

Overall Business Sentiments for Q3:2016-17 remained Unchanged: RBI's Industrial Outlook Survey finds

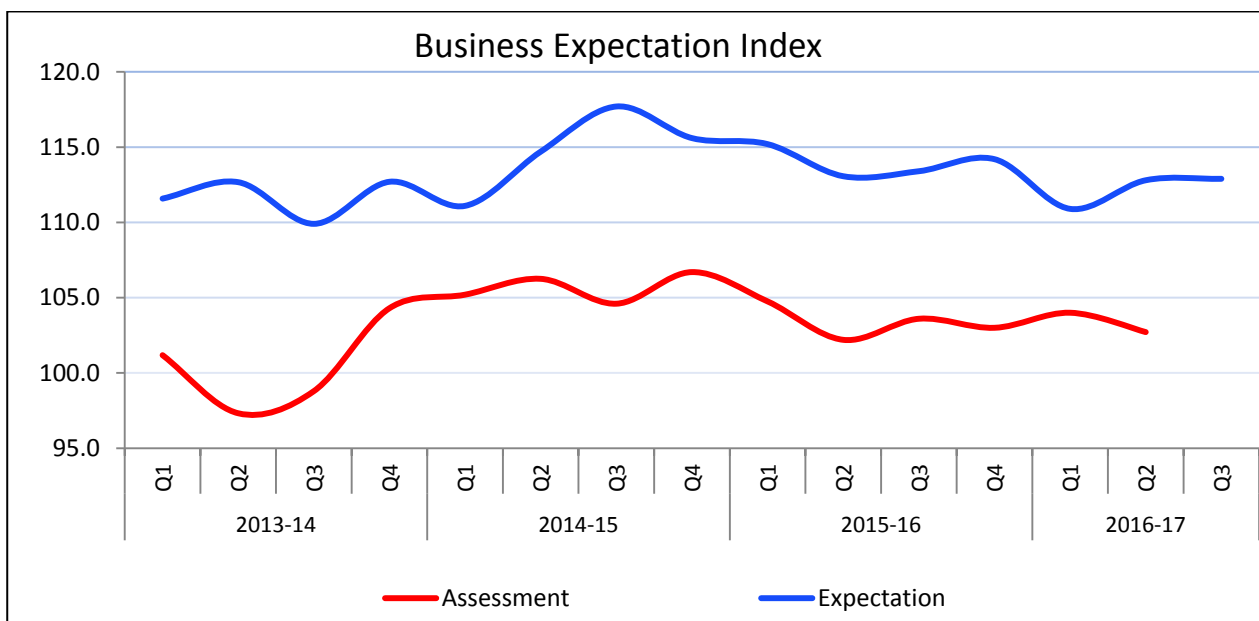
The 75th round of the Reserve Bank of India's Industrial Outlook Survey (IOS) indicated no improvement in business sentiments. This round of the survey was conducted during August-September 2016. The survey elicited response from 723 manufacturing companies. It provides qualitative **assessment** of business situation of companies in the Indian manufacturing sector for **Q2:2016-17** and their **expectations** for the ensuing quarter **Q3:2016-17**. The 74th round (Q1:2016-17) survey results were released on [August 9, 2016](#) on the RBI website.

The survey responses are those of the respondents and are not necessarily shared by the Reserve Bank of India.

Highlights:

Assessment for Q2:2016-17

- The Survey indicated slight moderation in the sentiments in demand condition in Q2:2016-17 as compared with Q1:2016-17. On a net basis, percentage of respondents favoring increase in production, order books, capacity utilisation and exports/imports was lower in this quarter.
- Availability of finance from banks and other sources was perceived to have improved along with reduced pessimism in the cost of finance. Sentiments on cost of raw material, however, deteriorated. Without commensurate increase in selling price, the profit margin was perceived to have declined further.
- Overall, the business sentiments of the Indian manufacturing sector, as inferred from the Business Expectation Index (BEI), moved slightly downward from the previous quarter.



Expectation for Q3: 2016-17

- The outlook on business sentiments in Q3: 2016-17 remained quite similar to that in Q2:2016-17. Optimism was expressed in production, capacity utilisation, and in overall financial situation. However, pressure from rise in cost of raw material is expected to keep profit margin unchanged.
- The summary index BEI remained at the same level as in Q2: 2016-17.

