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FICCI's Business Confidence Survey Q3 2009-10

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Federation House, 1, Tansen Marg, New Delhi - 110001

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Q3 2009-10

Business Confidence level has muted in the latest survey conducted by FICCI. This is in light of the talk about immediate withdrawal of stimulus measures in the forthcoming Union Budget as industry has overwhelmingly opposed immediate scrapping of measures such as excise duty cuts announced last year to support economic activity. This assumes greater significance in light of the fact that the demand situation is fairly strong with 63 percent of the participating firms concurring with this view. Industry appears to fear that any change in the overall policy parameters will impinge on demand straight away and result in a dip in consumption and investment levels. Industry is also holding back any price hike even in the face of rising input costs and wage hike pressures as this could affect demand.

Survey Highlights

- India Inc's confidence level, which had been improving in the last three quarters, has reached a pause. Although demand situation in the economy is improving, there is now an air of uncertainty of what would happen in the near term.

- While on one hand RBI is indicating a further tightening of monetary policy in the days ahead, on the other hand Government is indicating an imminent withdrawal of fiscal stimulus measures. The potential impact of this 'double whammy' on domestic demand could be quite strong and could weaken the growth momentum built up over the last few months.

- It is these expectations which have clouded the outlook and industry waits for clear signals from the policymakers.

- Members of Corporate India have clearly indicated that the government must at least wait for another six months before it decides to roll back the stimulus measures. Likewise, the RBI should restrict monetary policy action to the minimum as the present bout of inflation is largely supply side driven.

- Rise in raw material costs and manpower costs have emerged as key constraints with 77 percent and 66 percent of the surveyed firms complaining about the same. In the last survey, 52 percent and 42 percent of the companies had responded likewise.

- As the global economy is showing signs of a recovery, prices of oil and other commodities are on a rise. Domestically, as prices of primary articles are increasing unabated, some industries are facing a cost pressure on this count as well. Further, although the job market is not tightening as much, the inflation situation in the economy may be forcing companies to settle for higher wages and salaries for new and existing personnel.

- Despite pressure on margins, companies are refraining from a price hike with 62 percent reporting maintaining the price line in the next six months.

- Present survey results also indicate some improvement in the outlook for sales, exports and employment in the coming six months.

- To strengthen the growth momentum further in 2010, besides continuation of the stimulus measures, industry expects government to step up infrastructure investments, introduce GST at the earliest, maintain a competitive exchange rate and push ahead with the disinvestment program.

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Survey profile

FICCI's Business Confidence Survey for the third quarter of fiscal 2009-10 drew responses from 372 companies with a wide geographical and sectoral spread. Companies participating in this survey had a turnover ranging from Rs. 1 crore to Rs. 1,25,000 crore. Respondents to FICCI's Business Confidence Survey were from sectors such as textiles, steel, chemicals and fertilizers, oil and gas, auto and auto components, food processing, electrical equipment and machinery, rubber and rubber products, cement, FMCG, jute, pharmaceuticals, paper, metal and metal products, logistics, financial services and consulting. The survey was conducted during the months of January and February 2010.

Sector	Percentage of respondents
Heavy Industry	63
Light Industry	27
Services	10

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Detailed survey findings

Economy – The results of FICCI's latest Business Confidence Survey indicate that the growth momentum that has been building in the economy and which has been particularly strong in recent months continues. Despite the weak agricultural performance this year, GDP is expected to top the 7 percent mark. CSO in its advance estimate has pegged GDP growth for 2009-10 at 7.2 percent. Other departments of the government including the finance ministry and RBI are a little more optimistic and have projected a growth of 7.5 percent with an upward bias.

In our latest survey, close to 83 percent of the participating companies have said that the current overall economic conditions are 'moderately to substantially better'. This figure is marginally higher as compared to 79 percent of the companies who had reported likewise in the last survey. Going ahead we see that close to 77 percent of the companies feel that the economic conditions would improve further in the coming six months. In our previous survey nearly 82 percent of the companies had reported likewise.

Industry – The responses received with regard to industry level performance show that current performance has improved for nearly three quarters of the participating firms. 75 percent of the surveyed companies have reported that their current industry performance vis-à-vis the last six months is 'moderately to substantially better'. While 17 percent of the companies have said that there has been no change in performance over the last six months, in case of 8 percent of the firms industry performance has gone down in the recent past.

