

Demand Condition in Manufacturing sector subdued: RBI's OBICUS Survey for Q1:2016-17

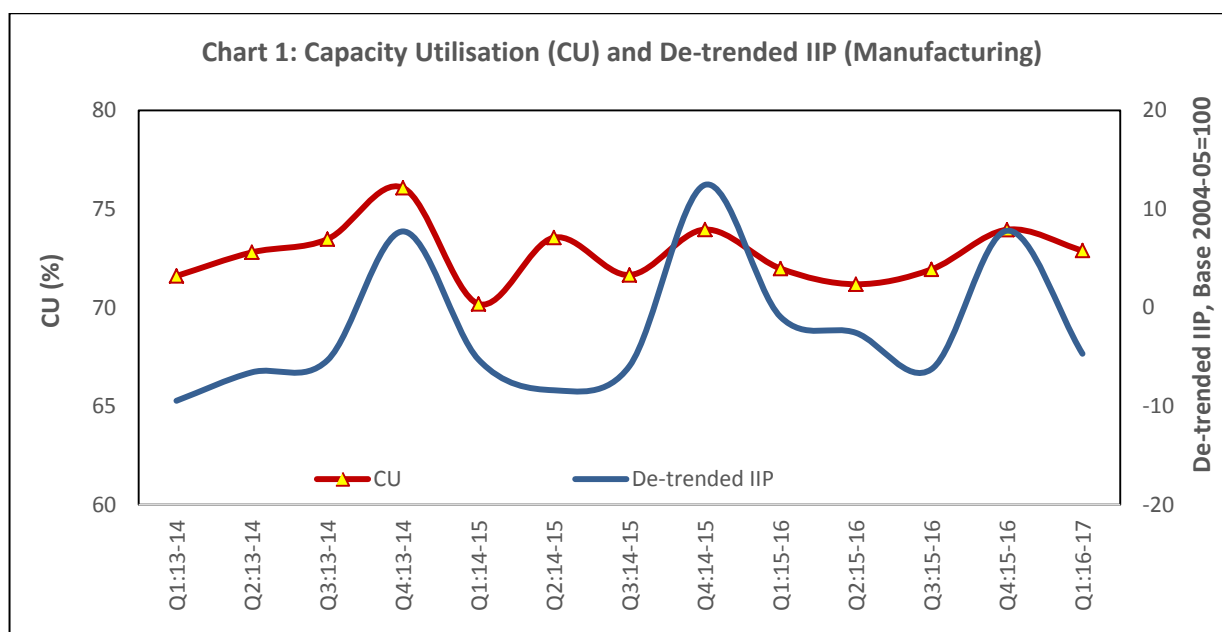
The Reserve Bank of India's Order Books, Inventories and Capacity Utilisation Survey (OBICUS) for April - June 2016 quarter revealed that recovery in demand condition in the manufacturing sector is yet to gather steam.

The OBICUS captures actual data on order books, inventory levels for raw materials and finished goods, and capacity utilisation from companies in the manufacturing sector. The latest 34th round of OBICUS, covers data for Q1:2016-17. In all, 903 manufacturing sector companies responded to the survey. The analysis is based on the data received from a common set of reporting companies for each of these parameters (Tables 1 - 3). The 33rd round (Q4:2015-16) survey results covering 926 manufacturing companies 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