Summary Table				
<u>Net response¹ (in %) comparison over previous quarter</u>				
Parameters	Assessment period		Expectation period	
	Q1:2016-17	Q2:2016-17	Q2:2016-17	Q3:2016-17
Production	17.3	10.8	29.0	28.9
Order Books	15.6	9.0	27.3	24.7
Pending Orders	11.0	13.7	6.6	6.2
Capacity Utilisation	6.7	3.6	16.8	17.2
Exports	6.2	-0.8	16.8	11.2
Imports	8.4	7.0	9.6	8.7
Employment	5.3	6.8	8.1	9.1
Financial Situation	16.0	16.4	26.9	27.1
Availability of Finance (from internal accruals)	13.5	12.5	20.1	20.2
Cost of Finance	-9.8	-7.9	-7.5	-7.5
Cost of Raw Material	-34.0	-39.0	-31.5	-32.0
Selling Price	5.7	2.0	10.1	6.8
Profit Margin	-12.8	-12.4	-0.2	0.1
Overall Business Situation	21.2	17.4	33.5	31.3
Salary	32.0	32.8	26.9	24.7
Business Expectation Index ²	104.0	102.7	112.9	112.9

¹ Net Response (NR) is the difference of percentage of the respondents reporting optimism and that reporting pessimism. The range is -100 to 100. Any value greater than zero indicates expansion/optimism and any value less than zero indicates contraction/pessimism i.e., $NR = (I - D)$; where, I is the percentage response of 'Increase/optimism', and D is the percentage response of 'Decrease/pessimism' and E is the percentage response as 'no change/Equal'; $I+D+E=100$. For example, increase in production is optimism whereas decrease in cost of raw material is optimism.

² The Business Expectation Index (BEI) is a composite indicator calculated as weighted (share of GVA of different industry group) net response of nine business indicators. The nine indicators considered for computation of BEI are: (1) overall business situation, (2) production, (3) order books, (4) inventory of raw material, (5) inventory of finished goods, (6) profit margin, (7) employment, (8) exports and (9) capacity utilisation. It gives a single snapshot of business outlook in every quarter. BEI lies between 0 to 200, and 100 is the threshold separating expansion from contraction.

Table 1: Assessment & Expectation for Production(Percentage responses)[®]

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response [#]	Increase	Decrease	No change	Net response
Q2:2015-16	1304	34.1	18.9	46.9	15.2	40.3	11.4	48.3	28.9
Q3:2015-16	1337	34.2	18.2	47.6	16.0	40.5	11.3	48.2	29.2
Q4:2015-16	1342	35.6	18.8	45.6	16.8	41.2	10.2	48.6	31.1
Q1:2016-17	1275	34.5	17.2	48.3	17.3	38.8	13.8	47.4	25.0
Q2:2016-17	723	31.4	20.6	48.0	10.8	40.2	11.2	48.6	29.0
Q3:2016-17						40.9	12.0	47.2	28.9

'Increase' in production is optimistic.

[®]: Due to rounding off percentage may not add up to 100. This is applicable for all the tables from 1 to 17.

[#]: Net Response (NR) is the difference of percentage of the respondents reporting optimism and that reporting pessimism. The range is -100 to 100. Any value greater than zero indicates expansion and any value less than zero indicates contraction.

Table 2: Assessment & Expectation for Order Books

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	31.1	19.7	49.3	11.4	37.4	11.6	51.0	25.8
Q3:2015-16	1337	30.4	18.8	50.8	11.5	37.4	11.9	50.8	25.5
Q4:2015-16	1342	31.8	19.7	48.5	12.1	39.7	10.6	49.8	29.1
Q1:2016-17	1275	32.1	16.5	51.3	15.6	35.5	14.3	50.3	21.2
Q2:2016-17	723	29.3	20.4	50.3	9.0	38.1	10.8	51.1	27.3
Q3:2016-17						36.4	11.7	51.9	24.7

'Increase' in order books is optimistic.

Table 3: Assessment & Expectation for Pending Orders

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Below Normal	Above Normal	Normal	Net response	Below Normal	Above Normal	Normal	Net response
Q2:2015-16	1304	18.6	5.1	76.3	13.5	14.6	6.1	79.4	8.5
Q3:2015-16	1337	19.2	5.0	75.8	14.3	14.1	6.5	79.4	7.6
Q4:2015-16	1342	18.2	4.3	77.4	13.9	13.3	7.0	79.7	6.3
Q1:2016-17	1275	16.7	5.7	77.6	11.0	15.1	4.9	80.0	10.2
Q2:2016-17	723	18.9	5.2	75.9	13.7	12.9	6.3	80.8	6.6
Q3:2016-17						12.9	6.7	80.4	6.2

Pending orders 'Below Normal' is optimistic.

