

Industrial Outlook Survey of the Manufacturing Sector for Q2:2020-21

Today, the Reserve Bank released the results of the 91st round of the Industrial Outlook Survey (IOS) conducted during July-September 2020. The survey encapsulates qualitative assessment of the business climate by Indian manufacturing companies for Q2:2020-21 and their expectations for Q3:2020-21¹. In all, 959 companies responded in this round of the survey. Owing to uncertainty driven by the Covid-19 pandemic, an additional block was included in this round of the survey for assessing the manufacturers' outlook on key parameters for two and three quarters ahead.

Highlights:

A. Assessment for Q2: 2020-21

- Manufacturing companies assessed upturn in production, capacity utilisation and order books during Q2:2020-21 from the unprecedented contraction in the previous quarter.
- Respondents indicated frail sentiments on employment and external demand conditions.
- Overall financial situation was assessed to have improved.
- Respondents maintained negative sentiments on selling prices and profit margins in Q2:2020-21, though pessimism moderated.
- Overall business sentiment in the Indian manufacturing sector, as reflected by the business assessment index (BAI)², surged from a record low at 55.3 in Q1:2020-21 to 96.2 in Q2:2020-21, though it remained in the contraction zone.

B. Expectations for Q3: 2020-21

- Manufacturers expect further improvements in production, capacity utilisation and order books in Q3:2020-21.
- Going forward, respondents polled some recovery in external demand situation and job landscape.
- Overall financial situation and availability of finance portrayed optimism.
- Outlook on profit margins for Q3:2020-21 remained negative.
- The business expectations index (BEI) reverted to the expansion zone and stood at 111.4 in Q3:2020-21 from 99.5 in the previous quarter.

¹ The survey results reflect the views of the respondents, which are not necessarily shared by the Reserve Bank of India. This round of the survey was launched on [August 7, 2020](#) and results were compiled with data received till September 23, 2020. The results of the 90th round of the survey (Q1:2020-21) were released on [August 6, 2020](#) on the RBI's website.

² For each survey round, two indices are computed – one based on assessment [*viz.*, Business Assessment Index (BAI)] and another based on expectations [*viz.*, Business Expectations Index (BEI)]. Each index is a composite indicator calculated as a simple average of nine business parameters, where each parameter is derived as a weighted net response of companies, weights being the share of industry groups in gross value added (GVA). The nine parameters considered are: (1) overall business situation; (2) production; (3) order books; (4) inventory of raw material; (5) inventory of finished goods; (6) profit margins; (7) employment; (8) exports; and (9) capacity utilisation. BAI/BEI gives a snapshot of the business outlook in every quarter and takes values between 0 and 200, with 100 being the threshold separating expansion from contraction.

