



IIP to register negative growth: CARE

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Despite of lower inflationary pressures, IIP is expected to enter the negative Territory



IIP estimates for the month of December, 2008 is at (-) 4% as against previous month's growth of 2.4%. We are viewing a negative growth rate on account of a high base year effect (as the index on December 2007 was as high as 284 which rose from November 2007 fig of 261). Despite of lower inflationary pressures, IIP is expected to enter the negative territory due to the following reasons:

- Primary reason being a high base-effect
- Lower demand in manufacturing product
- A continuous southward trend in exports.
- Delay in capital expenditure as a consequence of slumping demand in domestic as well as international domain.

IIP entered the negative territory by (-) 2% and stood at 279.1. As per the market expectations manufacturing reported a negative growth of (-) 2.5% as against positive, yet a meager growth in mining and electricity sector.

One of the primary reasons of the negative growth is a very high base effect, as December 2007 witnessed a substantial rise of 7.6% in general IIP index and stood at 283.8 as against 261 in November 2007. Similarly in 2008, there has been a rise in the general index from 265.5 in November 2008, to 279.1 in December 2008, which is a sharpest m-o-m rise since the beginning of the fiscal.

Several manufacturing industries like cotton textiles (-) 6.1, jute and other textiles (-) 66.4, food products (-) 8.7 and leather and leather products are (-) 11.4 implying a continued fall in employment generating industries thereby effecting the economy. Capital goods and consumer durables have been one of the worse affected sectors owing to slumping demand.

Transport and equipments have shown a (-) 17.9% fall in December, however latest indication of sales of auto sector point towards the bottoming out of the collapse in growth.

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