Table 4: Assessment & Expectation for Capacity Utilisation

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q2:20 15-16	Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17
Capacity Utilisation (CU)-(main product)	Increase	21.7	23.4	24.6	21.8	21.5	27.8	27.8	26.3	26.5	27.4
	No Change	60.2	60.4	57.9	63.1	60.7	62.0	63.5	60.8	63.9	62.5
	Decrease	18.1	16.3	17.5	15.1	17.9	10.2	8.7	12.9	9.7	10.2
	Net Response	3.6	7.1	7.1	6.7	3.6	17.5	19.1	13.4	16.8	17.2
Level of CU (compared to the average in last 4 quarters)	Above normal	8.8	8.7	9.8	10.9	9.3	9.2	9.4	9.8	10.3	10.8
	Normal	71.9	72.6	71.0	72.5	75.3	77.6	78.2	75.6	77.8	77.7
	Below Normal	19.3	18.6	19.2	16.6	15.4	13.1	12.4	14.6	11.9	11.5
	Net Response	-10.5	-9.9	-9.4	-5.7	-6.0	-3.9	-3.0	-4.8	-1.6	-0.7
Assessment of Prod. Capacity (with regard to expected demand in next 6 months)	More than adequate	14.1	14.3	13.9	14.6	14.4	14.4	14.5	13.8	13.6	14.2
	Adequate	78.3	77.2	77.7	76.8	77.3	78.8	78.5	79.1	78.8	78.4
	Less than adequate	7.7	8.5	8.5	8.6	8.2	6.8	7.0	7.1	7.6	7.4
	Net Response	6.4	5.8	5.4	6.0	6.2	7.5	7.5	6.7	6.0	6.8

'Increase' in capacity utilisation is optimistic.

Table 5: Assessment & Expectation for Exports

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	23.5	17.8	58.7	5.7	27.5	8.0	64.5	19.6
Q3:2015-16	1337	23.3	17.7	59.0	5.7	27.3	10.6	62.1	16.7
Q4:2015-16	1342	22.1	18.8	59.1	3.3	26.9	10.0	63.1	16.9
Q1:2016-17	1275	21.5	15.3	63.1	6.2	25.7	12.0	62.3	13.7
Q2:2016-17	723	19.8	20.6	59.6	-0.8	26.3	9.5	64.2	16.8
Q3:2016-17						24.3	13.2	62.5	11.2

'Increase' in exports is optimistic.

Table 6: Assessment & Expectation for Imports

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	18.8	10.4	70.7	8.4	18.0	8.1	73.9	9.9
Q3:2015-16	1337	17.2	11.1	71.8	6.1	18.0	8.8	73.2	9.2
Q4:2015-16	1342	17.6	12.9	69.4	4.7	16.4	8.6	75.0	7.7
Q1:2016-17	1275	18.1	9.7	72.3	8.4	16.7	10.9	72.4	5.8
Q2:2016-17	723	17.5	10.6	71.9	7.0	17.5	7.9	74.6	9.6
Q3:2016-17						18.1	9.4	72.5	8.7

'Increase' in imports is optimistic.

Table 7: Assessment & Expectations for level of Inventory (Raw Material and Finished Goods)

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q2:20 15-16	Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17
Inventory of raw material	Below average	7.4	6.5	7.0	6.0	7.0	5.5	5.3	5.9	5.8	5.2
	Average	78.9	81.4	80.5	81.7	81.2	83.9	84.8	84.4	83.5	84.5
	Above average	13.7	12.2	12.5	12.4	11.8	10.6	9.9	9.7	10.8	10.3
	Net Response	-6.3	-5.7	-5.5	-6.4	-4.8	-5.1	-4.7	-3.8	-5.0	-5.2
Inventory of finished goods	Below average	6.9	7.0	8.7	7.0	6.7	6.3	6.2	7.0	7.1	4.5
	Average	75.6	75.7	75.9	77.7	77.5	82.1	81.6	81.9	80.8	83.0
	Above average	17.5	17.4	15.4	15.3	15.8	11.6	12.1	11.1	12.1	12.5
	Net Response	-10.6	-10.4	-6.7	-8.3	-9.0	-5.3	-5.9	-4.1	-5.0	-7.9

Inventory of raw material and finished goods 'Below average' is optimistic.