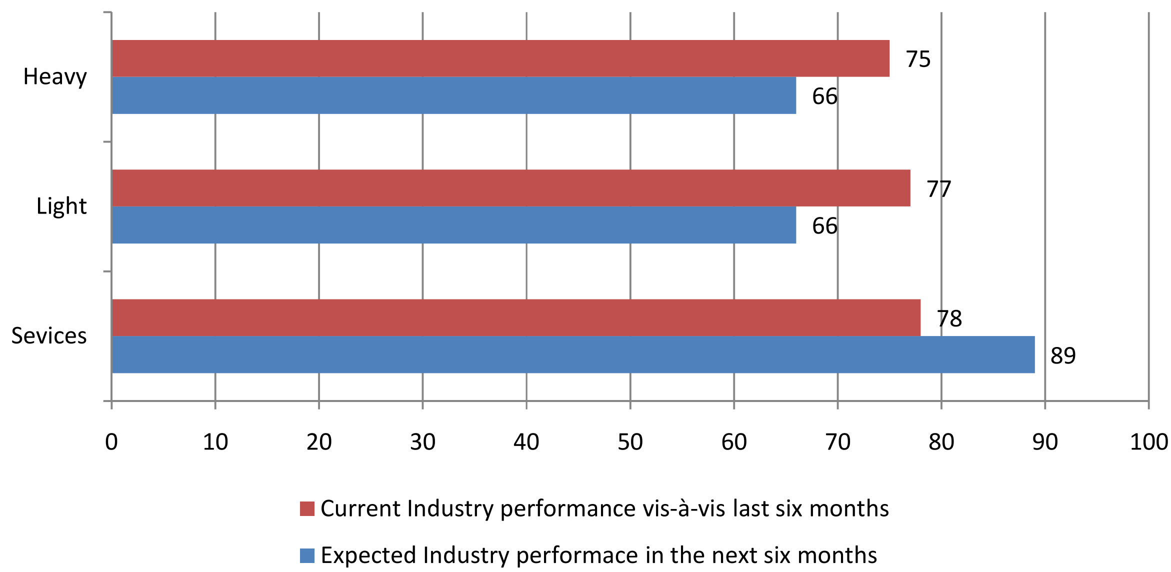
With regard to expectations for industry performance over the next six months, nearly two thirds (67 percent) of the surveyed companies have said that they expect their respective industries to perform even better during the period January to June 2010. In our last survey, a larger proportion of about 77 percent had reported a likely improvement in their industry performance in the near term. **The decline in this figure in the present survey can perhaps be explained by the anxiety caused by the talk over withdrawal of stimulus in the forthcoming budget.**

As has been reported by FICCI in its earlier surveys, government stimulus has had a definitive impact on industrial and economic performance. Although growth has been strong in recent months with industry recording a surprise 16.8 percent growth in December 2009, a large part of it is driven by government support measures and a reversal of tight money policy by RBI. In the last monetary policy review, RBI increased the CRR by 75 basis points. Given the comfortable liquidity condition in the market this has not had an immediate impact on interest rates. However, **there is concern amongst industry players that if in the future RBI jacks up the policy rates further, then banks would follow it up with an interest rate hike and which will be detrimental to growth**.

With regard to performance of the three segments which FICCI tracks as part of this survey, we see that nearly 75 percent of the participating firms from all the three segment – light industry, heavy industry and services – have reported improved current performance over the last six months. The similarity in response however ends here with members from the services being most optimistic about their near term performance. The services sector is followed by the heavy industry and light industry in terms of optimism regarding expected near term industry performance.

Industry performance – Segment wise

Proportion of respondents in the 'moderately to substantially better' bracket



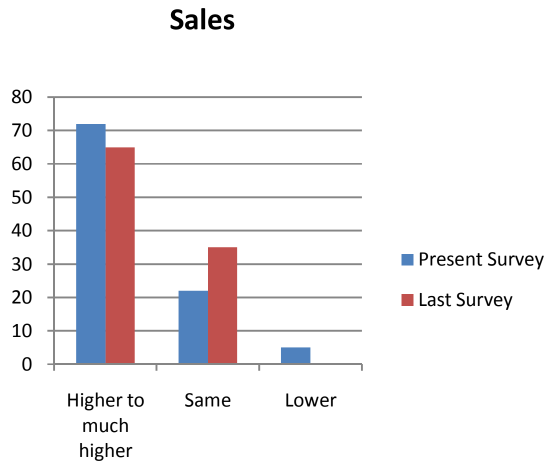
Firm – At the firm level 71 percent of the participating companies reported an improvement in their current performance level vis-a-vis last six months. The corresponding figure in the last survey was 74 percent and in the survey for Q3 of 2008-09 was just 21 percent.

