

Industrial Outlook Survey of the Manufacturing Sector for Q1:2017-18

Today, the Reserve Bank released results of the 78th round of the Industrial Outlook Survey (IOS) conducted in April-June 2017. The Survey captures qualitative assessments of the business situation by companies in the Indian manufacturing sector for Q1:2017-18 and their expectations for Q2:2017-18¹. Responses were received from 1250 companies in this round of the survey.

Highlights:

1. Assessment for Q1: 2017-18

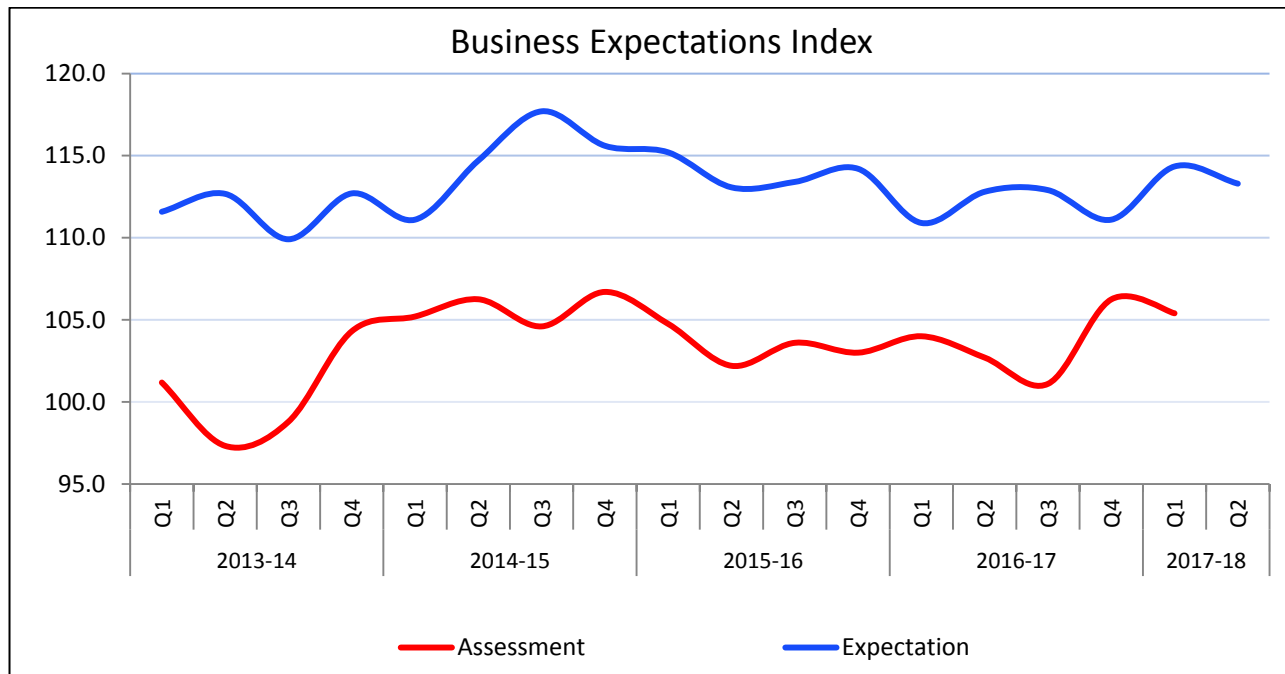
1.1 Respondents were less optimistic about demand conditions in Q1:2017-18 than a quarter ago as reflected in all the major parameters – production; order books; capacity utilisation; exports; and, employment.

1.2 Optimism on the overall financial situation rose marginally, mainly due to better availability of finance from banks and other sources.

1.3 Respondents continued to face raw material cost pressure which could not be passed on in view of weak pricing power.

1.4 Input costs and higher salary payments squeezed profit margins in the sector.

1.5 Overall, business sentiments in the Indian manufacturing sector, as reflected in the Business Expectations Index (BEI)², declined from 106.0 in Q4:2016-17 to 105.4 in Q1:2017-18.



¹ The survey responses are those of the respondents and are not necessarily shared by the Reserve Bank of India. The 77th round (Q4:2016-17) survey results were released on [April 6, 2017](#) on the RBI website.

² The Business Expectations 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.

2. Expectations for Q2: 2017-18

2.1 The outlook for demand parameters for Q2:2017-18 was not impacted and remained similar to that observed in the last quarter. However, the overall financial situation was perceived to be slightly less optimistic in Q2:2017-18 due to the sector having inadequate pricing power.

