

Business Standard

Infra growth dips to 3.4% in Oct

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The index of six core industries expanded at a slower pace of 3.4 per cent in October this year, compared with 4.6 per cent in the same month last year. Dip in steel and crude oil production has pulled down the index, which grew at 4.8 per cent in September 2008.

Experts say the latest numbers were more or less expected and are unlikely to affect their estimation of Index of Industrial Production (IIP), which captures India's factory output. Their projection for IIP growth rate in October varies from zero to 3 per cent as against a 12.2 per cent rise in the same month last year.

These six infrastructure industries constitute around a fourth of the IIP number. "The October numbers are not surprising," said D K Joshi, economist with Crisil Ltd, a ratings and advisory firm. "The core sector has been posting a weak growth throughout the year. It reflects the weakness in the economy."

Data released by the commerce and industry ministry today showed that in the April-October period, the index grew by 3.9 per cent, as against 6.6 per cent in the same period last year.

With inventory piling up due to the slowdown in demand, domestic steel producers have cut production, leading to a dip of 0.5 per cent in October 2008 as against 5.2 per cent last year. According to industry estimates, steel factories have cut production by up to 20 per cent.

Crude oil production dipped as existing oil fields like Bombay High yielded lesser oil while no new fields were discovered. Cement factories also produced less compared to the same month a year ago as the real estate activity was weak during the month.

However, a robust production growth in coal gave the index some momentum. In addition, Indian refineries also produced more products on account of higher demand for petrol and diesel. Electricity production growth remained flat in the month under consideration.

IIP growth under strain: The latest estimate for India's factory output, which will be released on Friday, is expected to reflect a significant slowdown in growth due to industries cutting down production to match slowing demand for their products

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CORE PROBLEM

Index of six core-infrastructure industries - October 2008

Sector	Weight (%) in IIP	Oct '07 % growth	Oct '08 % growth	Apr-Oct '07-'08 % growth	Apr-Oct '08-'09 % growth
Crude Petroleum	4.17	-0.1	-0.3	0.6	-0.7
Refinery Products	2.00	2.7	5	8.8	4.5
Coal	3.22	8.9	10.9	3.7	8.4
Electricity	10.17	4.2	4.4	7.1	2.8
Cement	1.99	7.5	6.2	8.5	6.0
Finished Steel (carbon)	5.13	5.2	-0.5	7.3	4.2
Overall	26.7	4.6	3.4	6.6	3.9

Source: Commerce and Industry Ministry

According to Axis Bank, the core sector numbers were better than expected and hence the IIP is likely to expand in the range of 1-2 per cent. "The IIP manufacturing segment is likely to show a 1-1.5 per cent growth, up from our earlier projections of near-zero per cent growth based on the Composite Leading Indicators," said Saugata Bhattacharya, vice-president, Axis Bank.

"This time, the pressure of intensified global recession is well reflected in some of the key variables of the IIP. A significant fall in the exports in October, accompanied by a fall in excise duty collections," said Soumendra Dash, chief economist with CARE Ratings. He predicts IIP to expand at 2.5-3 per cent in October 2008. He also expects IIP to see more contraction because of continued cut in production in the key sectors like steel and crude oil.