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**Decline in Overall Business Sentiments for Q4:2016-17:
RBI's Industrial Outlook Survey finds**

The 76th round of the Reserve Bank of India's Industrial Outlook Survey (IOS) indicated a decline in business sentiments. This round of the survey was conducted during October-December 2016. The survey elicited response from 1221 manufacturing companies. The survey provides qualitative assessment of business situation of companies in the Indian manufacturing sector for Q3:2016-17 and their expectations for the ensuing quarter Q4:2016-17. Results of 75th round (Q2:2016-17) of the survey were released on [October 4, 2016](#) on the RBI website.

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

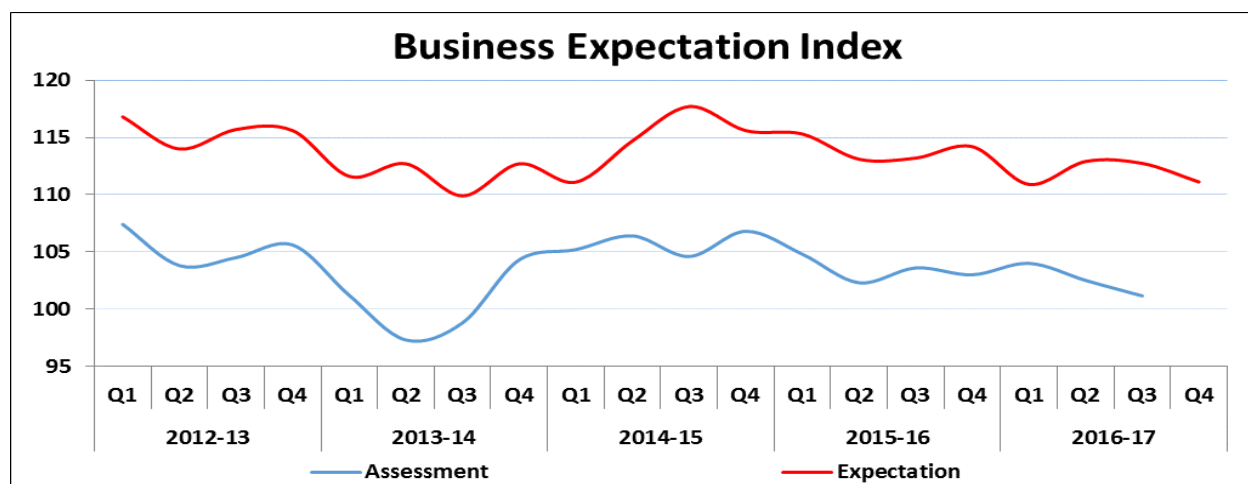
Highlights:

Assessment for Q3:2016-17

The survey indicated slight moderation in the sentiments in demand condition for the second successive quarter. In respect of several parameters like order books, capacity utilisation and imports, the level of optimism was lower in this quarter than Q2:2016-17. However, the respondents were somewhat more optimistic about the export performance than Q2:2016-17 while the optimism on production remained unchanged.

Availability of finance from banks and other sources were perceived to have worsened. However, due to reduced pessimism about the cost of finance and the cost of raw material, the sentiment on profit margin remained largely unchanged.

Overall, the business sentiments of the Indian manufacturing sector, as inferred from the Business Expectation Index (BEI), deteriorated for the second successive quarter.



Expectation for Q4: 2016-17

The outlook on business sentiments in Q4: 2016-17 largely followed similar pattern. However, in respect of demand condition (Order Books, Production), the outlook deteriorated. Pressure from rise in cost of raw material was expected to bring down profit margin. Improved sentiments were expressed in pending orders, exports, and cost of finance.

The summary index BEI declined from the Q3: 2016-17 level.

