Industrial Growth: January 2018

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For the month of January'18, the industrial output grew by 7.5% compared with 3.5% growth in January'17 and 7.1% in the previous month. This is the third successive month when production has gone up by above 6%. This indicates sustainability to an extent.

On the cumulative basis, during Apr'17-Jan'18, the growth in industrial output stands at 4.1% compared with 5.0% in the comparable period in FY17.

CARE Ratings had projected a growth of 5.4% for January'18.

The growth during the month has been supported by low base effect following disruptions in economic activities after demonetisation in Nov'16, normalisation of GST related disruptions and restocking activities of the industry. The buoyant industrial performance during the month has mainly been driven by manufacturing and electricity segment while the used based classification it was supported mainly by capital goods, consumer durables and consumer non-durables.

Key Highlights

- The manufacturing sector that has highest weight of 77.63%in the IIP, continued to record high growth at 8.7% in Jan'18, which is much higher than 2.5% growth recorded in Jan'17.
    - Out of the total 23 industry groups, 16 industries recorded positive growth during the month, with 8 industries recording double digit growth.
    - The highest growth has been registered by other transport vehicles which grew at 33.1%. Within the auto segments, the growth was further supported by manufacture of motor vehicles, trailers and semi-trailers that grew by 26.6% in Jan'18.
    - The second highest growth was registered by manufacture of furniture with the growth of 27.8%.
    - Pharmaceuticals continued its upward trend in this month as well and grew at a 22.3%, which is mainly because of restocking activities post-GST.

- Computer, electronic and optical products grew at high growth 22.1% during the month. The high growth in this segment is also accompanied by an increase n imports of electronic goods which has grown by 12% in Jan'18 yoy
- Other industries recorded double digit growth were food products (12.5%), beverages (12%), coke and refined petroleum products (11.5%), other non-metallic mineral products (15.5%).
- The sectors which capped the growth in the manufacturing sector last month continued to constrain the growth this month as well including tobacco products (-46.5%), apparels (-10.7%), paper and paper products (-3.3%), printing and reproduction of media (-13.2%), rubber and plastic products (-2.4%) electric equipment (-2%) and other manufacturing (-32.4%).

- The mining sector recorded lackluster growth of 0.1% compared with 8.6% growth in the comparable month in the previous month.
- Electricity sector output at 7.6% which was higher than 4.4% in Dec'17 and by 5.1% growth in Jan'18.

Table 1: IIP Growth

%	Weight	Sept'17	Oct'17	Nov'17	Dec'17	Jan'18	Apr'16-Jan'17	Apr'17-Jan'18
All industries	100	3.8	2.2	8.4	7.1	**7.5**	**5.0**	**4.1**
Mining	14.37	7.9	0.2	1.1	1.2	**0.1**	**4.8**	**2.5**
Manufacturing	77.63	3.4	2.5	10.2	8.4	**8.7**	**4.8**	**4.3**
Electricity	7.99	3.4	3.2	3.9	4.4	**7.6**	**6.3**	**5.3**

Source: MOSPI

Use Based Classification

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

Table 2: Use Based Classification

%	Weight	Sep'17	Oct'17	Nov'17	Dec'17	Jan'18	Apr'16-Jan'17	Apr'17-Jan'18
Primary Goods	34.05	6.6	2.5	3.2	3.7	5.8	5.3	3.7
Capital Goods	8.22	7.4	6.8	9.4	16.4	14.6	3.0	4.4
Intermediate Goods	17.22	1.9	0.2	5.5	6.2	4.9	3.4	2.0
Infrastructure /Construction Goods	12.34	0.5	5.2	13.5	6.7	6.8	4.9	4.4
Consumer Durables	12.84	-4.8	-6.9	2.5	0.9	8.0	4.1	-0.3
Consumer Non-Durables	15.33	10	7.7	23.1	16.5	10.5	7.7	10.4

Source: MOSPI

- Within the used based classification, the IIP growth has been supported by high growth in the industrial output in consumer durables, primary goods, capital goods and consumer non-durables.
- Capital goods grew at a substantial growth rate of 14.6% over the contraction of -0.6% in Jan'18. However, it was lower than 16.4% in the previous month. This segment was majorly driven by the vehicle segment and partly by non-electrical machinery.
- For the consecutive 3rd month, the consumer non-durables growth declined though it registered a double digit growth of 10.5% in Jan'18. In the corresponding month last year, this segment grew by 7.7%

- Demand for consumer durables picked up during the month, and it grew by 8% compared with -2.0% growth in the corresponding period and 0.9% in the previous month. The high growth can in part be ascribed to favorable base effect.
- Government spending has helped the primary goods and infra industries.
- Infra growth picked up though remaining at the same levels as recorded in the previous month at 6.8%. It was however higher compared with subdued 2.6% growth in Jan’17.
- Primary goods continued to pick up for consecutive third month and grew at 5.8% compared with 3.8% growth in Jan’17.
- Intermediate goods grew at 4.9% which was lower than the growth of 6.2% in the previous month but was higher than 3.3% growth registered in comparable period last year.

CARE Ratings’ View:

The pick-up in industrial activity is likely to continue. The growth momentum is likely to carried forward even in the months of February and March 2018 which will probably be driven by favorable performance of the capital goods, especially auto industry. Consumer durables are also likely to support the growth due to favorable base effect.

We expect industrial output growth to be in the range of 4.5-5% for the full year.

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