

Industrial Outlook Survey of the Manufacturing Sector for Q4:2016-17

The 77th round of the Industrial Outlook Survey (IOS) conducted by the Reserve Bank of India provides a qualitative assessment of the business situation by companies in the Indian manufacturing sector for Q4:2016-17 and their expectations for Q1:2017-18¹. Responses were received from 1244 companies in this round of the survey.

Highlights:

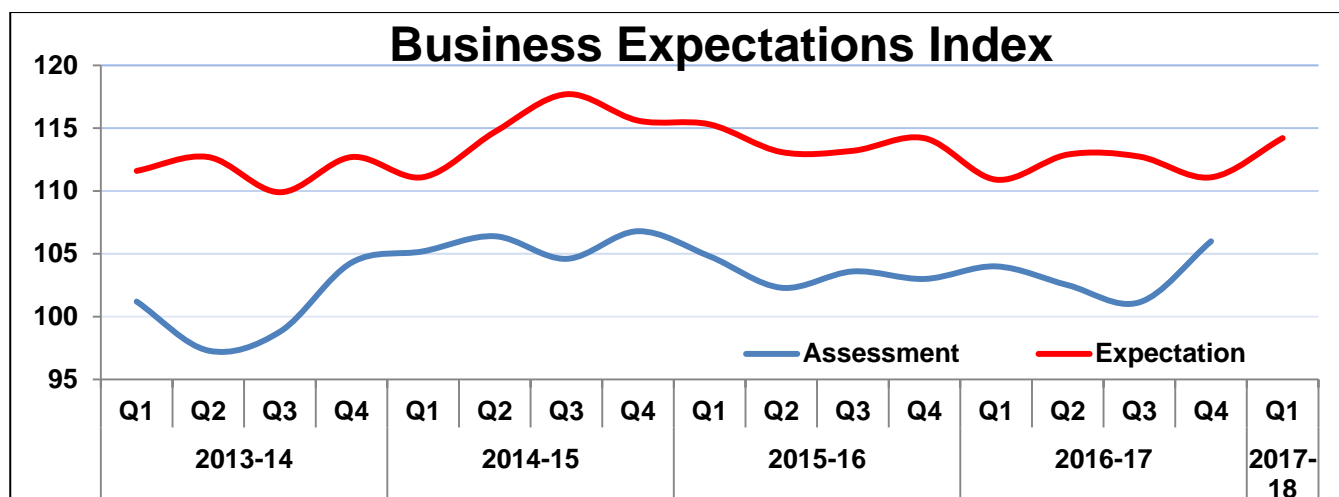
1. Assessment for Q4:2016-17

1.1 There is substantial improvement in sentiments on demand conditions, with respondents more optimistic about production, order books and capacity utilisation in Q4: 2016-17 than a quarter ago.

1.2 The overall financial situation and availability of finance from banks and other sources were also perceived to have improved.

1.3 While respondents were slightly more optimistic than a quarter ago about selling prices, continued pressure from rising cost of raw materials adversely affected profit margins, which remained in the contraction zone.

1.4 Overall, business sentiments in the Indian manufacturing sector improved marginally the Business Expectations Index (BEI)² rose from 101.1 in Q3:2016-17 to 106.0 in Q4:2016-17.



¹ The survey responses are those of the respondents and are not necessarily shared by the Reserve Bank of India. The 76th round (Q3:2016-17) survey results were released on [January 25, 2017](#) on the RBI website.

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.

2. Expectations for Q1: 2017-18

2.1 The outlook on business sentiments for Q1: 2017-18 largely remained similar to the previous quarter, with order books expected to improve, the cost of raw materials expected to increase further, but with greater optimism on pass through to the selling price, leaving the profit margin unaffected.

2.2 The BEI for Q1:2017-18 rose to 114.2 from 111.1 in the previous quarter.

Summary Table				
<u>Net response³ (in %) comparison over previous quarter</u>				
Parameters	Assessment period		Expectation period	
	Q3:2016-17	Q4:2016-17	Q4:2016-17	Q1:2017-18
Production	10.8	18.0	27.8	29.9
Order Books	7.1	15.6	20.9	28.0
Pending Orders	13.7	13.0	10.3	8.5
Capacity Utilisation	2.3	10.2	16.4	17.2
Exports	4.4	6.6	12.1	15.2
Imports	6.2	6.8	8.4	10.1
Employment	3.8	6.6	5.2	9.3
Financial Situation	11.9	17.0	24.6	30.9
Availability of Finance (from internal accruals)	9.9	15.3	17.4	21.3
Availability of Finance (from banks & other sources)	11.7	13.7	16.9	19.9
Availability of Finance (from overseas, if applicable)	4.3	4.8	6.5	7.0
Cost of Finance	-3.2	-0.9	-0.3	-2.5
Cost of Raw Material	-38.2	-47.9	-34.3	-37.9
Selling Price	0.7	8.4	5.9	12.5
Profit Margin	-13.0	-11.1	-2.8	1.1
Overall Business Situation	13.0	22.0	27.9	36.0
Salary	26.1	27.3	21.7	36.6
Business Expectation Index	101.1	106.0	111.1	114.2

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
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	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						41.6	11.7	46.7	29.9

'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
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	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						39.5	11.5	49.0	28.0

'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
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	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						13.4	4.9	81.8	8.5

Pending orders 'Below Normal' is optimistic.

