FICCI SURVEY: WORSENING DEMAND CONDITIONS TO IMPACT MANUFACTURING GROWTH FURTHER

December 10, 2011, New Delhi: FICCI's latest Quarterly Survey on Manufacturing projects continued moderation in growth for the sector. This slowdown is a result of lower order books, moderate export growth and rising raw material costs.

According to FICCI's Survey, which drew responses from 384 manufacturing units, an overwhelming 87% of total respondents said that they expect growth to moderate in their sector in Q-3 of 2011-12 as compared to Q-3 of the prior year. In the previous survey, over 74% respondents expected growth to moderate, but in the latest survey 87% respondents expect growth to moderate in Q-3.

In the last survey, manufacturers did not expect exports to moderate significantly; by contrast, in the latest survey pessimism has risen on the exports outlook as well.

The survey noted worsening demand conditions for the manufacturing sector in Q-3 as compared with previous quarters; a significant fall in order books is evident. While in the last two quarters (April-June 2011 & July-September 2011) over 50% and 38% respondents reported higher orders compared to the previous quarter, in Q-3 only 29% respondents reported higher orders than in Q-2 (July-September 2011).

FICCI's latest quarterly survey gauges the expectations of manufacturers for Q-3 for major sectors such as textiles, capital goods, metals, chemicals, tyres, cement, consumer electronics, batteries, automotive, textiles machinery, leather & footwear, food processing etc. Responses have been drawn from 384 manufacturing units from both large and SME segments.

Capacity Utilization - Falling

FICCI's survey noted a significant fall in capacity utilisation in Q-3 as only 36% respondents said that their capacity utilisation levels are higher in Q-3 as compared to the prior year. In the previous quarters, over 53% respondents reported that they were operating at higher capacity as compared with the prior year. Capacity utilisation levels are particularly low in textiles, consumer electronics and the electrical sector.

Capacity Addition- New Investments Falling Significantly

In the previous quarter, 41% of respondents reported plans for capacity addition in the next 6 months; in the latest survey only 32% respondents have done so. They represent the following sectors: textiles, steel, capital goods, cement, electrical, automobile, auto-components, chemicals, paper and textiles machinery. The notable exceptions were food processing and leather; respondents from these two sectors anticipate fresh investments in the coming months.

Table 1: Percentage of respondents with plans for capacity addition

Quarter	% of Respondents
Q-1 (April-June 2011)	52%
Q-2 (July-September 2011)	41%
Q-3 (October-December 2011)	32%

Source: FICCI Survey

Employment- Outlook Worsens

Sixty six percent of respondents reported that they are not planning to increase their workforce in the next 3 months as compared with 57% in the previous survey. The food processing and leather sectors are the exception because employment prospects have improved.

Exports- Outlook Bleak

FICCI's Survey also showed that growth of manufacturing exports was expected to moderate in Q-3 as only 29% respondents expect their exports to rise in Q-3 compared to about 40% in the earlier survey.

Table 2 : Percentage of respondents who expect exports to rise

Quarter	% of Respondents
April-June 2011	50%
July-September 2011	40%
October-December 2011	29%

Sectoral Growth

Based on expectations in different sectors, the Survey pointed out that nine out of thirteen sectors were likely to witness low (less than 5%) to moderate (between 5 to 10%) growth in Q-3. These sectors are cement, steel, textiles, chemicals, capital goods, paper and electricals. Sectors such as automotive, auto-components, leather and food processing and miscellaneous are likely to witness strong growth of more than 10% in Q-3.

Table 3: Growth expectations for Q-3 2011-12 compared with Q-3 2010-11

Sector	Growth
Capital Goods	Low
Chemicals	Low
Electricals	Low
Textiles	Low
Textiles Machinery	Low
Miscellaneous	Low
Cement	Moderate
Paper	Moderate
Steel & Metals	Moderate
Automotive	Strong
Food Processing	Strong
Leather & footwear	Strong
Tyre	Strong

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

The slowdown is a result of moderation in consumer demand, rise in raw material prices and weakening of the export market. Fifty six percent of respondents expect rising cost of raw materials to persist and pose a significant constraint; as a result, profit margins are likely to come under pressure in Q-3.

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