India’s Lame Industrial Production

What is the issue?

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India’s recent data on Index of Industrial Production shows an output increase of only 0.5%.

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What is IIP?

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- The Index of Industrial Production (IIP) is an index for India which details out the growth of various sectors such as mineral mining, electricity and manufacturing.
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- The all India IIP is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period, The current base year is 2011-2012.
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- It is compiled and published monthly by the central statistical organization (CSO), under Ministry of Statistics and Program Implementation.
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- The Eight Core Industries comprise nearly 40.27% of the weight of items included in the Index of Industrial Production (IIP).
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- These are Electricity, steel, refinery products, crude oil, coal, cement, natural gas and fertilizers.
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What are the recent estimates of IIP?

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- 2018 November data for the index of industrial production shows an output

increase of only 0.5% , which is the lowest since June 2017.
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- April-November IIP growth at 5% is not an encouraging improvement over the 3.1% increase in the same period in 2017-18.
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- It is at odds with the CSO’s projection of 8.3% growth of manufacturing in 2018-19, against 5.7% in 2017-18.
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- While there can be no denying the base effect, with IIP growth in November 2017 coming in at 8.4% , there are some disturbing pointers to contend with.
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What are the reasons behind poor IIP output?

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- Automobile output fell by about 20% in November to just over two lakh units.
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- This possibly also because of an adjustment to the new emission standards, while steel output hit its lowest level in about a year.
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- The decline in cement output in November could be seen as part of a cyclical pattern in the industry where output spikes once every three or four months.
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- There is a slump in the production of consumer goods and capital goods in November, the fact is that just 10 of the 23 manufacturing sectors tracked by the index recorded growth in this month.
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- The liquidity squeeze arising out of the NBFC crisis is likely to have impacted demand, along with rural distress.
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- Though union government is keen on damage control with respect to MSMEs, the demand constraint emanating from the rural economy cannot be overlooked.
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What lies ahead?

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- Union government needs to keep a close watch to ensure that growth in

manufacturing does not hit a roadblock.
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- The rise in capital formation, by all indications being led by public expenditure, needs to be sustained.
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- For the share of manufacturing in GDP to rise from current levels of 16.6%, the sector needs to consistently outpace GDP growth.
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- The Monetary Policy Committee needs to take cognizance of the fact that it has been over-forecasting retail inflation.
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- With CPI inflation at 2%, the lower band of its target, the MPC should consider relaxing its rather hawkish stance, which has translated into higher real interest rates.
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- This is likely to impact rate-sensitive sectors such as housing and consumer durables.
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Source: Business Line

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