Table 4: Assessment & Expectation for Capacity Utilisation

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17	Q1:20 17-18
Capacity Utilisation (CU)-(main product)	Increase	24.6	21.8	21.5	20.2	25.9	26.3	26.5	27.4	27.6	28.1
	No Change	57.9	63.1	60.7	61.9	58.4	60.8	63.9	62.5	61.2	61.0
	Decrease	17.5	15.1	17.9	17.9	15.7	12.9	9.7	10.2	11.2	10.9
	Net Response	7.1	6.7	3.6	2.3	10.2	13.4	16.8	17.2	16.4	17.2
Level of CU (compared to the average in last 4 quarters)	Above normal	9.8	10.9	9.3	8.7	9.3	9.8	10.3	10.8	10.6	9.9
	Normal	71.0	72.5	75.3	74.9	74.6	75.6	77.8	77.7	76.5	77.9
	Below Normal	19.2	16.6	15.4	16.4	16.1	14.6	11.9	11.5	12.9	12.2
	Net Response	-9.4	-5.7	-6.0	-7.7	-6.8	-4.8	-1.6	-0.7	-2.3	-2.3
Assessment of Prod. Capacity (with regard to expected demand in next 6 months)	More than adequate	13.9	14.6	14.4	12.3	14.1	13.8	13.6	14.2	11.9	13.3
	Adequate	77.7	76.8	77.3	78.6	78.7	79.1	78.8	78.4	80.7	79.9
	Less than adequate	8.5	8.6	8.2	9.1	7.1	7.1	7.6	7.4	7.4	6.7
	Net Response	5.4	6.0	6.2	3.2	7.0	6.7	6.0	6.8	4.5	6.6

'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
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	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						26.5	11.3	62.2	15.2

'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
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	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						17.3	7.2	75.5	10.1

'Increase' in imports is optimistic.

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

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17	Q1:20 17-18
Inventory of raw material	Below average	7.0	6.0	7.0	7.3	6.9	5.9	5.8	5.2	6.8	6.1
	Average	80.5	81.7	81.2	81.1	80.7	84.4	83.5	84.5	84.2	85.2
	Above average	12.5	12.4	11.8	11.7	12.4	9.7	10.8	10.3	9.0	8.7
	Net Response	-5.5	-6.4	-4.8	-4.4	-5.5	-3.8	-5.0	-5.2	-2.2	-2.6
Inventory of finished goods	Below average	8.7	7.0	6.7	6.4	7.3	7.0	7.1	4.5	6.5	6.4
	Average	75.9	77.7	77.5	78.3	76.1	81.9	80.8	83.0	81.9	82.8
	Above average	15.4	15.3	15.8	15.3	16.6	11.1	12.1	12.5	11.6	10.7
	Net Response	-6.7	-8.3	-9.0	-8.9	-9.3	-4.1	-5.0	-7.9	-5.1	-4.3

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
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	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						15.9	6.6	77.5	9.3

'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
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	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						37.9	7.0	55.1	30.9

'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
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	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
						29.4	5.1	65.5	24.3

'Increase' in working capital finance is optimistic.

Table 11: Assessment & Expectation for Availability of Finance

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q4:2015-16	Q1:2016-17	Q2:2016-17	Q3:2016-17	Q4:2016-17	Q1:2016-17	Q2:2016-17	Q3:2016-17	Q4:2016-17	Q1:2017-18
Availability of finance (from internal accruals)	Improve	21.7	22.4	21.0	21.6	25.6	25.6	25.9	25.2	25.4	27.5
	No Change	69.0	68.6	70.5	66.7	64.1	68.3	68.3	69.8	66.6	66.3
	Worsen	9.3	8.9	8.5	11.7	10.3	6.1	5.8	5.0	8.0	6.2
	Net Response	12.4	13.5	12.5	9.9	15.3	19.5	20.1	20.2	17.4	21.3
Availability of Finance (from banks & other sources)	Improve	18.3	18.7	18.3	19.6	21.3	21.6	21.7	21.8	22.5	24.8
	No Change	74.2	73.6	76.1	72.5	71.1	73.2	72.7	74.9	71.9	70.3
	Worsen	7.5	7.7	5.6	7.9	7.6	5.2	5.5	3.3	5.6	4.9
	Net Response	10.8	11.0	12.7	11.7	13.7	16.4	16.2	18.5	16.9	19.9
Availability of Finance (from overseas, if applicable)	Improve	8.8	10.6	10.0	9.1	8.1	10.0	12.2	10.3	10.0	9.8
	No Change	85.3	84.4	86.6	86.1	88.6	85.4	84.1	87.7	86.5	87.4
	Worsen	5.9	5.0	3.3	4.8	3.3	4.7	3.8	2.0	3.5	2.8
	Net Response	2.9	5.6	6.7	4.3	4.8	5.3	8.4	8.3	6.5	7.0

'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
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	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						12.9	15.4	71.7	-2.5

'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
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	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						4.1	42.0	54.0	-37.9

'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
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	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						21.6	9.1	69.3	12.5

'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
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	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						20.3	19.2	60.4	1.1

'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
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	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						43.6	7.6	48.8	36.0

'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
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	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						38.8	2.2	59	36.6

'Increase in Salary / other remuneration' is optimistic.

Table 18: Business Expectation Index (BEI)

Quarter	BEI-Assessment Quarter	BEI-Expectation Quarter
Q4:2015-16	103.0	114.2
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		114.2