

Industrial Growth: June 2017

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The economy witnessed some contraction in industrial output mainly due to destocking of inventories ahead of Goods and Services Tax (GST) implementation in the country.

The industrial output, measured via Index of Industrial Production (IIP) growth, contracted at **-0.1% in June'17** as against 8.0% growth in June'16. On the cumulative basis, **IIP grew at 2% in FY18 (Apr-Jun) compared with a growth of 7.1% in the corresponding period in FY17**. It is closer to CARE Ratings expectation of -0.4%.

In June'17, industrial growth is dragged down by contraction in the manufacturing sector though the fall has been capped by positive growth in the electricity sector. With regard to used based classification, the negative growth in primary, capital, intermediate and consumer durables have led to contraction in industrial output during the month.

Table 1: IIP Growth

%	Weight	June'16	June'17	Apr- June'16	Apr- June'17
All industries	100.00	8.0	-0.1	7.1	2.0
Mining	14.37	10.2	0.4	7.5	1.2
Manufacturing	77.63	7.5	-0.4	6.7	1.8
Electricity	7.99	9.8	2.1	10.0	5.3

Source: MOSPI

Key Highlights

- All sectors have recorded subdued growth compared to the performance in the previous year.
- On the cumulative basis, the mining sector grew at lackluster growth of 1.2% in FY18 (Apr-Jun) as against 7.5% in the comparable period in the previous fiscal.
- In FY18 (Apr-May), the manufacturing sector grew at subdued rate of 1.8% than 6.7% growth in the corresponding period in the previous fiscal. On the monthly basis, this sector contracted at -0.4% in June'17.
 - Within manufacturing sector, during FY18 (Apr-May), 13 out of 23 industries registered negative growth.

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- In FY18 so far, industries namely pharmaceuticals and drugs recorded highest growth of 26% followed by other manufacturing (19.4%) and transport equipment (9.4%).
- Highest contraction has been recorded by beverages (-14.3%), electrical equipment (-16.9%) and fabricated metal products (-10.7%) on the cumulative basis.
- The electricity segment grew at 5.3% on cumulative basis compared with 10.0% growth in the corresponding period last fiscal whereas in June'17, it grew at 2.1% growth than 9.8% in June'16.

Use Based Classification

The user based analysis depicted below further reveals the segment wise industrial performance.

Table 2: Use Based Classification

%	Weight (%)	June'16	June'17	Apr-June'16	Apr-June'17
Primary Goods	34.05	8.2	-0.2	8.3	2.2
Capital Goods	8.22	14.8	-6.8	13.0	-3.9
Intermediate Goods	17.22	6.0	-0.6	3.4	1.3
Infrastructure /Construction Goods	12.34	6.6	0.6	5.0	1.9
Consumer Durables	12.84	4.5	-2.1	7.9	-0.9
Consumer Non-Durables	15.33	11.4	4.9	7.6	7.7

Source: MOSPI

- Primary goods that have highest weight in the IIP (34.05%) grew at 2.2% on cumulative basis compared with 8.3% growth recorded in the comparable period in FY17. In May'17, this segment contracted at -0.2%
- On the other hand, capital goods have contracted by -3.9% on cumulative basis and -6.8% in June'17.
- While the growth in intermediate goods recorded growth of 1.3% on cumulative basis, it contracted at -0.6% in June'17.
- Consumer durables have contracted on cumulative (-0.9%) as well as on monthly basis (-2.1% in June'17). The contraction has majorly come from destocking of inventories by producers before the GST.
- Consumer non-durables have recorded highest growth of 7.7% in all segments during FY18 (Apr-Jun) and 4.9% in June'17. The growth in June'17 is however subdued compared to 11.4% growth in the comparable month in FY16.

CARE's View:

The industrial growth the upcoming months is likely to be guided by government spending. Since the Goods and Services Tax (GST) has already kicked in, the restocking of inventories will take place that is likely to boost industrial output. In addition, favorable monsoon with higher crop output and allowances paid due to 7th pay commission implementation is likely to push consumer demand in the second half of the year. **Thus, we expect the industrial output to grow at around 4-5% in the ongoing fiscal year.**

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