporters. The survey also monitors the present and expected performance of the Indian exporters.

The survey saw participation from 212 companies with a wide geographical and sectoral spread. The turnover of the companies that participated in the survey ranged from Rs. 1 crore to Rs. 25,000 crore and the companies represent sectors like automotive, textiles, chemicals and pharmaceuticals, food and beverages, engineering goods, processed food, handicrafts, gems and jewellery, paper, rubber and rubber products, IT software, metals and mining.

Survey Findings

A) Export Conditions

The present survey conducted during the months of March and April 2011 made an attempt to capture the sentiments of Indian exporters with regard to the export conditions at the economy, industry and firm levels. As in the past surveys, we also asked our respondents to identify the crucial few constraints to exports amongst the identified and listed items.

Inputs were received on the current export conditions vis-à-vis the export conditions in the last six months. This was followed by outlook on the export conditions for the next six months at all the three levels – overall economy, industry and firm.

Results of our last survey, which was released in the month of October 2010, showed signs of some improvement in the export performance with exporters feeling more confident about the export conditions. At that time, it was pointed out that the buying activity in the international market had picked up and payment conditions too were reported to have improved. Overall, the exporting community was pointing towards an improvement in performance.

The macro data on exports for the last few months has shown strong growth over the same period of the previous year. This recent strong performance also enabled India to cross the US$ 200 billion mark in exports in 2010-11. In fact, when the final numbers were made available, we saw that India's total exports in 2010-11 crossed the US$ 245 billion level and marked the highest annual growth seen since independence.

While the above trends are encouraging, the results of our most recent survey show that the outlook of the exporters with regard to export performance is somewhat getting tempered. In the present survey the exporters have hinted at some moderation in their near term performance.

It is important to note that the interest subvention scheme that was announced to support exporters during the period of global crisis came to an end in March 2011. This has led to a hike in the interest rates being charged by banks for export credit. Further, this increase comes on the back of an already rising interest rate structure as banks have revised upwards their base rates following continued tightening of monetary policy by the RBI. This jump in interest rates has dampened the spirits of members of the exporting community as it has a direct bearing on their cost structure and competitiveness in the international market.

Further, the feedback received from exporters also shows some concerns with regard to the withdrawal of the DEPB scheme that is likely to happen soon[2]. As this is coming in quick succession following the withdrawal of the 2 percent interest subvention scheme, the exporters are under reasonable pressure to maintain their competitiveness in the global market. These concerns are getting reflected in the responses received with regard to the export conditions.

As the table given below shows, nearly 49 percent of the participating companies feel that the current export conditions are 'moderately to substantially better' vis-à-vis the last six months. In our previous survey, nearly 64 percent of the participating firms had reported likewise. With regard to export conditions at the industry level, we see that nearly 55 percent of the survey participants have reported that current export conditions are 'moderately to substantially better'. In the previous survey this figure stood at 64 percent. Finally, while nearly 57 percent of the respondents in the current survey reported that export conditions at the firm level have improved, this figure was much higher – 69 percent – in the previous survey.

Table 1 – Current export conditions vis-à-vis last six months (% of respondents)

	Moderately to Substantially Better	Same / No Change	Moderately to Substantially Worse
FICCI Export Survey - October 2010			
Overall export conditions	64	26	9
Industry level export conditions	64	24	12
Firm level export conditions	69	24	7
FICCI Export Survey - May 2011			
Overall export conditions	49	31	20
Industry level export conditions	55	21	24
Firm level export conditions	57	22	22

With regard to the near term export conditions, we again see a moderation in the responses. In the present survey nearly 60 percent of the firms have reported that they expect the overall export conditions to improve in the coming six months. In the previous survey nearly 74 percent of the firms had reported likewise. With regard to near term export conditions at the industry and firm level, we see that 63 percent and 70 percent of the firms have reported that they see an improvement. In our previous survey the corresponding figures were 76 percent and 82 percent respectively.

Table 2 – Expectations regarding export conditions in the next six months (% of respondents)

	Moderately to Substantially Better	Same / No Change	Moderately to Substantially Worse
FICCI Export Survey - October 2010			
Overall export conditions	74	24	2
Industry level export conditions	76	17	7
Firm level export conditions	82	11	7

[2] Responses to the survey were obtained before the government announced extension of DEPB by another three months till September 2011.