A large portion of the participating companies are also hopeful of a better performance at the firm level over the next two quarters. About 73 percent of the respondents said that they foresee a 'moderate to substantial' improvement in the firm performance in the coming six months. The corresponding figure in the last round was 79 percent and in the survey for Q3 of 2008-09 was about 35 percent.

These results though encouraging, again highlight that the confidence / optimism amongst industry players, which had been rising in the last three surveys, has reached a point where firms are a little concerned about the developments that may happen in the near term – fiscal stimulus withdrawal and further monetary tightening.

Amongst operational parameters at the individual firm level, results show that between the last and the present survey some improvement in outlook is registered in case of sales, exports and employment.

Prospects for the next six months

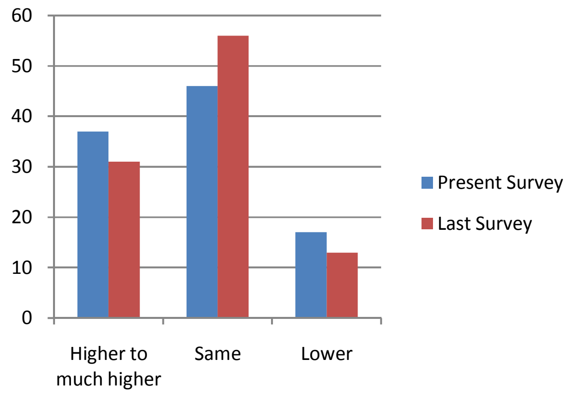


In the current survey nearly 72 percent of the respondents said that they foresee an improvement in their sales volume over the next two quarters. In the last survey 65 percent of the respondents had reported likewise. Another 22 percent of the participating firms said that they expect their near term sales performance to remain same. Further, amongst the three sectors- heavy, light and services, companies belonging to the heavy industry segment appeared most positive regarding sales.

Majority of the surveyed companies have said that they expect the selling price to remain same in the next six months. **This is despite a substantial increase in the proportion of respondents indicating high raw material prices posing a problem for their operations**. Around 62 percent of the participating companies in the survey indicated that they don't intend to change their sale price in near future. Only 18 percent said that they foresee an increase in price in the coming six months.

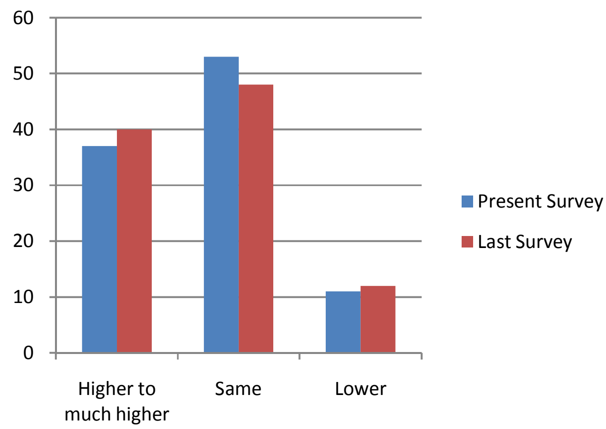
In the present survey 37 percent of the companies said that they expect profits to increase over the next six months. This is 6 percentage points higher than the proportion of respondents who reported likewise in the last survey. Further, around 46 percent of the companies said that they do not foresee any change in their profitability in the coming six months. Amongst the three sectors respondents from the services sector were most optimistic about likely increase in profits in the next two quarters.