Table 8: Assessment & Expectations for Employment Outlook

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	15.2	9.3	75.5	5.9	16.5	6.6	76.8	9.9
Q3:2015-16	1337	15.3	9.4	75.3	5.8	15.7	6.1	78.2	9.6
Q4:2015-16	1342	14.2	10.1	75.7	4.1	15.3	6.7	78.0	8.6
Q1:2016-17	1275	15.0	9.7	75.3	5.3	15.1	8.0	76.9	7.1
Q2:2016-17	723	14.5	7.7	77.8	6.8	15.8	7.7	76.5	8.1
Q3:2016-17						14.7	5.6	79.7	9.1

'Increase' in employment is optimistic.

Table 9: Assessment & Expectation for Overall Financial Situation

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Better	Worsen	No change	Net response	Better	Worsen	No change	Net response
Q2:2015-16	1304	27.5	14.0	58.6	13.5	34.2	9.1	56.7	25.1
Q3:2015-16	1337	26.2	12.9	60.9	13.2	34.8	8.8	56.4	26.0
Q4:2015-16	1342	26.6	12.3	61.0	14.3	33.3	8.5	58.2	24.7
Q1:2016-17	1275	27.9	11.9	60.1	16.0	33.1	8.3	58.6	24.8
Q2:2016-17	723	27.7	11.3	61.1	16.4	35.2	8.3	56.5	26.9
Q3:2016-17						33.9	6.8	59.3	27.1

'Better' overall financial situation is optimistic.

Table 10: Assessment & Expectation for Working Capital Finance Requirement

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	30.2	6.0	63.8	24.2	29.6	4.7	65.7	25.0
Q3:2015-16	1337	30.3	6.7	62.9	23.6	29.9	4.3	65.8	25.5
Q4:2015-16	1342	31.7	6.8	61.4	24.9	30.1	4.9	65.0	25.2
Q1:2016-17	1275	28.1	7.2	64.7	20.8	30.0	5.4	64.6	24.6
Q2:2016-17	723	26.0	6.6	67.4	19.4	29.7	5.6	64.7	24.1
Q3:2016-17						28.1	4.1	67.8	24.1

'Increase' in working capital finance is optimistic.

Table 11: Assessment & Expectation for Availability of Finance

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q2:20 15-16	Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17
Availability of finance (from internal accruals)	Improve	21.1	22.3	21.7	22.4	21.0	23.5	26.1	25.6	25.9	25.2
	No Change	68.1	68.3	69.0	68.6	70.5	69.8	67.8	68.3	68.3	69.8
	Worsen	10.8	9.4	9.3	8.9	8.5	6.7	6.1	6.1	5.8	5.0
	Net Response	10.4	12.9	12.4	13.5	12.5	16.8	20.0	19.5	20.1	20.2
Availability of Finance (from banks & other sources)	Improve	19.3	19.2	18.3	18.7	18.3	20.0	20.6	21.6	21.7	21.8
	No Change	75.0	74.4	74.2	73.6	76.1	76.3	74.7	73.2	72.7	74.9
	Worsen	5.7	6.3	7.5	7.7	5.6	3.8	4.7	5.2	5.5	3.3
	Net Response	13.6	12.9	10.8	11.0	12.7	16.2	16.0	16.4	16.2	18.5
Availability of Finance (from overseas, if applicable)	Improve	11.1	11.3	8.8	10.6	10.0	11.5	12.1	10.0	12.2	10.3
	No Change	83.9	83.5	85.3	84.4	86.6	85.0	84.1	85.4	84.1	87.7
	Worsen	5.0	5.2	5.9	5.0	3.3	3.5	3.9	4.7	3.8	2.0
	Net Response	6.1	6.2	2.9	5.6	6.7	8.0	8.2	5.3	8.4	8.3

'Improvement' in availability of finance is optimistic.

Table 12: Assessment & Expectation for Cost of Finance

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Decrease	Increase	No change	Net response	Decrease	Increase	No change	Net response
Q2:2015-16	1304	9.4	20.8	69.7	-11.4	9.9	18.7	71.4	-8.7
Q3:2015-16	1337	14.0	19.4	66.6	-5.4	10.2	17.9	71.9	-7.6
Q4:2015-16	1342	11.0	19.7	69.2	-8.7	10.5	15.9	73.6	-5.5
Q1:2016-17	1275	10.1	19.9	70.0	-9.8	8.8	17.1	74.1	-8.3
Q2:2016-17	723	9.4	17.3	73.3	-7.9	9.9	17.4	72.6	-7.5
Q3:2016-17						9.4	16.9	73.8	-7.5

'Decrease' in cost of finance is optimistic.