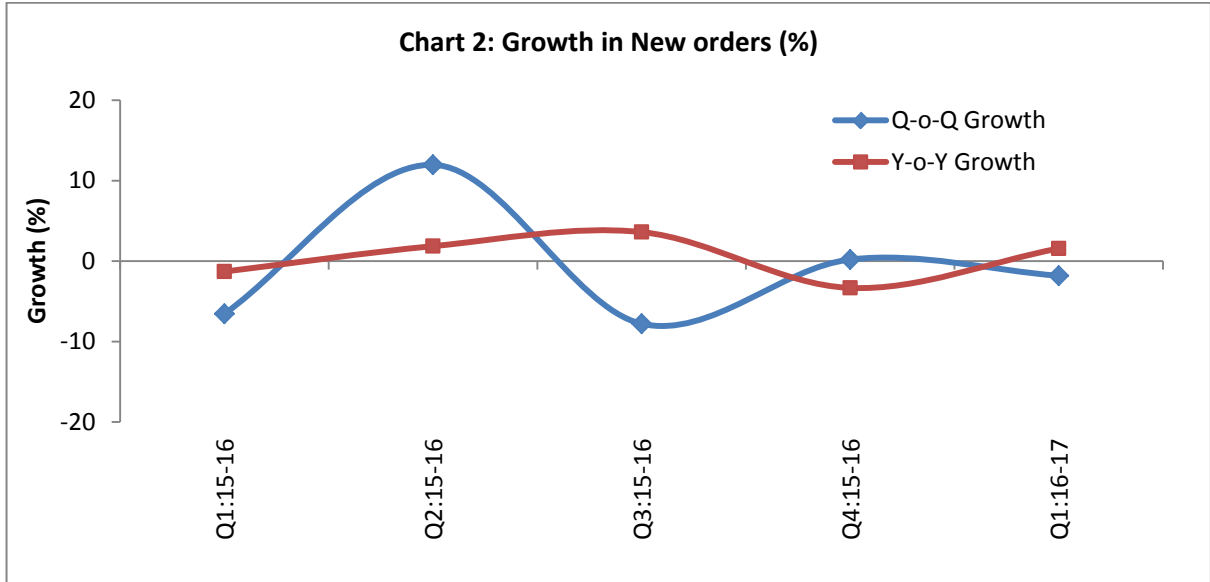
Highlights:

- 1) Capacity Utilisation (CU):** At the aggregate level, CU recorded seasonal drop in Q1:2016-17 over the previous quarter and stood at 72.9 per cent. The level, however, was higher than those recorded in the same quarter of previous three years. There was a broad co-movement between capacity utilisation and de-trended Index of Industrial Production ¹ (IIP) manufacturing, except for some quarters including Q3:2015-16 (Chart 1).

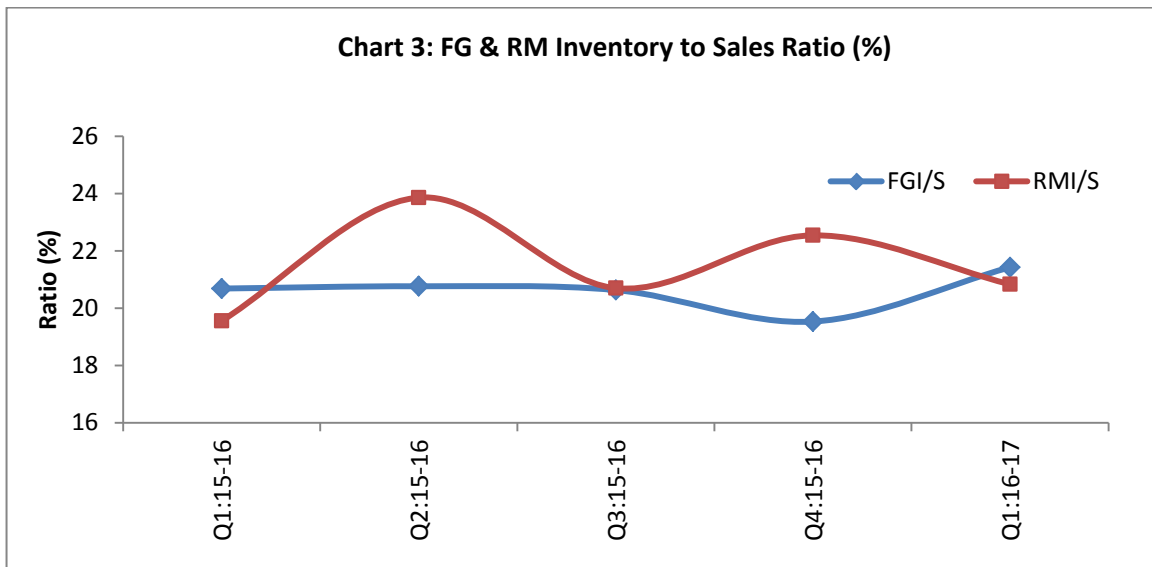


¹IIP is calculated on a fixed base (currently, 2004-05=100) whereas the denominator (viz. installed capacity) in CU is updated every quarter. For comparison, trend component of IIP is removed.