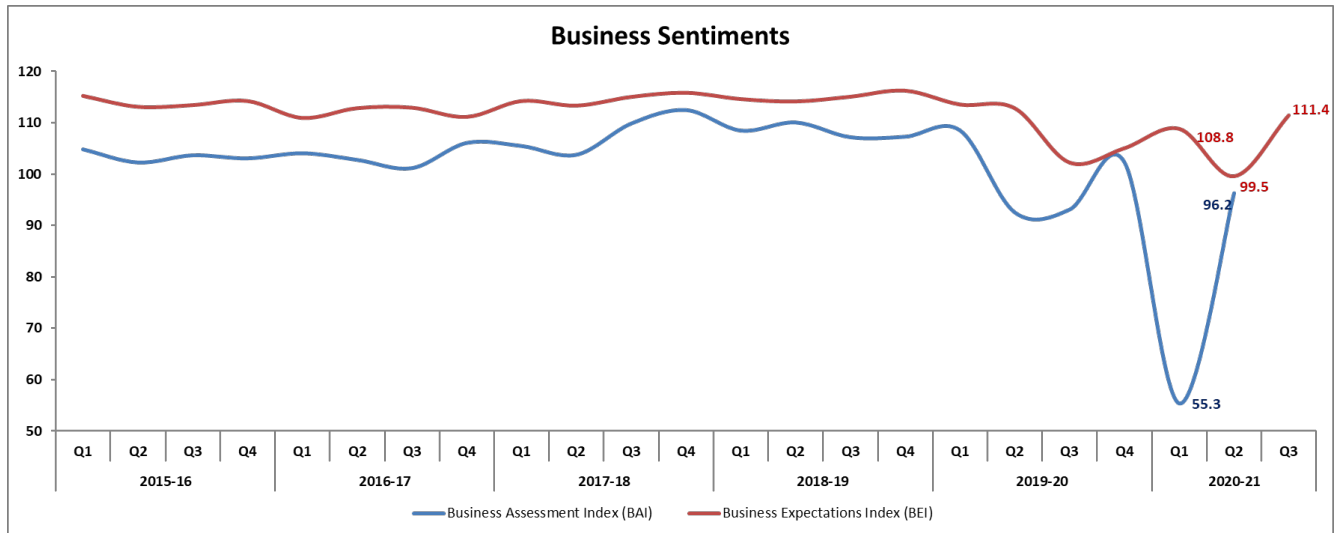


Table A: Summary of Net responses³ on Survey Parameters (per cent)

Parameters	Assessment period		Expectation period	
	Q1:2020-21	Q2:2020-21	Q2:2020-21	Q3:2020-21
Production	-63.9	10.3	11.2	26.4
Order Books	-54.9	5.9	8.0	20.6
Pending Orders	41.2	22.8	26.0	14.2
Capacity Utilisation	-61.6	1.6	7.6	17.5
Inventory of Raw Materials	-7.8	-5.8	-5.9	-4.2
Inventory of Finished Goods	-12.6	-8.7	-7.6	-5.3
Exports	-41.7	-0.6	-3.8	7.5
Imports	-32.9	-2.8	-1.0	4.9
Employment	-28.6	-9.2	-7.7	2.4
Financial Situation (Overall)	-48.9	7.8	11.4	25.3
Availability of Finance (from internal accruals)	-30.8	3.8	6.4	15.1
Availability of Finance (from banks & other sources)	-3.0	12.0	10.6	13.6
Availability of Finance (from overseas, if applicable)	-10.3	-0.6	-2.0	0.6
Cost of Finance	-0.4	-2.8	-6.7	-6.7
Cost of Raw Material	-29.3	-38.0	-32.0	-32.1
Salary/ Other Remuneration	9.6	-2.8	-4.0	-9.0
Selling Price	-17.1	-5.8	-6.0	-0.2
Profit Margin	-56.8	-26.5	-26.8	-12.0
Overall Business Situation	-60.2	11.8	15.7	32.9

Note: [Please see the excel file for time series data](#)

³ Net Response (NR) is the difference between the percentage of respondents reporting optimism and those reporting pessimism. It ranges between -100 to 100. Any value greater than zero indicates expansion/optimism and any value less than zero indicates contraction/pessimism. In other words, $NR = (I - D)$, 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.e.*, $I+D+E=100$). For example, increase in production is optimism whereas decrease in cost of raw material is optimism.

C. Expectations for Q4:2020-21 and Q1:2021-22

- Manufacturers polled improvement in key demand indicators in Q4:2020-21 sustaining through Q1:2021-22 (Table B).
- Purchase of inputs is likely to exert higher pressure.
- Respondents indicated gradual hardening of output prices.

Table B: Business Expectations of Select Parameters for extended period – Net response
(per cent)

Parameters	Round 90	Round 91		
	Q2:2020-21	Q3:2020-21	Q4:2020-21	Q1:2021-22
Overall Business Situation	15.7	32.9	35.7	34.9
Production	11.2	26.4	33.6	32.3
Order Books	8.0	20.6	28.0	23.3
Capacity Utilisation	7.6	17.5	28.3	24.7
Employment	-7.7	2.4	12.7	12.6
Cost of Raw Materials	-32.0	-32.1	-36.1	-33.1
Selling Prices	-6.0	-0.2	10.2	14.4

Table 1: Assessment and Expectations for Production

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	26.5	28.4	45.2	-1.9	40.1	11.0	48.9	29.1
Q3:2019-20	775	28.7	28.3	43.1	0.4	34.8	21.0	44.2	13.9
Q4:2019-20	860	33.6	19.8	46.6	13.8	35.4	18.2	46.4	17.2
Q1:2020-21	802	8.3	72.2	19.5	-63.9	37.8	14.1	48.1	23.7
Q2:2020-21	959	42.4	32.1	25.5	10.3	41.4	30.2	28.5	11.2
Q3:2020-21						43.4	16.9	39.7	26.4

'Increase' in production is optimistic.

