



Survey on Exports

February 2010

Federation of Indian Chambers of Commerce and Industry

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FICCI Survey on Exports February 2010

Highlights

In FICCI's latest Export Survey, exporters have pointed out that with the global economy on a recovery mode, the export conditions are improving.





While this is an encouraging trend, Rupee appreciation and aggressive Chinese moves to push their exports are seen as factors that could weaken India's export prospects.

In this context exporters are expecting support from the Indian government as the Chinese are getting massive support for their export growth.

Moreover, recent export performance should be evaluated keeping in mind that this came on the back of low / negative growth in the same period of previous year.

The fiscal support extended by the government provided some cushion to the exporters.

With the global recovery in its initial stages, government should watch the export performance in 2010 before taking a call on stimulus measures for exporters.

-  In FICCI's latest Export Survey, the **participating companies have reported that the global market is showing signs of improvement and there is an evident pickup in demand abroad**. Export conditions have improved and **there is a feeling that the recent performance**, with exports growth entering positive territory since November 2009, **is likely to continue in the near term**.
-  However, at the same time there is a **clear apprehension that given the appreciation of the Rupee and the continuous efforts being made by the Chinese to encourage their exports, Indian exporters may again run into a rough patch**.
-  The proportion of respondents indicating improved conditions for exports at the economy, industry and firm level has gone up in our latest survey. There is also an increase in the proportion of respondents who expect export conditions would further improve in the coming six months.
-  The above positive assessment however comes with a caveat. Exporters have said that while market enquiries have resumed and buyers are coming forward and placing new orders, the pace of new business is still low as compared to the pace seen during the pre crisis level.

- ✚ Respondents have pointed out that **while evaluating the robustness of the recent performance, one must keep in mind that this came on the back of low / negative growth in the corresponding months of the previous year.**
- ✚ **Exporters have also indicated that the stimulus measures provided them with reasonable cushion and support to compete** with the exporters from other countries particularly in the Asian region.
- ✚ Given the above assessment, **exporters want the government to watch the export performance for the calendar year 2010 and then take a call on stimulus measures for exporters.** Majority of the respondents from the exporting community (80%) have said that this is not the right time to withdraw the export stimulus and any premature move may weaken their standing in the highly competitive international market.
- ✚ With the commodity prices worldwide again seeing an upward trend, the rising cost of both indigenous as well as imported raw materials is **pushing up the cost of production for manufacturers.** This in turn leads to lower margins for the exporting companies since they have to face a cut-throat competition in the international markets in terms of pricing of their products.
- ✚ Further, with the **Rupee appreciating against the US\$,** the situation is unfavorable for the Indian exporters since orders are booked 6 months or more in advance and it is difficult for the exporters to take account of such large variations in the value of the Rupee and this in turn leads to lower profit realizations for the exporting company.
- ✚ The intense competition faced by the Indian exporters in the international market is another area of growing concern. Exporters are saying that **China which was a strong competitor even earlier has now gained further strength with the Chinese government extending full support to them during the recessionary period.** The export companies feel that it is very hard to compete with the Chinese products especially in terms of price in the present situation.
- ✚ Given the **significant increase in input prices, appreciation of the Rupee against the US\$ and continuous aggressive moves by the Chinese exporters who are completely supported by their government,** it is important that the **government takes a balanced view on the issue of support extended to exporters.**
- ✚ Exporters are expecting that in the Union Budget 2010-11 government will not roll-back any relief measures that were provided to support export performance during the recessionary period. Further, in the forthcoming budget government should **also lay additional emphasis on building high quality infrastructure, implementation of GST and simplification of procedures for increasing competitiveness of Indian exports.**



About the Survey

This is the tenth survey on exports conducted during the months of January and February 2010. The FICCI survey monitors the trends, direction and structure of India's exports by gathering direct ground level feedback from India's leading exporters. The survey also monitors the present and expected performance of the Indian exporters.