2.2 The BEI for Q2:2017-18 was lower at 113.3 than 114.2 in the previous quarter.

Summary Table				
<u>Net response³ (in %) comparison over previous quarter</u>				
Parameters	Assessment period		Expectation period	
	Q4:2016-17	Q1:2017-18	Q1:2017-18	Q2:2017-18
Production	18.0	16.0	29.9	30.2
Order Books	15.6	13.7	28.0	28.0
Pending Orders	13.0	11.3	8.5	6.0
Capacity Utilisation	10.2	7.1	17.2	16.3
Exports	6.6	3.4	15.2	16.3
Imports	6.8	7.1	10.1	10.7
Employment	6.6	5.4	9.3	8.7
Financial Situation (Overall)	17.0	19.1	30.9	27.9
Availability of Finance (from internal accruals)	15.3	14.1	21.3	20.4
Availability of Finance (from banks & other sources)	13.7	14.9	19.9	16.9
Availability of Finance (from overseas, if applicable)	4.8	5.8	7.0	7.0
Cost of Finance	-0.9	-1.2	-2.5	-3.8
Cost of Raw Material	-47.9	-42.1	-37.9	-36.4
Selling Price	8.4	5.0	12.5	7.9
Profit Margin	-11.1	-12.5	1.1	0.3
Overall Business Situation	22.0	21.4	36.0	33.7
Salary	27.3	39.4	36.6	32.0
Business Expectations Index	106.0	105.4	114.2	113.3

³ 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.

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 [#]
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	1221	32.0	21.2	46.8	10.8	40.9	12.0	47.2	28.9
Q4:2016-17	1244	35.8	17.8	46.4	18.0	41.1	13.3	45.6	27.8
Q1:2017-18	1250	34.5	18.5	46.9	16.0	41.6	11.7	46.7	29.9
Q2:2017-18						42.2	12.0	45.8	30.2

'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
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	1221	29.1	22.0	48.9	7.1	36.4	11.7	51.9	24.7
Q4:2016-17	1244	34.8	19.2	46.0	15.6	35.1	14.2	50.7	20.9
Q1:2017-18	1250	32.7	19.0	48.3	13.7	39.5	11.5	49.0	28.0
Q2:2017-18						39.7	11.7	48.6	28.0

'Increase' in order books is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

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
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	1222	19.0	5.3	75.7	13.7	12.9	6.7	80.4	6.2
Q4:2016-17	1244	18.1	5.1	76.9	13.0	15.3	5.0	79.7	10.3
Q1:2017-18	1250	17.0	5.7	77.3	11.3	13.4	4.9	81.8	8.5
Q2:2017-18						12.5	6.5	81.0	6.0

Pending orders 'Below Normal' is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 4: Assessment & Expectation for Capacity Utilisation (Main Product) (Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q1:2016-17	1275	21.8	15.1	63.1	6.7	26.3	12.9	60.8	13.4
Q2:2016-17	723	21.5	17.9	60.7	3.6	26.5	9.7	63.9	16.8
Q3:2016-17	1222	20.2	17.9	61.9	2.3	27.4	10.2	62.5	17.2
Q4:2016-17	1244	25.9	15.7	58.4	10.2	27.6	11.2	61.2	16.4
Q1:2017-18	1250	22.5	15.4	62.0	7.1	28.1	10.9	61.0	17.2
Q2:2017-18						27.6	11.3	61.1	16.3

'Increase' in capacity utilisation is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 5: Assessment & Expectation for Level of CU (compared to the average in last 4 quarters) (Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Above Normal	Below Normal	Normal	Net response	Above Normal	Below Normal	Normal	Net response
Q1:2016-17	1275	10.9	16.6	72.5	-5.7	9.8	14.6	75.6	-4.8
Q2:2016-17	723	9.3	15.4	75.3	-6.0	10.3	11.9	77.8	-1.6
Q3:2016-17	1222	8.7	16.4	74.9	-7.7	10.8	11.5	77.7	-0.7
Q4:2016-17	1244	9.3	16.1	74.6	-6.8	10.6	12.9	76.5	-2.3
Q1:2017-18	1250	8.4	15.1	76.5	-6.7	9.9	12.2	77.9	-2.3
Q2:2017-18						9.7	10.8	79.5	-1.1

'Above Normal' in Level of capacity utilisation is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 6: Assessment & Expectation for Assessment of Production Capacity (with regard to expected demand in next 6 months) (Percentage responses)

Quarter	Total response	Assessment				Expectation			
		More than adequate	Less than adequate	Adequate	Net response	More than adequate	Less than adequate	Adequate	Net response
Q1:2016-17	1275	14.6	8.6	76.8	6.0	13.8	7.1	79.1	6.7
Q2:2016-17	723	14.4	8.2	77.3	6.2	13.6	7.6	78.8	6.0
Q3:2016-17	1222	12.3	9.1	78.6	3.2	14.2	7.4	78.4	6.8
Q4:2016-17	1244	14.1	7.1	78.7	7.0	11.9	7.4	80.7	4.5
Q1:2017-18	1250	12.3	7.4	80.3	4.9	13.3	6.7	79.9	6.6
Q2:2017-18						12.2	6.6	81.2	5.6

