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Industrial Growth: July 2017

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The domestic industrial output improved in July'17, in a reversal from the contraction of the previous month, aided by the favourable base effect and the probable building of inventories by business following the GST implementation in July.

Industrial growth as measured by the Index of Industrial Output (IIP) for July'17 rose by 1.2%, in line with CARE Ratings projection for the same.

The growth in IIP in July'17 however has not been broad based and is significantly lower than the 4.5% growth for the comparable period last year. Moreover, the cumulative growth in industrial output in the first 4 months of the current financial year is a mere 1.7%, compared with the 6.5% growth of the comparable period a year ago. The weakness in the industrial output is reflective of the prevailing subdued economic conditions of the Indian economy.

Table 1: IIP Growth

%	Weight	Apr'17	May'17	June'17	July'17	Apr-July'16	Apr-July'17
All industries	100.00	3.4	2.8	-0.1	**1.2**	6.5	1.7
Mining	14.37	3.2	0.2	0.4	**4.8**	5.8	2.1
Manufacturing	77.63	3.2	2.6	-0.4	**0.1**	6.3	1.3
Electricity	7.99	5.4	8.3	2.2	**6.5**	7.9	5.6

Source: MOSPI

-IIP growth in July was led by the improved growth in electricity and mining.

-Growth in the mining segment at 4.8% was at a 4 month high and notably higher than the 1% growth a year ago.

-The electricity sector has been prone to fluctuations in growth rates over the months. The sectors growth in July'17 has been over 4% higher than that in July'16.

-Manufacturing output continues to be muted having grown by a low 0.1% in July'17, compared with the 5.3% growth a year ago. This could be attributed to the continued business disruptions caused by the implementation of GST.

-Only 8 out of the 23 industry group in the manufacturing sector have shown positive growth in July'17. These include manufacture of beverages, wood products, pharmaceuticals & chemicals, basic metals, computer & electronic products, motor vehicles and transport equipment.

- The industries that have seen the highest contraction/ negative growth during the month include, tobacco products, diesel, printing machinery formulations for vitamins and electrical apparatus.

- For the fiscal year so far (Apr-Jul), the industries that have seen positive growth are leather, refined petroleum products , pharmaceuticals, basic metals, motor and transport vehicles, furniture and computer & electronic products

Use Based Classification

The use based analysis reflects the segment wise industrial performance.

%	Weight (%)	Apr'17	May'17	June'17	July'17	Apr-July'16	Apr-July'17
Primary Goods	34.05	3.1	3.7	-0.2	2.3	7.4	2.2
Capital Goods	8.22	-3.5	-1.4	-6.8	-1.0	12	-3.5
Intermediate Goods	17.22	4.4	0.4	-0.6	-1.8	3.2	0.4
Infrastructure /Construction Goods	12.34	5.2	0.2	0.6	3.7	3.5	2.1
Consumer Durables	12.84	-1.3	0.8	-2.1	-1.3	5.9	-0.9
Consumer Non-Durables	15.33	8.8	9.5	4.9	3.4	9.2	6.6

Source: MOSPI

-The sharp contraction in capital goods since the start of the fiscal (-3.5 % during Apr-Jul'17 compared with the 12% growth during Apr-Jul'16) is reflective of the lack of private investments in the economy.

-The positive growth in infrastructure this year is on account of the higher government spending in the sector. The higher growth in this sector is likely to propel and stimulate growth in other industries and segments, thereby pushing up overall industrial growth in the country.

- Consumer demand remains muted as seen from the negative growth in consumer durables so far this fiscal. The coming festive and post- harvest demand could help build demand in this segment.

CARE's View:

We expect industrial output to see higher growth in the last 2 quarters of the fiscal, aided by the government infrastructure spending and the resultant multiplier effect on the other industrial segments as well as the improvements in festive demand for consumer durables in coming months. We retain our projection of industrial growth at 4.5% for FY18.

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