Profits

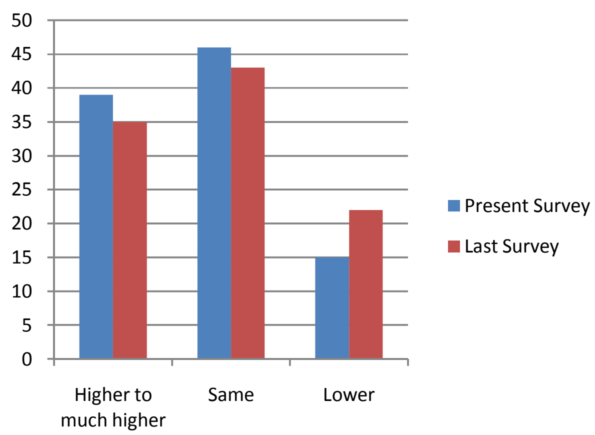


With regard to the investment prospects, around 37 percent of the companies said that they expect investments to go up over the next six months. This is marginally lower than 40 percent of the respondents who reported likewise in the last survey. Further, 53 percent said that they foresee no change in the investment levels. The moderation in proportion of firms reporting higher investments in the near term may be on account of their **apprehension about a prospective increase in the interest rates**.

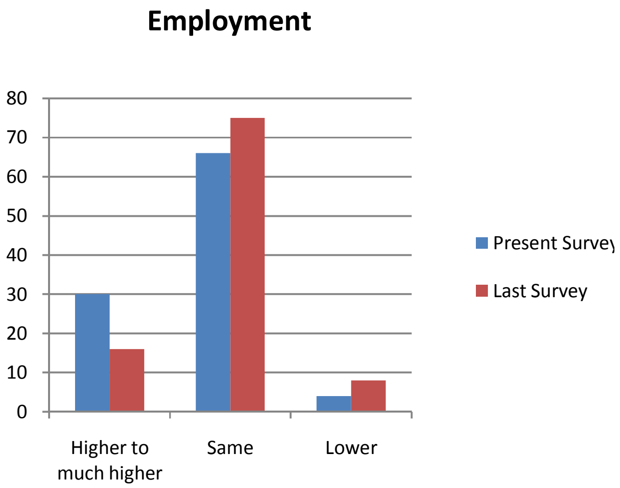
Investment



Exports



India's exports after witnessing negative growth for thirteen straight months beginning October 2008 are now back in positive territory. Growth in Nov and Dec 2009 was 18.2 and 9.3 percent respectively. In the present round of survey, this positive sentiment seems to have caught up as well. The proportion of respondents citing an improvement in the export prospects has registered an improvement from 35 percent in the last survey to almost 40 percent in the present survey.



The outlook for jobs has somewhat improved with 30 percent of the participating firms saying that they would add to their employee strength in the coming six months. In the last survey only 16 percent had expressed their willingness to hire more. With 66 percent of the firms reporting no likely change in employment and a small 4 percent expecting downsizing, **the hiring activity in the economy is still to catch on following the improvement in industrial and economic performance.**

Forecast for the next six months

(All figures are in % and refer to proportion of respondents)

	Decline	Increase 0% -5%	Increase 5% -10%	Increase 10%-20%	Increase 20%-30%	Increase > 30%
Sales	5	32	19	31	4	9
Profits	15	41	20	17	2	5
Exports	15	40	27	10	6	2

Confidence Indices

The proportion of respondents citing an improvement in the current conditions / performance vis-à-vis last six months has gone up marginally at the economy and industry level. However, at the firm level this proportion has seen a marginal decline. As a result the **Current Conditions Index** has not moved from its last quarter value of 71.0.

With Union Budget 2010-11 just round the corner and speculation regarding withdrawal of fiscal stimulus package rife, the participating firms are a little apprehensive regarding the near term performance at the firm, industry and economy level. The **Expectations Index**, which took a value of 73.1 in the last survey, has come down to 70.0 in the present survey.

With the Current Conditions Index maintaining its last quarter value but Expectations Index moving down by a few notches, the **Overall Business Confidence Index** has moderated slightly from 72.4 in the last survey to 70.0 in the current survey.