'More than adequate' in Assessment of Production Capacity is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 7: Assessment & Expectation for Exports (Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
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	1221	22.9	18.5	58.6	4.4	24.3	13.2	62.5	11.2
Q4:2016-17	1244	24.3	17.7	58.0	6.6	25.3	13.2	61.5	12.1
Q1:2017-18	1250	22.2	18.8	59.0	3.4	26.5	11.3	62.2	15.2
Q2:2017-18						27.9	11.6	60.5	16.3

'Increase' in exports is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 8: Assessment & Expectation for Imports

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
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	1221	17.9	11.7	70.4	6.2	18.1	9.4	72.5	8.7
Q4:2016-17	1244	17.5	10.7	71.8	6.8	17.7	9.3	73.1	8.4
Q1:2017-18	1250	17.4	10.3	72.2	7.1	17.3	7.2	75.5	10.1
Q2:2017-18						18.6	7.9	73.5	10.7

'Increase' in imports is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 9: Assessment & Expectation for level of Raw Materials Inventory

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Below average	Above average	Average	Net response	Below average	Above average	Average	Net response
Q1:2016-17	1275	6.0	12.4	81.7	-6.4	5.9	9.7	84.4	-3.8
Q2:2016-17	723	7.0	11.8	81.2	-4.8	5.8	10.8	83.5	-5.0
Q3:2016-17	1221	7.3	11.7	81.2	-4.4	5.2	10.3	84.5	-5.2
Q4:2016-17	1244	6.9	12.4	81.1	-5.5	6.8	9.0	84.2	-2.2
Q1:2017-18	1250	6.7	12.2	81.2	-5.5	6.1	8.7	85.2	-2.6
Q2:2017-18						6.1	10.7	83.2	-4.6

'Below average' Inventory of raw materials is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 10: Assessment & Expectation for level of Finished Goods Inventory

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Below average	Above average	Average	Net response	Below average	Above average	Average	Net response
Q1:2016-17	1275	7.0	15.3	77.7	-8.3	7.0	11.1	81.9	-4.9
Q2:2016-17	723	6.7	15.8	77.5	-9.0	7.1	12.1	80.8	-5.0
Q3:2016-17	1221	6.4	15.3	78.3	-8.9	4.5	12.5	83.0	-7.9
Q4:2016-17	1244	7.3	16.6	76.1	-9.3	6.5	11.6	81.9	-5.1
Q1:2017-18	1250	6.8	14.2	79.0	-7.5	6.4	10.7	82.8	-4.3
Q2:2017-18						6.0	11.6	82.4	-5.6

'Below average' Inventory of finished goods is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 11: Assessment & Expectations for Employment Outlook

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
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	1221	13.5	9.7	76.8	3.8	14.7	5.6	79.7	9.1
Q4:2016-17	1244	15.9	9.3	74.8	6.6	12.1	6.9	81.0	5.2
Q1:2017-18	1250	14.6	9.2	76.2	5.4	15.9	6.6	77.5	9.3
Q2:2017-18						15.2	6.5	78.3	8.7

'Increase' in employment is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 12: 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
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	1221	26.0	14.1	59.9	11.9	33.9	6.8	59.3	27.1
Q4:2016-17	1244	30.6	13.6	55.9	17.0	34.1	9.5	56.4	24.6
Q1:2017-18	1250	30.9	11.8	57.2	19.1	37.9	7.0	55.1	30.9
Q2:2017-18						35.6	7.7	56.6	27.9

'Better' overall financial situation is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 13: 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
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	1221	28.9	6.9	64.3	22.0	28.1	4.1	67.8	24.1
Q4:2016-17	1244	30.2	5.6	64.2	24.6	29.2	5.3	65.5	23.9
Q1:2017-18	1250	29.3	5.7	65.0	23.6	29.4	5.1	65.5	24.3
Q2:2017-18						29.4	5.7	65.0	23.7

'Increase' in working capital finance is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 14: Assessment & Expectation for Availability of Finance (from Internal Accruals)

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q1:2016-17	1275	22.4	8.9	68.6	13.5	25.6	6.1	68.3	19.5
Q2:2016-17	723	21.0	8.5	70.5	12.5	25.9	5.8	68.3	20.1
Q3:2016-17	1221	21.6	11.7	66.7	9.9	25.2	5.0	69.8	20.2
Q4:2016-17	1244	25.6	10.3	64.1	15.3	25.4	8.0	66.6	17.4
Q1:2017-18	1250	23.5	9.5	67.0	14.1	27.5	6.2	66.3	21.3
Q2:2017-18						26.8	6.4	66.9	20.4