FICCI Export Survey - May 2011			
Overall export conditions	60	21	20
Industry level export conditions	63	20	18
Firm level export conditions	70	20	11

B) Projections – Export volumes, export prices and export direction

In addition to capturing the views of exporters on the current and expected export conditions, the survey also elicited response on the nature and quantum of movement companies expect in the next six months with regard to both their export volumes and their export prices. In addition to providing information on export volumes and prices, the exporting community was also asked to indicate likely movements in their export volumes to regions / countries in the next six months. The results obtained are presented below –

Table 3 – Expected change in export volumes in the next six months (% of respondents)

	Decline	No Change	Increase up to 5%	Increase 5% to 10%	Increase 10% to 20%	Increase 20% to 30%	Increase more than 30%
October 2010	7	15	27	25	17	2	8
May 2011	15	18	14	28	19	4	2

The figures given in the above table indicate that some moderation in export volumes can be expected in the next six months. As the data shows, nearly 15 percent of the exporters who participated in the current survey feel that their export volumes would go down in the coming six months. In the previous survey, just about 7 percent of the exporters had expressed a similar view. Further, 42 percent of the exporters feel that their export volumes would go up by up to 10 percent in the next six months. In the previous survey this figure was higher by ten percentage points and stood at 52 percent.

Table 4 – Expected change in export prices in the next six months (% of respondents)

	Decline	No Change	Increase up to 5%	Increase 5% to 10%	Increase 10% to 20%	Increase 20% to 30%	Increase more than 30%
October 2010	7	32	32	20	9	0	0
May 2011	8	24	34	23	7	1	3

While the outlook for export volumes looks a little dim, the outlook for prices has not changed much between our last two surveys. In fact, if we look at the numbers then we see that a slightly larger proportion of firms this time are expecting export prices to go up in the next six months compared to the results obtained in the last survey. As the above table shows, in our October 2010 survey, nearly 61 percent of the firms had reported that they anticipate an increase in prices in the coming six months. In the present survey, this figure has inched up to 68 percent.

As pointed out even in some of the earlier editions of the FICCI Export Survey, input costs have been going up substantially for exporters and their margins have been under pressure. With interest costs also moving north, additional pressure is mounting on exporters and forcing them to consider price revisions. In this context it may be noted that the increase in oil prices and its subsequent impact on cost of inland transportation as well as on ocean freight costs are also complicating the cost matrix of exporters and forcing many to consider increasing prices even at a time when heightened international competition calls for restraining price revisions.

C) Order book position

In the survey we also asked the participating companies to indicate the current status of their order book position vis-à-vis the order book position prevailing six months back. Companies were also asked to indicate their expectations about order book position six months from now. The results obtained are presented in the following table.

Table 5 – Status of order book position (% of respondents)

	Increase	Decrease	No Change
FICCI Export Survey – October 2010			
Current order book position compared to order book position six months back	60	16	24
Expected order book position six months from now	67	7	26
FICCI Export Survey – May 2011			
Current order book position compared to order book position six months back	57	20	23
Expected order book position six months from now	59	19	20

As the above table shows, nearly 57 percent of the participating firms have said that their current order book position is better as compared to the order book position six months back. In the previous survey 60 percent of the survey respondents had reported likewise and thus there is not much of a change we see in responses received on current order book position.

However, the responses to expected order book position six months from now do indicate some softening of demand. Nearly 59 percent of the surveyed exporters mentioned that they expect their order book position to improve six months from now. In the previous survey, 67 percent of the exporters had reported in a similar manner. Further, 19 percent of the exporters expect their order book position to weaken in the coming six months. This last figure is higher as compared to 7 percent of the respondents who expressed the same view in our previous survey.

Looking at our recent export performance and the above responses in conjunction, we can say that our export performance in the near term would not be as strong as it was in the closing months of the last fiscal i.e. 2010-11.

Market conditions in US and EU though improving are still not as firm as exporters would like them to be. Moreover, recent developments in the EU region have again brought the issue of ‘sovereign debt crisis’ to the forefront with concerns being raised about the likely growth trajectory in this region.

Further, the other large target destination for Indian exports namely Asia has contributed to strong export performance in recent times, but with inflation now emerging as a key macro challenge in many of the countries and with interest rates being hiked domestic demand even here is likely to ease somewhat in the coming months.