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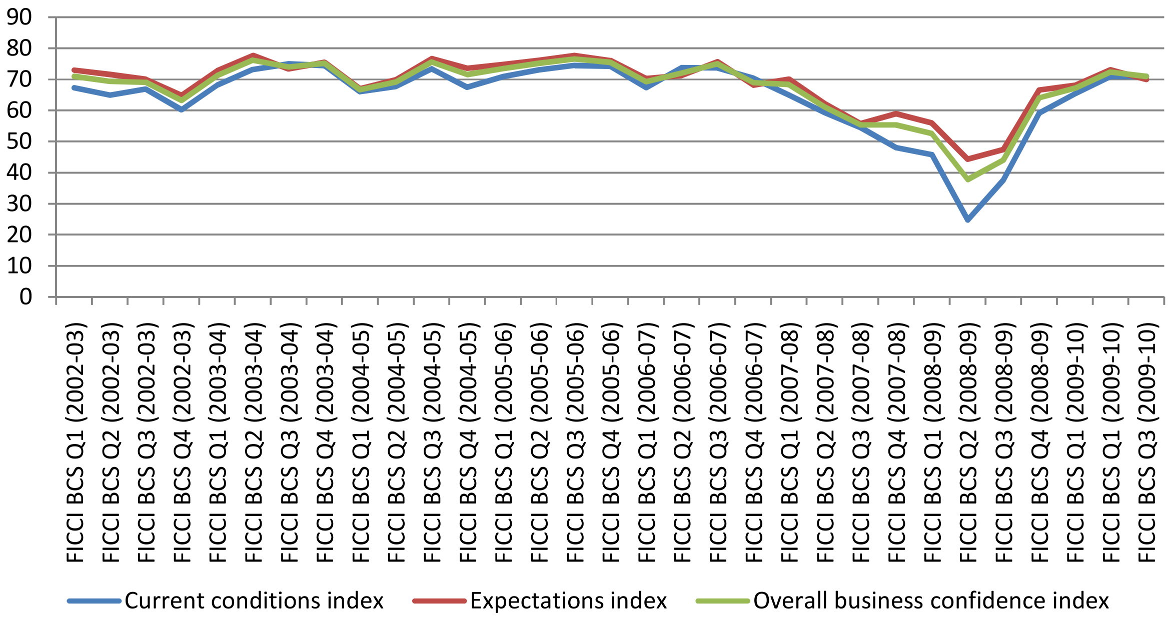
Confidence Indices



Constraining factors

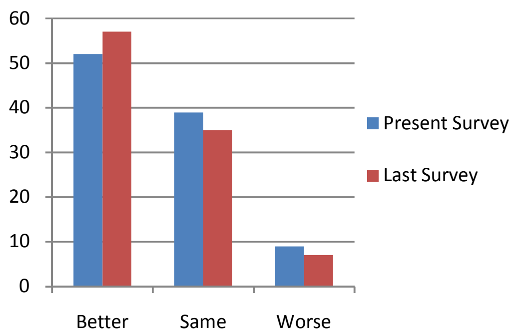
(Figures pertain to proportion of respondents citing the factor as a problem area)

Problem Area	FICCI BCS Q1 2009-10	FICCI BCS Q2 2009-10	FICCI BCS Q3 2009-10
Weak demand	66	62	37
Threat of imports	34	34	29
Constrained availability of credit	27	20	15
High cost of credit	41	37	33
Infrastructure	36	35	38
Rising cost of raw materials	55	52	77
Rising manpower costs	45	42	66

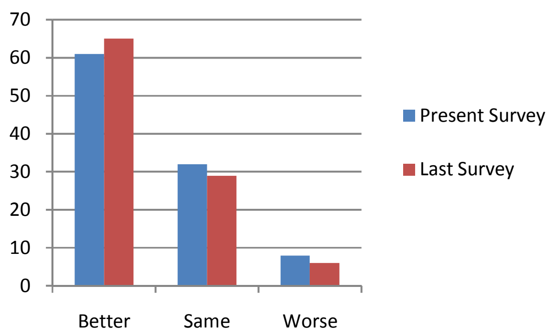
It is quite evident that demand conditions in the economy are improving. Recent numbers on industrial and economic activity bring this out. In the month of December 2009, industrial production jumped by 16.8 percent – the highest YoY growth seen in many years. Numbers at the disaggregated levels also indicate that both investment and consumption demand are on a rise. Feedback received from survey participants have also highlighted this trend with about 37 percent of the companies reporting weak demand as a constraining factor. Though still sizable, this number is much below 62 percent who reported likewise in the previous FICCI BCS.