Note: The sum of components may not add up to total due to rounding off (This is applicable for all tables).

Table 2: Assessment and Expectations for Order Books

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	27.4	30.2	42.5	-2.8	31.6	11.1	57.3	20.5
Q3:2019-20	775	26.9	26.6	46.5	0.3	34.3	20.4	45.3	13.9
Q4:2019-20	860	30.1	20.1	49.9	10.0	33.6	17.0	49.3	16.6
Q1:2020-21	802	8.9	63.8	27.3	-54.9	33.5	15.1	51.4	18.4
Q2:2020-21	959	37.2	31.3	31.5	5.9	36.4	28.4	35.3	8.0
Q3:2020-21						39.2	18.6	42.2	20.6

'Increase' in order books is optimistic.

Table 3: Assessment and Expectations for Pending Orders

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Above Normal	Below Normal	Normal	Net response	Above Normal	Below Normal	Normal	Net response
Q2:2019-20	481	4.5	25.5	70.0	21.0	16.1	9.4	74.5	-6.7
Q3:2019-20	775	3.4	25.5	71.1	22.1	3.9	18.3	77.8	14.4
Q4:2019-20	860	4.1	18.5	77.4	14.4	3.7	19.5	76.8	15.9
Q1:2020-21	802	6.1	47.3	46.6	41.2	4.6	16.2	79.1	11.6
Q2:2020-21	959	7.2	30.1	62.7	22.8	5.8	31.8	62.4	26.0
Q3:2020-21						7.4	21.5	71.1	14.2

Pending orders 'Below Normal' is optimistic.

Table 4: Assessment and Expectations for Capacity Utilisation (Main Product) (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	15.9	24.9	59.2	-9.0	23.1	9.2	67.7	13.9
Q3:2019-20	775	17.5	25.8	56.7	-8.3	24.4	20.0	55.6	4.4
Q4:2019-20	860	21.0	19.0	60.0	2.0	23.1	15.2	61.6	7.9
Q1:2020-21	802	6.0	67.6	26.3	-61.6	25.5	14.2	60.3	11.3
Q2:2020-21	959	31.8	30.2	37.9	1.6	36.2	28.6	35.2	7.6
Q3:2020-21						32.4	15.0	52.6	17.5

'Increase' in capacity utilisation is optimistic.

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

Quarter	Total response	Assessment				Expectations			
		Above Normal	Below Normal	Normal	Net response	Above Normal	Below Normal	Normal	Net response
Q2:2019-20	481	8.1	26.6	65.3	-18.6	9.2	8.8	82.0	0.3
Q3:2019-20	775	6.6	26.9	66.5	-20.3	9.3	21.7	69.0	-12.4
Q4:2019-20	860	7.6	21.6	70.7	-14.0	7.9	18.5	73.6	-10.6
Q1:2020-21	802	2.7	63.6	33.7	-60.9	9.1	16.4	74.5	-7.3
Q2:2020-21	959	5.9	43.4	50.8	-37.5	5.8	39.2	55.0	-33.5
Q3:2020-21						8.3	25.5	66.2	-17.2

'Above Normal' in Level of capacity utilisation is optimistic.

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

Quarter	Total response	Assessment				Expectations			
		More than adequate	Less than adequate	Adequate	Net response	More than adequate	Less than adequate	Adequate	Net response
Q2:2019-20	481	15.1	14.2	70.7	0.9	13.5	6.9	79.6	6.6
Q3:2019-20	775	15.8	11.7	72.5	4.2	15.3	12.4	72.2	2.9
Q4:2019-20	860	14.3	9.5	76.2	4.8	14.6	11.4	74.0	3.2
Q1:2020-21	802	19.0	24.5	56.5	-5.6	13.7	8.8	77.5	4.9
Q2:2020-21	959	15.9	17.2	66.9	-1.3	18.7	17.3	64.0	1.3
Q3:2020-21						15.9	12.3	71.8	3.5

'More than adequate' in Assessment of Production Capacity is optimistic.