Table 13: Assessment & Expectation for Cost of Raw Material

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Decrease	Increase	No change	Net response	Decrease	Increase	No change	Net response
Q2:2015-16	1304	13.2	38.1	48.7	-24.8	5.2	38.1	56.6	-32.9
Q3:2015-16	1337	12.4	38.7	48.9	-26.4	7.1	35.2	57.7	-28.1
Q4:2015-16	1342	13.3	37.7	49.0	-24.4	6.9	34.2	58.9	-27.3
Q1:2016-17	1275	7.5	41.5	51.0	-34.0	8.3	36.0	55.7	-27.7
Q2:2016-17	723	4.2	43.1	52.7	-39.0	6.0	37.5	56.5	-31.5
Q3:2016-17						5.5	37.4	57.1	-32.0

'Decrease' in cost of raw material is optimistic.

Table 14: Assessment & Expectation for Selling Price

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	15.8	19.8	64.4	-4.0	19.5	11.6	68.8	7.9
Q3:2015-16	1337	16.7	18.0	65.3	-1.4	18.3	12.2	69.5	6.2
Q4:2015-16	1342	15.9	19.6	64.5	-3.7	17.9	10.7	71.4	7.2
Q1:2016-17	1275	18.9	13.2	67.9	5.7	20.2	13.1	66.7	7.1
Q2:2016-17	723	16.5	14.5	69.0	2.0	19.8	9.7	70.5	10.1
Q3:2016-17						17.2	10.4	72.4	6.8

'Increase' in selling price is optimistic.

Table 15: Assessment & Expectation for Profit Margin

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	13.1	30.0	56.9	-16.9	18.5	20.0	61.5	-1.6
Q3:2015-16	1337	14.3	29.5	56.2	-15.3	18.4	19.7	61.9	-1.3
Q4:2015-16	1342	13.4	30.1	56.5	-16.7	18.1	20.1	61.8	-2.0
Q1:2016-17	1275	14.4	27.4	58.2	-12.8	18.5	22.1	59.4	-3.6
Q2:2016-17	723	15.8	28.8	55.4	-12.9	19.1	19.3	61.6	-0.2
Q3:2016-17						19.5	19.4	61.2	0.1

'Increase' in profit margin is optimistic.

Table 16: Assessment & Expectation for Overall Business Situation

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Better	Worsen	No change	Net response	Better	Worsen	No change	Net response
Q2:2015-16	1304	30.2	16.3	53.6	13.9	40.3	8.2	51.5	32.0
Q3:2015-16	1337	31.3	14.0	54.7	17.4	39.9	8.3	51.8	31.6
Q4:2015-16	1342	30.8	14.6	54.6	16.2	40.9	7.6	51.5	33.3
Q1:2016-17	1275	33.3	12.1	54.6	21.2	39.4	8.9	51.7	30.5
Q2:2016-17	723	31.4	14.0	54.6	17.4	41.2	7.7	51.1	33.5
Q3:2016-17						40.1	8.7	51.2	31.3

'Better' Overall Business Situation is optimistic.

Table 17: Assessment & Expectation for Salary/Other Remuneration (Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2015-16	1304	31.7	2.8	65.6	28.9	30.0	2.7	67.3	27.3
Q3:2015-16	1337	28.4	3.2	68.4	25.1	24.3	2.3	73.4	22.0
Q4:2015-16	1342	30.5	3.0	66.5	27.5	25.0	2.8	72.2	22.1
Q1:2016-17	1275	34.9	2.9	62.2	32.0	33.2	2.9	63.9	30.3
Q2:2016-17	723	35.8	3.0	61.2	32.8	30.0	3.1	66.9	26.9
Q3:2016-17						26.6	2.0	71.4	24.7

'Increase in Salary / other remuneration' is optimistic.

Table 18: Business Expectation Index (BEI)

Quarter	BEI-Assessment Quarter	BEI-Expectation Quarter
Q2:2015-16	102.4	113.1
Q3:2015-16	103.6	113.4
Q4:2015-16	103.0	114.2
Q1:2016-17	104.0	110.9
Q2:2016-17	102.7	112.9
Q3:2016-17		112.9