The survey saw participation from 264 companies with a wide geographical and sectoral spread. The turnover of the companies that participated in the survey ranged from Rs. 60 lakhs to Rs. 5500 crore and the companies represent sectors like automotive, food and food processing, FMCG, textiles, handicrafts, metal and metal products, heavy engineering, leather, marine products, pharmaceuticals and chemicals, wood and wood products and mining

Survey Findings

A. Export conditions

The present survey conducted during the months of January and February 2010 made an attempt to capture the sentiments of Indian exporters with regard to export conditions at the economy, industry and firm levels. As in the past surveys, we also asked our respondents to identify the crucial few constraints to exports among the identified and listed items.

Inputs were received on the current export conditions vis-à-vis the export conditions in the last six months. This was followed by outlook on the export conditions for the next six months at all the three levels - overall economy, industry and firm.

Our last export survey, results of which were released in the month of July 2009, showed that the Indian exporters were expecting that the phase of negative export performance, which started since late 2008, would continue for some more time. However, the respondents in their feedback qualified that the quantum of decline in exports on a year-on-year basis would go down as we move ahead in time. Based on the inputs the exporters were getting on the evolving international markets they had also indicated that we may have to wait for the close of 2009 to see export growth return to positive territory.

Data made available by the Commerce Ministry confirms the likely trend in export growth which FICCI had talked about in its last export survey. Monthly figures on merchandise export performance show that after clocking negative growth for thirteen straight months beginning October 2008, export growth entered positive territory in November 2009. And this positive growth



performance has been maintained in the subsequent months of December 2009 and January 2010.

This turnaround in export performance has encouraged members of the Indian exporting community and they are sensing signs of a further improvement in the months to come. And this ray of optimism about likely export performance is also getting reflected in the responses received by FICCI.

As table 1 given below shows, while more than half (52%) of the participating companies have reported that the current overall conditions are 'moderately to substantially better' as compared to the last six months, only 14% feel that the overall export conditions have deteriorated. Analysis of the responses received for the current export conditions at the industry and firm level show a similar trend with 48% and 53% of the respondents saying that the current export conditions at their industry and firm level are better as compared to the last six months, and only about 9% and 12% respectively stating that exports conditions have worsened. It is interesting that in this round of survey, the proportion of companies reporting an improvement in export conditions has gone up considerably as compared to the last survey, while the proportion reporting deterioration in export conditions has gone down drastically at all the three levels.

**Table 1 - Current export conditions vis-à-vis last six months
(% of respondents)**

| | Moderately to substantially better | Same / no change | Moderately to substantially worse |
|--|------------------------------------|------------------|-----------------------------------|
| FICCI Export Survey July 2009 | | | |
| Overall export conditions | 27 | 24 | 49 |
| Industry level export conditions | 25 | 25 | 50 |
| Firm level export conditions | 35 | 25 | 40 |
| FICCI Export Survey February 2010 | | | |
| Overall export conditions | 52 | 34 | 14 |
| Industry level export conditions | 48 | 43 | 9 |
| Firm level export conditions | 53 | 34 | 12 |

Results pertaining to expectations regarding export conditions over the next six months also show a marked improvement when compared to the results of the last survey. At each of the three levels – economy, industry and firm – **we are seeing that the proportion of companies expecting improvement in the export conditions in the coming six months has gone up substantially in the current round of the FICCI Export Survey.**



**Table 2 – Expectations regarding export conditions in the next six months
(% of respondents)**

| | Moderately to substantially better | Same / no change | Moderately to substantially worse |
|--|------------------------------------|------------------|-----------------------------------|
| FICCI Export Survey July 2009 | | | |
| Overall export conditions | 38 | 44 | 18 |
| Industry level export conditions | 41 | 38 | 21 |
| Firm level export conditions | 40 | 40 | 20 |
| FICCI Export Survey February 2010 | | | |
| Overall export conditions | 70 | 19 | 11 |
| Industry level export conditions | 64 | 29 | 7 |
| Firm level export conditions | 61 | 32 | 7 |

As Table 2 above shows, 70% of the respondents feel that the overall export conditions would be ‘moderately to substantially better’ over the next six months. In the last survey just about half of this (38%) felt like wise. With regard to export conditions at the industry level, while 64% see the same improving over the next two quarters, only about 7% feel the industry level export conditions to worsen. Similar results are obtained at the firm level where the proportion expecting an improvement in the export conditions stands at 61% and those expecting export environment to weaken stand at 7%. These results are quite encouraging and indicate that the improvement seen in India’s export performance in the last three months is likely to continue in the near term as well.