Summary Table				
Net response¹ (in %) comparison over previous quarter				
Parameters	Assessment period		Expectation period	
	Q2:2016-17	Q3:2016-17	Q3:2016-17	Q4:2016-17
Production	10.8	10.8	28.9	27.8
Order Books	9.0	7.1	24.7	20.9
Pending Orders	13.7	13.7	6.2	10.3
Capacity Utilisation	3.6	2.3	17.2	16.4
Exports	-0.8	4.4	11.2	12.1
Imports	7.0	6.2	8.7	8.4
Employment	6.8	3.8	9.1	5.2
Financial Situation	16.4	11.9	27.1	24.6
Availability of Finance (from internal accruals)	12.5	9.9	20.2	17.4
Cost of Finance	-7.9	-3.2	-7.5	-0.3
Cost of Raw Material	-39.0	-38.2	-32.0	-34.3
Selling Price	2.0	0.7	6.8	5.9
Profit Margin	-12.9	-13.0	0.1	-2.8
Overall Business Situation	17.4	13.0	31.3	27.9
Salary	32.8	26.1	24.7	21.7
Business Expectation Index ²	102.7	101.1	112.9	111.1

Press Release : 2016-2017/2001

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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 pessimism.

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
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	1221	32.0	21.2	46.8	10.8	40.9	12.0	47.2	28.9
						41.1	13.3	45.6	27.8

'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
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	1221	29.1	22.0	48.9	7.1	36.4	11.7	51.9	24.7
						35.1	14.2	50.7	20.9

'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
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	1221	19.0	5.3	75.7	13.7	12.9	6.7	80.4	6.2
						15.3	5.0	79.7	10.3

Pending orders 'Below Normal' is optimistic.

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

Indicator	Options	Assessment					Expectation				
		Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17
Capacity Utilisation (CU)-(main product)	Increase	23.4	24.6	21.8	21.5	20.2	27.8	26.3	26.5	27.4	27.6
	No Change	60.4	57.9	63.1	60.7	61.9	63.5	60.8	63.9	62.5	61.2
	Decrease	16.3	17.5	15.1	17.9	17.9	8.7	12.9	9.7	10.2	11.2
	Net Response	7.1	7.1	6.7	3.6	2.3	19.1	13.4	16.8	17.2	16.4
Level of CU (compared to the average in last 4 quarters)	Above normal	8.7	9.8	10.9	9.3	8.7	9.4	9.8	10.3	10.8	10.6
	Normal	72.6	71.0	72.5	75.3	74.9	78.2	75.6	77.8	77.7	76.5
	Below Normal	18.6	19.2	16.6	15.4	16.4	12.4	14.6	11.9	11.5	12.9
	Net Response	-9.9	-9.4	-5.7	-6.0	-7.7	-3.0	-4.8	-1.6	-0.7	-2.3
Assessment of Prod. Capacity (with regard to expected demand in next 6 months)	More than adequate	14.3	13.9	14.6	14.4	12.3	14.5	13.8	13.6	14.2	11.9
	Adequate	77.2	77.7	76.8	77.3	78.6	78.5	79.1	78.8	78.4	80.7
	Less than adequate	8.5	8.5	8.6	8.2	9.1	7.0	7.1	7.6	7.4	7.4
	Net Response	5.8	5.4	6.0	6.2	3.2	7.5	6.7	6.0	6.8	4.5

'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
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	1221	22.9	18.5	58.6	4.4	24.3	13.2	62.5	11.2
						25.3	13.2	61.5	12.1

'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
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	1221	17.9	11.7	70.4	6.2	18.1	9.4	72.5	8.7
						17.7	9.3	73.1	8.4

'Increase' in imports is optimistic.