2) **Order Books:** The new orders growth bounced back to positive territory on a y-o-y basis. However, on a q-o-q basis, it recorded a marginal decline in Q1:2016-17 (Chart 2).



3) **Inventory to Sales Ratio:** The raw material inventory to sales ratio (RMI/S) was lower in Q1:2016-17 as compared to the previous quarter but was marginally higher than the level recorded in the same quarter a year ago. The finished goods inventory to sales ratio (FGI/S) increased in Q1:2016-17 and was higher as compared to the previous quarter and the same quarter a year ago (Chart 3).



ANNEX

Table 1: IIP-Manufacturing and Capacity Utilisation (CU) – <i>(Based on common set of 862 companies in 5 quarters)</i>				
Quarter	IIP – Mfg (Qtly avg Base 2004-05)	De-trended Qtly IIP-Mfg	CU (in latest survey round)	CU * (Range from previous four survey rounds)
Q1:2015-16	188.4	-0.9	72.0	71.3 – 71.8
Q2:2015-16	187.4	-2.6	71.2	70.6 – 71.4
Q3:2015-16	184.3	-6.3	71.9	72.5 – 72.6
Q4:2015-16	198.9	7.8	74.0	74.1 – 74.1
Q1:2016-17	187.0	-4.7	72.9	NA #

*: Since CU is computed based on 5 quarter common set of companies, the CU for each round gets revised in subsequent four rounds.

#: CU is calculated first time for Q1:2016-17.

Table 2: Order Books (Q1:2015-16 to Q1:2016-17) – <i>(Based on common set of 267 companies in 9 quarters)*</i>									
Quarter	Amount in ₹ Billion			Q-o-Q growth (%) – Seasonally not adjusted			Y-o-Y Growth (%)		
	Avg Backlog order	Avg New Order book	Avg Pending order	Avg Backlog order	Avg New Order book	Avg Pending order	Avg Backlog order	Avg New Order book	Avg Pending order
Q1:2015-16	1.566	1.281	1.575	-3.0	-6.6	0.7	4.4	-1.3	-0.9
Q2:2015-16	1.577	1.434	1.571	0.7	12.0	-0.2	-0.7	1.9	-4.7
Q3:2015-16	1.580	1.322	1.609	0.2	-7.8	2.4	-4.3	3.6	-0.4
Q4:2015-16	1.599	1.325	1.471	1.2	0.2	-8.6	-0.9	-3.3	-5.9
Q1:2016-17	1.474	1.301	1.491	-7.8	-1.8	1.3	-5.9	1.6	-5.4

*: As required for calculating growth rates in recent 5 quarters.

Table 3: Average Sales and Inventories and their ratios (Q1:2015-16 to Q1:2016-17) – <i>(Based on common set of 568 companies in 5 quarters)</i>								
Quarter	Amount in ₹ Billion					Ratio in per cent		
	Avg Sales	Avg Total Inv	Avg FG Inv	Avg WiPInv	AvgRM Inv	Total Inv/Sales	FG Inv/Sales	RMInv/Sal es
Q1:2015-16	6.186	2.851	1.280	0.361	1.210	46.1	20.7	19.6
Q2:2015-16	5.821	2.934	1.209	0.337	1.389	50.4	20.8	23.9
Q3:2015-16	5.719	2.677	1.180	0.313	1.184	46.8	20.6	20.7
Q4:2015-16	5.814	2.715	1.136	0.269	1.311	46.7	19.5	22.5
Q1:2016-17	5.809	2.757	1.245	0.302	1.210	47.5	21.4	20.8

RM - Raw Material; WiP - Work in progress; FG - Finished Goods; Inv – Inventory.