The firms that participated in the latest round of FICCI’s Export Survey have said that the improvement seen in the export performance of the country is due to the recovery seen in some of our major export destinations. Market enquiries have resumed and buyers are coming forward and placing new orders. However, the pace of new business is still low as compared to the pace seen during the pre crisis level.

Respondent have also pointed out that while evaluating the robustness of the recent performance, one must keep in mind that this came on the back of low / negative growth in the corresponding months of the previous year.

Finally, exporters have also indicated that the stimulus measures provided them with reasonable cushion and support to compete with the exporters from other countries particularly in the Asian region.

B. Projections – Export volumes, export prices and export direction

In addition to capturing the views of the industry on the current and expected export conditions, the survey also elicited response on the nature and quantum of movement companies expect in the next six months with regard to both their export volumes and their export prices. In addition to providing information on export volumes and prices, the exporting community was also asked to indicate likely movements in their export volumes to regions / countries in the next six months. The results obtained are presented below –

**Table 3 – Expected change in export volumes in the next six months
(% of respondents)**

| | Decline | No Change | Increase 0% -5% | Increase 5% -10% | Increase 10%-20% | Increase 20%-30% | Increase > 30% |
|------------------|---------|-----------|-----------------|------------------|------------------|------------------|----------------|
| July 2009 | 32 | 24 | 17 | 12 | 10 | 2 | 2 |
| Feb 2010 | 11 | 26 | 18 | 18 | 19 | 7 | 2 |

As table 3 above shows, just about 11% of the companies have reported that their export volumes would go down over the next six months. In the previous survey nearly 32% of the companies had reported the same. Further, while in the last survey nearly 40% of the companies had reported that their export volumes are likely to see a growth of up to 20% in the coming six months, in this survey a higher 55% of the companies have said the same.

The sharp decline in the proportion expecting a decline in export volume and a rise in the percentage expecting an increase in their export volumes again highlights that the export environment is improving. **As was mentioned earlier, the surveyed companies have reported that the global market conditions are improving and this is helping the exporters. Further, exporters are also actively looking at exploring new markets and tapping opportunities in new growth regions and these efforts are paying them in the form of improved performance.**

**Table 4 – Expected change in export prices in the next six months
(% of respondents)**

| | Decline | No Change | Increase 0% -5% | Increase 5% -10% | Increase 10%-20% | Increase 20%-30% | Increase > 30% |
|------------------|---------|-----------|-----------------|------------------|------------------|------------------|----------------|
| July 2009 | 44 | 29 | 10 | 5 | 7 | 2 | 2 |
| Feb 2010 | 19 | 43 | 13 | 20 | 6 | 0 | 0 |

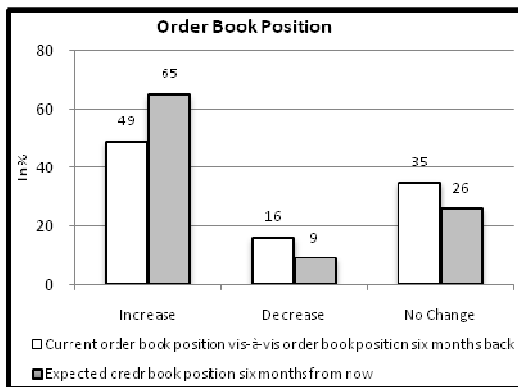
The outlook for export prices is more conservative in comparison to the outlook for export volumes. In the current survey 62% of the companies have reported that the prices of their goods will either remain the same or will decline over the next six months. This clearly indicates the pricing pressure faced by the companies. Despite rising input costs, the companies are facing stiff resistance on the issue of

price revisions in-lieu of the intense competition prevailing in the international markets.