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

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17
Inventory of raw material	Below average	6.5	7.0	6.0	7.0	7.3	5.3	5.9	5.8	5.2	6.8
	Average	81.4	80.5	81.7	81.2	81.1	84.8	84.4	83.5	84.5	84.2
	Above average	12.2	12.5	12.4	11.8	11.7	9.9	9.7	10.8	10.3	9.0
	Net Response	-5.7	-5.5	-6.4	-4.8	-4.4	-4.7	-3.8	-5.0	-5.2	-2.2
Inventory of finished goods	Below average	7.0	8.7	7.0	6.7	6.4	6.2	7.0	7.1	4.5	6.5
	Average	75.7	75.9	77.7	77.5	78.3	81.6	81.9	80.8	83.0	81.9
	Above average	17.4	15.4	15.3	15.8	15.3	12.1	11.1	12.1	12.5	11.6
	Net Response	-10.4	-6.7	-8.3	-9.0	-8.9	-5.9	-4.1	-5.0	-7.9	-5.1

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
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	1221	13.5	9.7	76.8	3.8	14.7	5.6	79.7	9.1
						12.1	6.9	81.0	5.2

'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
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	1221	26.0	14.1	59.9	11.9	33.9	6.8	59.3	27.1
						34.1	9.5	56.4	24.6

'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
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	1221	28.9	6.9	64.3	22.0	28.1	4.1	67.8	24.1
						29.2	5.3	65.5	23.9

'Increase' in working capital finance is optimistic.

Table 11: Assessment & Expectation for Availability of Finance

(Percentage responses)

Indicator	Options	Assessment					Expectation				
		Q3:20 15-16	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 15-16	Q1:20 16-17	Q2:20 16-17	Q3:20 16-17	Q4:20 16-17
Availability of finance (from internal accruals)	Improve	22.3	21.7	22.4	21.0	21.6	26.1	25.6	25.9	25.2	25.4
	No Change	68.3	69.0	68.6	70.5	66.7	67.8	68.3	68.3	69.8	66.6
	Worsen	9.4	9.3	8.9	8.5	11.7	6.1	6.1	5.8	5.0	8.0
	Net Response	12.9	12.4	13.5	12.5	9.9	20.0	19.5	20.1	20.2	17.4
Availability of Finance (from banks & other sources)	Improve	19.2	18.3	18.7	18.3	19.6	20.6	21.6	21.7	21.8	22.5
	No Change	74.4	74.2	73.6	76.1	72.5	74.7	73.2	72.7	74.9	71.9
	Worsen	6.3	7.5	7.7	5.6	7.9	4.7	5.2	5.5	3.3	5.6
	Net Response	12.9	10.8	11.0	12.7	11.7	16.0	16.4	16.2	18.5	16.9
Availability of Finance (from overseas, if applicable)	Improve	11.3	8.8	10.6	10.0	9.1	12.1	10.0	12.2	10.3	10.0
	No Change	83.5	85.3	84.4	86.6	86.1	84.1	85.4	84.1	87.7	86.5
	Worsen	5.2	5.9	5.0	3.3	4.8	3.9	4.7	3.8	2.0	3.5
	Net Response	6.2	2.9	5.6	6.7	4.3	8.2	5.3	8.4	8.3	6.5

'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
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	1221	12.9	16.1	71.1	-3.2	9.4	16.9	73.8	-7.5
						14.5	14.8	70.8	-0.3

'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
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	1221	6.4	44.6	48.9	-38.2	5.5	37.4	57.1	-32.0
						5.1	39.4	55.6	-34.3

'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
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	1221	16.9	16.2	66.9	0.7	17.2	10.4	72.4	6.8
						16.8	10.9	72.3	5.9

'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
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	1221	15.3	28.3	56.4	-13.0	19.5	19.4	61.2	0.1
						18.5	21.3	60.2	-2.8

'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
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	1221	29.4	16.4	54.2	13.0	40.1	8.7	51.2	31.3
						39.4	11.5	49.1	27.9

'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
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	1221	28.9	2.8	68.3	26.1	26.6	2.0	71.4	24.7
						25.0	3.3	71.8	21.7

'Increase in Salary / other remuneration' is optimistic.

Table 18: Business Expectation Index (BEI)

Quarter	BEI-Assessment Quarter	BEI-Expectation Quarter
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	101.1	112.9
Q4:2016-17		111.1