'Improvement' in availability of finance is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 15: Assessment & Expectation for Availability of Finance (from banks & other sources)

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q1:2016-17	1275	18.7	7.7	73.6	11.0	21.6	5.2	73.2	16.4
Q2:2016-17	723	18.3	5.6	76.1	12.7	21.7	5.5	72.7	16.2
Q3:2016-17	1221	19.6	7.9	72.5	11.7	21.8	3.3	74.9	18.5
Q4:2016-17	1244	21.3	7.6	71.1	13.7	22.5	5.6	71.9	16.9
Q1:2017-18	1250	21.0	6.1	72.9	14.9	24.8	4.9	70.3	19.9
Q2:2017-18						21.5	4.6	73.9	16.9

'Improvement' in availability of finance is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 16: Assessment & Expectation for Availability of Finance (from overseas, if applicable)

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q1:2016-17	1275	10.6	5.0	84.4	5.6	10.0	4.7	85.4	5.3
Q2:2016-17	723	10.0	3.3	86.6	6.7	12.2	3.8	84.1	8.4
Q3:2016-17	1221	9.1	4.8	86.1	4.3	10.3	2.0	87.7	8.3
Q4:2016-17	1244	8.1	3.3	88.6	4.8	10.0	3.5	86.5	6.5
Q1:2017-18	1250	9.5	3.7	86.8	5.8	9.8	2.8	87.4	7.0
Q2:2017-18						10.9	3.9	85.2	7.0

'Improvement' in availability of finance is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 17: 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
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	1221	12.9	16.1	71.1	-3.2	9.4	16.9	73.8	-7.5
Q4:2016-17	1244	15.8	16.7	67.6	-0.9	14.5	14.8	70.8	-0.3
Q1:2017-18	1250	13.6	14.8	71.6	-1.2	12.9	15.4	71.7	-2.5
Q2:2017-18						10.9	14.7	74.5	-3.8

'Decrease' in cost of finance is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 18: Assessment & Expectation for Cost of Raw Materials

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Decrease	Increase	No change	Net response	Decrease	Increase	No change	Net response
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	1221	6.4	44.6	48.9	-38.2	5.5	37.4	57.1	-32.0
Q4:2016-17	1244	3.5	51.4	45.0	-47.9	5.1	39.4	55.6	-34.3
Q1:2017-18	1250	5.1	47.2	47.8	-42.1	4.1	42.0	54.0	-37.9
Q2:2017-18						4.0	40.4	55.6	-36.4

'Decrease' in cost of raw materials is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 19: Assessment & Expectation for Selling Price

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
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	1221	16.9	16.2	66.9	0.7	17.2	10.4	72.4	6.8
Q4:2016-17	1244	21.4	13.0	65.6	8.4	16.8	10.9	72.3	5.9
Q1:2017-18	1250	20.1	15.1	64.8	5.0	21.6	9.1	69.3	12.5
Q2:2017-18						18.9	11.0	70.2	7.9

'Increase' in selling price is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 20: Assessment & Expectation for Profit Margin

(Percentage responses)

Quarter	Total response	Assessment				Expectation			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
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	1221	15.3	28.3	56.4	-13.0	19.5	19.4	61.2	0.1
Q4:2016-17	1244	16.7	27.8	55.5	-11.1	18.5	21.3	60.2	-2.8
Q1:2017-18	1250	15.7	28.2	56.0	-12.5	20.3	19.2	60.4	1.1
Q2:2017-18						20.3	20.0	59.7	0.3

'Increase' in profit margin is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 21: 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
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	1221	29.4	16.4	54.2	13.0	40.1	8.7	51.2	31.3
Q4:2016-17	1244	36.3	14.3	49.5	22.0	39.4	11.5	49.1	27.9
Q1:2017-18	1250	34.4	13.0	52.6	21.4	43.6	7.6	48.8	36.0
Q2:2017-18						42.7	9.0	48.4	33.7

'Better' Overall Business Situation is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 22: 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
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	1222	28.9	2.8	68.3	26.1	26.6	2.0	71.4	24.7
Q4:2016-17	1244	30.0	2.7	67.3	27.3	25.0	3.3	71.8	21.7
Q1:2017-18	1250	42.1	2.7	55.2	39.4	38.8	2.2	59.0	36.6
Q2:2017-18						34.5	2.5	63.0	32.0

'Increase in Salary / other remuneration' is optimistic. Footnotes '@' and '#' given in Table 1 are applicable here.

Table 23: Business Expectations Index (BEI)

Quarter	BEI-Assessment Quarter	BEI-Expectation Quarter
Q1:2016-17	104.0	110.9
Q2:2016-17	102.7	112.9
Q3:2016-17	101.1	112.9
Q4:2016-17	106.0	111.1
Q1:2017-18	105.4	114.2
Q2:2017-18		113.3