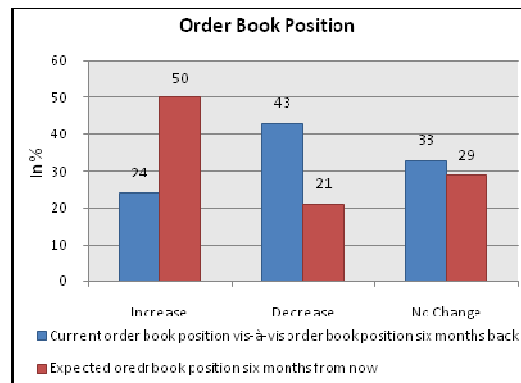
C. Order book position

In the present survey we asked the participating companies to indicate the current status of their order book position vis-à-vis the order book position prevailing six months back. Companies were also asked to indicate their expectations about order book position six months from now. The results obtained are presented in the following chart.

Present Survey – February 2010



Previous Survey – July 2009



As the above chart (LHS) shows only 16% of the participating companies have reported that their current order book position has weakened as compared to the order book position six months back. While in the case of 35% of the participating companies there is no change in the order book position over the last six months, the remaining close to 50% have reported that their order book position has increased vis-à-vis the position six months back.

On comparing these numbers with figures obtained in the previous survey (RHS) for the same question, one again reaches the conclusion that there is improvement in the context of export performance. There is an almost 100% rise in the proportion of respondents reporting an increase in their current order book position while those reporting a decrease in their current order book positions show a decline of over 50% in the current survey vis-a-vis the last survey results. **These numbers indicate that with the inventory of foreign buyers coming down and demand showing signs of revival, foreign clients have started placing new orders.**

Moving now to expectations regarding order book position, we see that barely 9% of the companies have said that their order book position is likely to weaken six months from now. While 26% feel that there would be no change in the order book position, a majority of 65% see an increase taking place in their orders six months from now. These numbers when compared with the results obtained in the last

survey once again show that there is a growing impetus in the export sector and the likelihood of a more healthy performance in the next six months of the year.

D. Direction of exports

The survey participants were asked to report what they felt about the likely direction of exports and changes therein in the next six months. Respondents were asked to indicate whether exports would increase / decrease / remain the same in different parts of the world. Based on the responses received the following results emerged.

**Table 5 - Expected movement in exports in key markets in the next six months
(% of respondents)**

| | Increase | Same / no change | Decrease |
|------------------------|----------|------------------|----------|
| Africa | 65 | 27 | 8 |
| Middle East | 54 | 33 | 13 |
| USA | 50 | 38 | 13 |
| European Union | 47 | 35 | 19 |
| UAE | 42 | 48 | 10 |
| Latin America | 39 | 48 | 13 |
| South East Asia | 34 | 55 | 11 |
| United Kingdom | 33 | 45 | 21 |
| Canada | 32 | 58 | 10 |
| SAARC | 29 | 68 | 3 |
| Japan | 28 | 59 | 14 |
| China | 27 | 65 | 8 |
| CIS | 23 | 55 | 23 |
| Australia | 19 | 59 | 22 |
| Russia | 17 | 70 | 13 |

As the above table shows, members of the Indian exporting community feel that countries / regions like Africa, Middle East, USA, European Union and UAE would see improved demand in the coming six months. It is perceived that with the key markets such as US and Europe coming out of recession, exports to these areas are likely to see an improvement in the months ahead.

E. Factors adversely affecting Indian exports

FICCI has been constantly making efforts in bringing out issues confronting the Indian exporters. We made a selection of 12 factors that directly or indirectly have a bearing on international trade. These factors were presented to the respondents and they were asked to indicate the areas which they feel were acting as impediments in the way of improving their export performance.



