# Industrial Growth: December 2017

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***As per the estimates put forward by CSO, the industrial output grew by 7.1% in December'17, which was higher than the IIP growth of 2.4% in December'16 and 8.4% in the previous month.*** The high growth for the month is supported by the low base effect following disruptions in economic activities after demonetisation in Nov'16.

***On the cumulative basis, for the first 9 months of the fiscal year, the, the growth in industrial output stands at 3.7% compared with 5.1% in the comparable period in FY17.***

***CARE Ratings had projected a growth of 3.5% for December'17.***

The improvements in industrial output during Dec'17 can mainly be ascribed to buoyant growth in auto segments and capital goods which were also favoured by base effect besides pick-up in demand to a limited extent and re-stocking. The restocking activities in particular in manufacturing post the implementation of GST have also supported the industrial output along with improved demand.

**Key Highlights**

- The manufacturing sector that has highest weight of 77.63%in the IIP, continued to record high growth at 8.4% in Dec'17, which is much higher than 0.6% growth recorded in Dec'16. However, the growth in this segment was lower than 10.2% growth witnessed in the previous month.
    - Out of the total 23 industry groups, 16 industries recorded positive growth during the month.
    - Transport vehicles and equipment were witnessed to register high industrial growth during the month. Other transport equipment grew at a highest rate of 38.3% while motor vehicles, trailers and semi-trailers grew at 25.9% in Dec'17. This growth can partly be attributed to favorable base effect.
    - Pharmaceuticals continued its upward trend in this month as well and grew at a 33.6%. This growth can partly be ascribed to restocking activities undertaken by the firms post GST implementation.

- Computer, electronic and optical products recorded high growth at 29.8% that came due to favorable base effect supported the overall IIP number indicating higher demand for these products.
- Other industries recorded double digit growth were food products (11%), leather products (16%), other non-metallic mineral products (14%), machinery and equipment (10%) and furniture (22.8%).
- The sectors that registered negative growth during the month include tobacco products (-28%), apparels (-13.5%), paper and paper products (-2.9%), printing and reproduction of media (-10.8%), rubber and plastic products (-7.1%) electric equipment (-14.9%) and other manufacturing (-22%).

- The mining sector grew at 1.2%, much lower than 10.8% growth in December'16 though registered slight improvement over Nov'17 (1.1%).
- Electricity sector output at 4.4% which was higher than 3.9% in Nov'17, however lower than 6.4% growth in Dec'16.

**Table 1: IIP Growth**

| % | Weight | Apr'17 | May'17 | Jun'17 | Jul'17 | Aug'17 | Sept'17 | Oct'17 | Nov'17 | Dec'17 | Apr-Dec'16 | Apr-Dec'17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **All industries** | 100 | 3.4 | 2.8 | 0.1 | 1.2 | **4.3** | 3.8 | 2.2 | 8.4 | **7.1** | **5.1** | **3.7** |
| **Mining** | 14.37 | 3.2 | 0.2 | 0.4 | 4.8 | 9.4 | 7.9 | 0.2 | 1.1 | **1.2** | **4.3** | **2.8** |
| **Manufacturing** | 77.63 | 3.2 | 2.6 | 0.4 | 0.1 | 3.1 | 3.4 | 2.5 | 10.2 | **8.4** | **5.0** | **3.8** |
| **Electricity** | 7.99 | 5.4 | 8.3 | 2.2 | 6.5 | 8.3 | 3.4 | 3.2 | 3.9 | **4.4** | **6.3** | **5.1** |

*Source: MOSPI*

**Use Based Classification**

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

**Table 2: Use Based Classification**

| % | Weight | Apr'17 | May'17 | Jun17 | Jul'17 | Aug'17 | Sep'17 | Oct'17 | Nov'17 | Dec'17 | Apr-Dec'16 | Apr-Dec'17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Primary Goods** | 34.05 | 3.1 | 3.7 | -0.2 | 2.3 | 7.1 | 6.6 | 2.5 | 3.2 | 3.7 | 5.4 | 3.5 |
| **Capital Goods** | 8.22 | -3.5 | -1.4 | -6.8 | -1 | 5.4 | 7.4 | 6.8 | 9.4 | 16.4 | 3.4 | 3.8 |
| **Intermediate Goods** | 17.22 | 4.4 | 0.4 | -0.6 | -1.8 | -0.2 | 1.9 | 0.2 | 5.5 | 6.2 | 3.4 | 1.7 |
| **Infrastructure /Construction Goods** | 12.34 | 5.2 | 0.2 | 0.6 | 3.7 | 2.5 | 0.5 | 5.2 | 13.5 | 6.7 | 5.1 | 4.3 |
| **Consumer Durables** | 12.84 | -1.3 | 0.8 | -2.1 | -1.3 | 1.6 | -4.8 | -6.9 | 2.5 | 0.9 | 4.8 | -1.2 |
| **Consumer Non-Durables** | 15.33 | 8.8 | 9.5 | 4.9 | 3.4 | 6.9 | 10 | 7.7 | 23.1 | 16.5 | 7.5 | 10.3 |

*Source: MOSPI*

- Within the used based classification, the IIP growth has been supported by high growth in the industrial output in capital goods and consumer non-durables.
- Capital goods grew at a substantial growth rate of 16.4% over the contraction of -6.2% in Dec'16 and higher than 9.4% growth recorded in the previous month. All the major segments within capital goods have grown considerably barring electrical equipment.
- Consumer non-durables, which had grown at 23.1% in Nov'17, declined marginally and grew at 16.5% in Dec'17. This growth was high compared with the contraction of -0.2% in Dec'16.
- Consumer durables grew at lackluster rate of 0.9% than the negative growth of -5% in Dec'16 and lower than 2.5% in the previous month. This in part could be ascribed to subdued rural demand following decrease in prices of agriculture products.
- Infra growth is a good signal as was also seen in case of the core sector numbers which were positive for steel and cement. Infrastructure, which has been the thrust area of the government, grew at 6.7%, higher than 5.5% growth in Dec'16.

- Primary goods and intermediate goods continued their upward trend for consecutive 3rd month and grew at 3.7% and 6.2% respectively. While the primary goods grew at lower rate than Dec'16, the growth in intermediate goods was higher than 2.1% growth in Dec'16.

**CARE Ratings' View:**

There has been all round performance especially in manufacturing which augurs well for the rest of the year. The substantial growth in capital goods needs to be interpreted cautiously as the finance part of the story as reflected by bank credit growth to manufacturing or debt issuances from non-finance companies does not support the idea that there has been a major turnaround in investment in infra or manufacturing.

Going forward, the sustained upward movement in the industrial output growth would be guided by pick-up in demand especially rural demand, which has been lackluster for the last couple of months. In addition, ongoing restocking activities could also support the growth in the coming months.

***We expect industrial output growth to be in the range of 5% for the full year which will be contingent upon sustained growth in FMCG, infrastructure and auto sector.***



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