Table 7: Assessment and Expectations for Exports (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	21.3	21.3	57.5	0.0	24.0	8.2	67.8	15.8
Q3:2019-20	775	18.3	19.2	62.5	-0.9	24.3	17.0	58.7	7.3
Q4:2019-20	860	20.1	14.3	65.5	5.8	22.4	13.8	63.9	8.6
Q1:2020-21	802	8.7	50.4	40.9	-41.7	22.5	11.5	66.0	11.0
Q2:2020-21	959	25.3	25.9	48.8	-0.6	23.1	26.9	50.0	-3.8
Q3:2020-21						25.1	17.6	57.3	7.5

'Increase' in exports is optimistic.

Table 8: Assessment and Expectations for Imports (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	16.0	14.5	69.6	1.5	18.4	7.4	74.2	11.1
Q3:2019-20	775	13.2	12.3	74.5	0.9	18.1	11.7	70.2	6.4
Q4:2019-20	860	16.0	11.3	72.7	4.7	15.7	10.2	74.1	5.4
Q1:2020-21	802	7.6	40.5	51.8	-32.9	16.9	10.3	72.8	6.6
Q2:2020-21	959	18.4	21.2	60.5	-2.8	19.9	21.0	59.1	-1.0
Q3:2020-21						17.3	12.4	70.4	4.9

'Increase' in imports is optimistic.

Table 9: Assessment and Expectations for level of Raw Materials Inventory (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Above average	Below average	Average	Net response	Above average	Below average	Average	Net response
Q2:2019-20	481	17.1	8.4	74.5	-8.6	11.8	4.2	84.0	-7.7
Q3:2019-20	775	13.9	7.7	78.4	-6.2	13.2	6.6	80.3	-6.6
Q4:2019-20	860	12.9	7.8	79.3	-5.1	10.6	7.0	82.4	-3.6
Q1:2020-21	802	21.3	13.5	65.2	-7.8	9.8	6.9	83.3	-2.9
Q2:2020-21	959	16.7	10.9	72.3	-5.8	15.5	9.7	74.8	-5.9
Q3:2020-21						11.5	7.4	81.1	-4.2

'Below average' Inventory of raw materials is optimistic.

Table 10: Assessment and Expectations for level of Finished Goods Inventory

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Above average	Below average	Average	Net response	Above average	Below average	Average	Net response
Q2:2019-20	481	22.5	8.0	69.5	-14.5	13.0	6.0	81.0	-7.0
Q3:2019-20	775	18.3	7.3	74.4	-11.0	15.7	5.0	79.3	-10.7
Q4:2019-20	860	13.3	6.7	80.0	-6.5	12.9	6.2	80.9	-6.7
Q1:2020-21	802	27.0	14.3	58.7	-12.6	10.4	6.2	83.4	-4.3
Q2:2020-21	959	18.9	10.2	70.9	-8.7	17.2	9.5	73.3	-7.6
Q3:2020-21						12.4	7.2	80.4	-5.3

'Below average' Inventory of finished goods is optimistic.

Table 11: Assessment and Expectations for Employment

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	13.4	14.2	72.4	-0.9	16.6	5.7	77.7	10.9
Q3:2019-20	775	12.2	13.8	74.0	-1.6	12.1	11.4	76.5	0.7
Q4:2019-20	860	13.4	11.3	75.3	2.0	12.5	10.7	76.8	1.8
Q1:2020-21	802	3.9	32.5	63.7	-28.6	14.3	9.0	76.7	5.2
Q2:2020-21	959	11.8	21.0	67.2	-9.2	11.0	18.7	70.3	-7.7
Q3:2020-21						14.5	12.1	73.3	2.4

'Increase' in employment is optimistic.