**Table 6 - Factors adversely affecting export performance
(% of respondents)**

| Rank | FICCI Export Survey July 2009 | % | FICCI Export Survey Feb 2010 | % |
|------|-------------------------------------|----|-------------------------------------|----|
| 1 | Weak demand in international market | 80 | Rising cost of raw material | 67 |
| 2 | Exchange rate | 61 | Exchange rate | 66 |
| 3 | Competitive environment | 56 | Weak demand in international market | 60 |
| 4 | Rising cost of raw material | 44 | Competitive environment | 53 |
| 5 | Cost of credit | 41 | Cost of credit | 36 |
| 6 | Government promotional schemes | 34 | Government procedures | 24 |
| 7 | Inadequate infrastructure | 22 | Increase in the oil prices | 24 |
| 8 | Government procedures | 22 | Inadequate infrastructure | 22 |
| 9 | Tariff / Non Tariff Barriers | 17 | Tariff / Non Tariff Barriers | 21 |
| 10 | Availability of credit | 17 | Excess productive capacity | 19 |
| 11 | Excess productive capacity | 12 | Availability of credit | 19 |
| 12 | Increase in the oil prices | 12 | Government promotional schemes | 17 |

***The figures will not add up to 100 as multiple responses were allowed**

As the table 6 above shows, while there has been no change in the top 5 factors that are adversely affecting business performance of exporters over the last six months, their ordering and intensity of adversely affecting the performance has definitely undergone some major changes.

The rising cost of raw materials as an impeding factor to export performance has come out as the most important factor with 67% of the companies feeling the heat on account of rising input costs. **With the commodity prices worldwide again seeing an upward trend, the rising cost of both indigenous as well as imported raw materials is pushing up the cost of production for manufacturers. This in turn leads to lower margins for the exporting companies since they have to face a cut-throat competition in the international markets in terms of pricing of their products.**

The appreciation of the Rupee, which was also pointed out in the last survey as the second most important impediment to export performance retains its position in the current survey with 66% of the companies drawing attention towards the rising Indian Rupee value vis-à-vis the US dollar. In the past one year the value of Rupee has appreciated from 48.8 in January 2009 to 45.9 in January 2010. **This situation is unfavorable for the Indian exporters since orders are booked 6 months or more in advance and it is difficult for the exporters to take account of such large variations in the value of the Rupee and this in turn leads to lower profit realizations for the exporting company.**

Another factor that was considerably emphasized by the members of the export community in the current survey is the highly competitive environment which the Indian exporters face in the international market. **Several companies have**



mentioned that China's exports are adversely impacted their performance and it is very difficult to compete with the Chinese particularly on the price front.

While many of the exporters that participated in the survey are still reporting that weak demand in the international market is another significant factor that is hampering export performance but the severity of this factor has definitely come down in this survey with about 60% companies polling this vis-à-vis 80% which had reported likewise in the last survey. **The higher cost of credit in India is another factor that is undermining the cost competitiveness of India's exports and hence adversely affecting the export performance.**

E. Expectations from the Union Budget 2010-11

With the Union Budget just round the corner, FICCI also made an attempt to understand what expectations exporters had from the Union Budget this year. Already, talk of withdrawal of stimulus measures, including those extended to the export community, is gaining momentum. There have been indications that given the rebound in the export sector performance it may be time to consider rolling back the scheme of incentives and concessions that were extended as part of the stimulus package.

When asked about the views on the stimulus package and its evaluation at this point in time, a sizable majority of the survey respondents, about 80%, reported that the government should refrain from withdrawing relief measures that were announced as part of the stimulus package. The exporters rather want that the interest subvention scheme in particular must be extended beyond the March 31, 2010 deadline.

According to the surveyed companies, while there has been an improvement in the export conditions and demand is improving, it is still early days to take a conclusive call on the overall performance. **Watch the performance for the calendar year 2010 and then take a call on stimulus measures for exporters – this is the message exporters are conveying to the government.** The feeling amongst majority of the respondents is that exports should be nurtured for some more time as the conditions in the global economy have yet not stabilized.

Alongside this the exporters also want that the budget should also focus on three other aspects. The first is to improve the infrastructure of the country especially the sea ports and the roadways. Second is the speedy implementation of GST. And thirdly they expect the budget should focus on simplification of procedures to minimize the procedural delays that act as a hindrance to India's competitiveness.