Another interesting trend to note in the context of rising demand is the response received from companies on their order book position. As the charts below show, majority of the firms participating in the FICCI Survey have reported that their current order book position is better vis-à-vis the position six months back. Again, a majority is expecting its order book position to improve further in the next six months. While these are encouraging findings, a comparison with last survey results shows that a slight moderation in performance may be in the offing. As mentioned earlier, the prospects of a rise in interest rates and withdrawal of stimulus measures in the forth coming budget are playing heavily on the minds of the respondents and could explain this feedback received from them.

Current order book position vis-à-vis last six months



Expectations about order book position six months hen



Besides, weak demand, high cost of credit was another major problem being faced by a large proportion of companies till some time back. However, results of recent surveys, including the present one, show that there has been some improvement on this front. The proportion of surveyed firms which have complained about high cost of credit has come down to 33 percent.

While in case of weak demand and cost of credit, the survey results show an improvement at the ground level, there are two factors which are strongly affecting the production cost economics of firms. And these are rising cost of raw materials and rising manpower costs. The results of the present survey show that while 66 percent of the companies are facing rising manpower costs, nearly 77 percent are seeing their business getting affecting due to rise in input prices. The corresponding figures in the previous survey were 42 percent and 52 percent respectively.

As the global economy is showing signs of a recovery, prices of oil and other commodities are on a rise. Domestically, as prices of primary articles are increasing unabated, some industries are facing a cost pressure on this count as well. Finally, although the job market is not tightening as much, the inflation situation in the economy may be forcing companies to settle for higher wages and salaries for new and existing personnel.

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Survey at a glance

		FICCI BCS Q3 2008-09	FICCI BCS Q4 2008-09	FICCI BCS Q1 2009-10	FICCI BCS Q2 2009-10	FICCI BCS Q3 2009-10
1a	**Current overall economic conditions vis-à-vis the last six months**					
	Moderately to Substantially better	9	57	69	79	83
	Same / No change	27	25	21	19	13
	Moderately to Substantially worse	64	18	10	2	4
1b	**Expectations for overall economic conditions for the next six months**					
	Moderately to Substantially better	30	69	73	82	77
	Same / No change	32	21	17	17	17
	Moderately to Substantially worse	38	10	10	1	6
2a	**Current industry performance vis-à-vis the last six months**					
	Moderately to Substantially better	15	46	60	69	75
	Same / No change	30	36	26	27	17
	Moderately to Substantially worse	55	18	14	5	8
2b	**Expectations for industry performance in the next six months**					
	Moderately to Substantially better	25	64	61	77	67
	Same / No change	38	25	31	20	23
	Moderately to Substantially worse	38	11	8	3	10
3a	**Current firm level performance vis-à-vis the last six months**					
	Moderately to Substantially better	21	47	66	74	71
	Same / No change	29	39	23	24	21
	Moderately to Substantially worse	50	14	11	1	8
3b	**Expectations regarding firm level performance in the next six months**					
	Moderately to Substantially better	35	68	72	79	73
	Same / No change	31	26	23	19	21
	Moderately to Substantially worse	34	6	5	2	6
4	**Confidence Indices**					
	Current Conditions Index	37.6	59.1	65.4	71.0	71.0
	Expectations Index	47.4	66.6	68.1	73.1	70.0
	Overall Business Confidence Index	44.0	64.1	67.2	72.4	70.0
5	**Problem areas**					
	Weak Demand					
	Yes	85	74	66	62	37
	No	15	26	34	38	63
	Threat of imports					
	Yes	25	21	34	34	29
	No	75	79	66	66	71
	Constrained availability of credit					