Table 12: Assessment and Expectations for Overall Financial Situation (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Better	Worsen	No change	Net response	Better	Worsen	No change	Net response
Q2:2019-20	481	21.2	22.2	56.6	-1.1	34.3	6.1	59.6	28.3
Q3:2019-20	775	24.6	19.3	56.1	5.3	30.6	14.8	54.7	15.8
Q4:2019-20	860	26.5	13.6	59.9	12.8	31.2	11.7	57.1	19.5
Q1:2020-21	802	8.7	57.6	33.6	-48.9	33.1	8.8	58.0	24.3
Q2:2020-21	959	31.8	23.9	44.3	7.8	34.6	23.2	42.2	11.4
Q3:2020-21						36.7	11.4	51.9	25.3

'Better' overall financial situation is optimistic.

Table 13: Assessment and Expectations for Working Capital Finance Requirement (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	28.4	10.7	60.9	17.7	27.7	5.5	66.8	22.1
Q3:2019-20	775	27.4	8.7	63.9	18.7	29.3	5.5	65.3	23.8
Q4:2019-20	860	28.3	6.4	65.4	21.9	27.3	5.7	66.9	21.6
Q1:2020-21	802	36.9	18.8	44.4	18.1	28.8	5.7	65.5	23.1
Q2:2020-21	959	33.3	11.4	55.3	21.9	37.2	11.5	51.3	25.7
Q3:2020-21						31.3	6.9	61.8	24.4

'Increase' in working capital finance is optimistic.

Table 14: Assessment and Expectations for Availability of Finance (from Internal Accruals) (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q2:2019-20	481	19.6	12.7	67.7	6.9	23.0	5.7	71.3	17.3
Q3:2019-20	775	19.0	12.4	68.6	6.6	21.4	8.1	70.5	13.2
Q4:2019-20	860	23.1	9.5	67.4	13.7	22.1	8.8	69.1	13.4
Q1:2020-21	802	7.2	38.0	54.8	-30.8	23.1	6.0	70.9	17.0
Q2:2020-21	959	22.2	18.4	59.5	3.8	22.5	16.1	61.3	6.4
Q3:2020-21						24.8	9.7	65.5	15.1

'Improvement' in availability of finance is optimistic.

Table 15: Assessment and Expectations for Availability of Finance (from banks and other sources) (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q2:2019-20	481	14.3	10.0	75.8	4.3	17.4	4.4	78.2	13.0
Q3:2019-20	775	14.6	7.4	78.1	7.2	18.7	6.0	75.3	12.7
Q4:2019-20	860	16.9	6.1	76.9	10.8	17.7	5.9	76.4	11.7
Q1:2020-21	802	12.9	15.8	71.3	-3.0	18.1	6.4	75.4	11.7
Q2:2020-21	959	20.3	8.3	71.4	12.0	20.4	9.8	69.8	10.6
Q3:2020-21						19.4	5.8	74.8	13.6

'Improvement' in availability of finance is optimistic.

Table 16: Assessment and Expectations for Availability of Finance (from overseas, if applicable)
(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Improve	Worsen	No change	Net response	Improve	Worsen	No change	Net response
Q2:2019-20	481	6.9	4.1	89.1	2.8	13.1	3.5	83.5	9.6
Q3:2019-20	775	7.5	5.0	87.6	2.5	9.2	4.1	86.7	5.1
Q4:2019-20	860	7.2	4.4	88.4	2.8	7.3	4.3	88.4	3.0
Q1:2020-21	802	3.2	13.5	83.3	-10.3	7.9	4.0	88.1	4.0
Q2:2020-21	959	6.8	7.4	85.7	-0.6	7.9	9.9	82.2	-2.0
Q3:2020-21						7.2	6.6	86.1	0.6

'Improvement' in availability of finance is optimistic.

Table 17: Assessment and Expectations for Cost of Finance (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	21.3	8.1	70.6	-13.1	22.5	7.1	70.4	-15.4
Q3:2019-20	775	16.9	8.2	74.9	-8.7	18.5	8.4	73.1	-10.0
Q4:2019-20	860	15.0	8.4	76.6	-6.6	15.0	7.1	77.9	-7.9
Q1:2020-21	802	16.3	15.9	67.8	-0.4	12.7	6.6	80.6	-6.1
Q2:2020-21	959	17.5	14.7	67.7	-2.8	17.6	10.9	71.5	-6.7
Q3:2020-21						15.5	8.8	75.7	-6.7

'Decrease' in cost of finance is optimistic.

