January infrastructure output growth at more than a year's low of 1.8%

By ET Bureau | 3 Mar, 2015, 02.00AM IST

NEW DELHI: India's manufacturing sector is yet to see sustainable recovery, with two sets of data released on Monday pointing towards a dismal show even as the government makes efforts to boost domestic production.

Core sector output growth in January slumped to the lowest in over a year at 1.8%, compared with 2.4% in December, according to data released by the Ministry of Commerce and Industry.

The HSBC Purchasing Managers Index showed activity in India's manufacturing sector slowed to a five-month low in February. The reading for the past month eased to 51.2 from 52.9 in the previous month as the pace of output and new orders declined.

A reading over 50 shows expansion in activity, while one below it indicates contraction. "The sluggish performance of available lead indicators, such as the low growth of core industries and automobile..."
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production, as well as the contraction in merchandise exports, foretell a muted outlook for IIP growth for January 2015," said Aditi Nayar, senior economist at local ratings firm ICRA.

The core index captures output in eight infrastructure industries: coal, electricity, crude oil, natural gas, steel, cement, fertilisers and refinery products. It has a 38% weight in the Index of Industrial Production (IIP), making it a good lead indicator of industrial activity. Output shrank in two sectors - crude oil and natural gas.

The readings show the government's efforts to boost manufacturing since it took over in May last year have yet to show market results. It has laid emphasis on reviving manufacturing in the Union Budget presented on Saturday, too, through correction in duty anomaly and improving credit access for small and medium enterprises.

These steps, and expected rate cuts from the central bank as inflation remains benign, could help the sector in the coming months. But for now, manufacturing mostly remains weak.

"Manufacturing growth in India lost momentum in February, with output and new orders expanding at softer rates than those seen in the past four months," said Pollyanna De Lima, economist at Markit, which prepared the index for HSBC.

According to official estimates, the manufacturing sector is estimated to post 6.8% growth in 2014-15, compared with 5.3% in the previous fiscal year. The eight core sectors expanded 4.1% during the first 10 months through January, just a shade more than the year-earlier period's 4% growth, indicating that the manufacturing sector may still not have got out of the woods and raising doubts over meeting the estimates.

In January, the fertiliser sector was the top performer, posting 7.1% growth, followed by refinery products at 4.7%. Output in coal grew by a dismal 1.7%. "The data show that production is stagnant. Bank credit shows only marginal increase in outtake for the manufacturing sector. Core sector data indicate that nothing is taking place as far as infra is concerned, both government and private sector.

But to the extent what the government can do, they have announced in the budget. But we need to see how that takes off," said Madan Sabnavis, chief economist at CARE Ratings.

According to the HSBC PMI data, a positive indicator was foreign orders, which "rose at a strong and accelerated pace", Markit's De Lima said. This and the fact that the PMI remained in the positive territory have brightened the prospects for a rebound in output and employment in coming months, De Lima said.
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