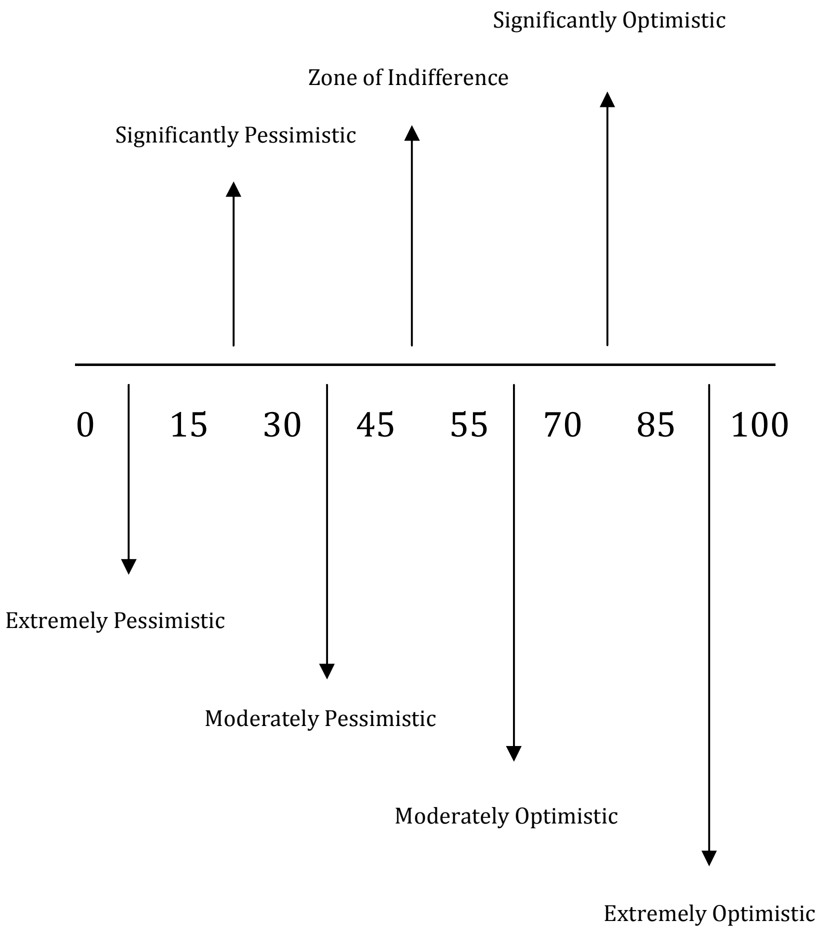
	Yes	33	29	27	20	15
	No	67	71	73	80	85
	High cost of credit					
	Yes	40	45	41	37	33
	No	60	55	59	63	67
	Rising raw material prices					
	Yes	45	45	55	52	77
	No	55	55	45	48	23
6	**Present capacity utilization**					
	Less than 25%	3	0	2	1	3
	Between 25% and 50%	16	16	19	16	8
	Between 50% and 75%	38	41	30	30	28
	More than 75%	43	43	49	53	60
7	**Prospects for the next six months**					
	Investments					
	Much higher	0	1	5	5	2
	Higher	25	24	25	35	35
	Same / No change	35	51	53	48	53
	Lower	40	24	17	12	11
	Sales					
	Much higher	2	3	2	2	6
	Higher	29	54	48	63	66
	Same / No change	38	34	41	35	22
	Lower	31	9	9	0	5
	Selling price					
	Much higher	0	0	0	1	2
	Higher	5	13	16	20	16
	Same / No change	43	60	62	63	62
	Lower	52	27	22	15	20
	Profit					
	Much higher	1	0	1	1	1
	Higher	18	33	36	30	36
	Same / No change	26	36	46	56	46
	Lower	54	31	17	13	17
	Exports					
	Much higher	1	0	3	0	1
	Higher	16	26	34	35	38
	Same / No change	23	39	39	43	46
	Lower	59	36	24	22	15
	Employment					
	Much higher	0	1	1	1	2
	Higher	6	14	21	15	28
	Same / No change	59	75	66	75	66
	Lower	35	9	13	8	4

Annexure 1

The Composite Business Confidence Index is based on questions pertaining to the overall economic conditions, the sector or industry level situation and the organization or company level situation. The index is a three-stage weighted average relating to:

The current situation vis-à-vis the situation in the last six months and
The expected situation in the next six months

Zones of Business Confidence



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Annexure 2

Sectoral Classification

Heavy Industry	Light Industry	Services
Chemicals and chemical products	Food products	Trade
Rubber, plastic, petroleum and coal products	Beverages, tobacco and other related products	Hotels and tourism
Non-metallic mineral products	Products of wool, silk, jute, rubber, leather	Transportation
Basic metal and alloys	Cotton textiles	Consultancy
Metal products	Textile products and wearing apparel	Communication
Machinery and equipment	Wood and wood products	Financial services
Transport equipment and parts	Furniture and fixtures	Business services
Mining	Paper, paper products and printing	Real estate
	Publishing and allied industries	IT/Software
	Leather and fur products	BPO