Table 18: Assessment and Expectations for Cost of Raw Materials (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	42.4	7.1	50.5	-35.3	31.4	3.8	64.8	-27.6
Q3:2019-20	775	37.2	11.1	51.7	-26.1	37.0	6.2	56.8	-30.8
Q4:2019-20	860	41.1	7.1	51.8	-34.1	35.6	5.6	58.8	-30.0
Q1:2020-21	802	39.9	10.7	49.4	-29.3	38.9	5.3	55.7	-33.6
Q2:2020-21	959	46.1	8.2	45.7	-38.0	37.8	5.7	56.5	-32.0
Q3:2020-21						36.7	4.6	58.7	-32.1

'Decrease' in cost of raw materials is optimistic.

Table 19: Assessment and Expectations for Salary/Other Remuneration (Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	38.6	2.6	58.8	-36.0	34.5	0.9	64.6	-33.7
Q3:2019-20	775	30.6	3.6	65.8	-27.0	25.0	1.8	73.2	-23.2
Q4:2019-20	860	27.1	2.3	70.6	-24.8	25.1	3.0	71.9	-22.1
Q1:2020-21	802	12.4	22.0	65.5	9.6	35.8	2.7	61.5	-33.1
Q2:2020-21	959	15.7	12.9	71.4	-2.8	16.5	12.5	70.9	-4.0
Q3:2020-21						15.8	6.8	77.4	-9.0

'Decrease' in Salary / other remuneration is optimistic.

Table 20: Assessment and Expectations for Selling Price

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	13.8	21.4	64.8	-7.6	15.5	8.4	76.1	7.1
Q3:2019-20	775	12.0	21.6	66.4	-9.6	18.6	14.0	67.3	4.6
Q4:2019-20	860	16.4	13.9	69.7	2.5	15.2	13.0	71.9	2.2
Q1:2020-21	802	9.5	26.6	64.0	-17.1	18.0	9.7	72.3	8.3
Q2:2020-21	959	13.9	19.7	66.4	-5.8	12.9	18.9	68.1	-6.0
Q3:2020-21						12.8	13.0	74.3	-0.2

'Increase' in selling price is optimistic.

Table 21: Assessment and Expectations for Profit Margin

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Increase	Decrease	No change	Net response	Increase	Decrease	No change	Net response
Q2:2019-20	481	13.5	36.1	50.4	-22.6	21.9	14.5	63.6	7.4
Q3:2019-20	775	12.3	34.4	53.3	-22.1	17.6	26.1	56.3	-8.5
Q4:2019-20	860	15.8	27.4	56.8	-11.6	16.3	26.4	57.3	-10.2
Q1:2020-21	802	5.0	61.8	33.2	-56.8	17.5	20.4	62.1	-2.9
Q2:2020-21	959	15.3	41.8	43.0	-26.5	13.7	40.5	45.8	-26.8
Q3:2020-21						14.7	26.7	58.6	-12.0

'Increase' in profit margin is optimistic.

Table 22: Assessment and Expectations for Overall Business Situation

(Percentage responses)

Quarter	Total response	Assessment				Expectations			
		Better	Worsen	No change	Net response	Better	Worsen	No change	Net response
Q2:2019-20	481	24.5	25.4	50.1	-0.8	41.1	6.0	52.9	35.2
Q3:2019-20	775	26.4	22.9	50.8	3.5	37.3	15.6	47.1	21.7
Q4:2019-20	860	31.6	15.8	52.6	15.7	35.8	13.2	50.9	22.6
Q1:2020-21	802	8.3	68.5	23.2	-60.2	38.6	10.4	50.9	28.2
Q2:2020-21	959	39.6	27.9	32.5	11.8	41.0	25.3	33.6	15.7
Q3:2020-21						45.7	12.8	41.6	32.9

'Better' Overall Business Situation is optimistic.

Table 23: Business Sentiments

Quarter	Business Assessment Index (BAI)	Business Expectations Index (BEI)
Q2:2019-20	92.5	112.8
Q3:2019-20	93.0	102.2
Q4:2019-20	102.2	105.0
Q1:2020-21	55.3	108.8
Q2:2020-21	96.2	99.5
Q3:2020-21		111.4