D) Direction of Exports

The survey participants were asked to report what they felt about the likely direction of exports and changes therein in the next six months. Respondents were asked to indicate whether exports would increase / decrease / remain the same in different parts of the world. Based on the responses received the following results emerged.

Table 6 – Expected movement in exports in key markets in next six months (% of respondents)

	Increase	Same / No Change	Decrease
South East Asia	66	31	3
SAARC	54	40	5
Middle East	51	40	10
Africa	49	43	8
USA	48	41	11
UAE	47	47	5
Latin America	43	53	4
United Kingdom	40	52	8
China	39	53	8
European Union	37	48	15
Russia	33	60	7
Japan	22	78	0
Canada	21	69	10
Australia	20	66	14
CIS	20	78	2

According to inputs provided by the survey participants the markets of South East Asia, SAARC, Middle East and Africa are likely to see greater shipments of Indian exports in the coming six months. Following these regions are the markets of US, UAE and Latin America.

In this context it may be mentioned that our recent strong export performance has been driven by regions such as Asia, Africa and Latin America.

While the series of FTAs / CECAs that have been signed by India with countries from the Asian region are expected to give a lift to our exports, trade with Africa and Latin America would continue to benefit as these regions fall under the focus market and market linked focus product program of the government.

E) Factors adversely affecting Indian exports

FICCI has been constantly making efforts in bringing out issues confronting the Indian exporters. We made a selection of 12 factors that directly or indirectly have a bearing on international trade. These factors were presented to the respondents and they were asked to indicate the areas which they felt were acting as impediments in the way of improving their export performance.

Table 7 – Factors adversely affecting export performance (% of respondents)

Rank	FICCI Export Survey – October 2010	%	FICCI Export Survey – May 2011	%
1	Rising cost of raw materials	81	Rising cost of raw materials	75
2	Exchange rate	65	Increase in oil prices	49
3	Competitive environment	47	Exchange rate	43
4	Weak demand in int'l market	41	Cost of credit	38
5	Increase in oil prices	40	Weak demand in int'l market	35
6	Inadequate infrastructure	34	Competitive environment	34
7	Cost of credit	26	Government procedures	31
8	Government promotional schemes	19	Inadequate infrastructure	24
9	Tariff and non-tariff barriers	14	Tariff and non-tariff barriers	21
10	Government procedures	12	Government promotional schemes	19
11	Availability of credit	10	Availability of credit	12
12	Excess productive capacity	10	Excess productive capacity	9

A look at the table given above shows that the most important factor that is having a negative bearing on the performance of the exporters is the rising cost of raw materials and industrial inputs. In fact this has been a running theme for some time now as even in the previous survey rising input costs figured as the top factor that was adversely affecting export performance. In the present survey every 3 out of 4 survey participants have drawn attention towards and complained about rising cost of raw materials.

Next in line of the factors adversely affecting export performance is the increase in oil prices with nearly 50 percent of the surveyed firms checking this option. Given the developments in the Middle East and North Africa region and the more recent developments in Japan, oil prices continue to head northwards. Although we did see a dip in between, it was a temporary relief and the near term outlook for international oil prices continues to be a reason for worry. As mentioned earlier, the hardening of crude prices has two affects. First, it has led to an increase in the inland transportation costs with exporters pointing towards higher charges demanded by transporters for moving cargo from factory to ports. Second, international ocean freight rates have moved up and this has further increased the transportation costs.

Besides rising cost of raw materials and increase in oil prices, two other factors deserve a mention as these have moved up the ladder between our last two surveys.

The first amongst these is the cost of credit. We see that the proportion of respondents pointing rising cost of credit as an impediment to export performance has gone up from 26 percent in the last survey to nearly 40 percent in the current survey. This is a reflection of the continuous rise in interest rates following several rounds of tightening of policy rates by the RBI. Also, it may be noted that the 2 percent interest subvention scheme that was in operation for some time came to an end in March 2011. With this concession gone and banks increasing their base rates, exporters face a much higher interest rate structure today.

The second factor that deserves a mention is ‘government procedures’ with nearly 30 percent of the exporters reporting that they have to face significant delays and cost overruns due to complex rules and detailed paperwork involved while complying with government regulations.