Industrial Growth: June 2018

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-6754 3489

Dr. Rucha Ranadive
Economist
rucha.ranadive@careratings.com
91-22-67543531

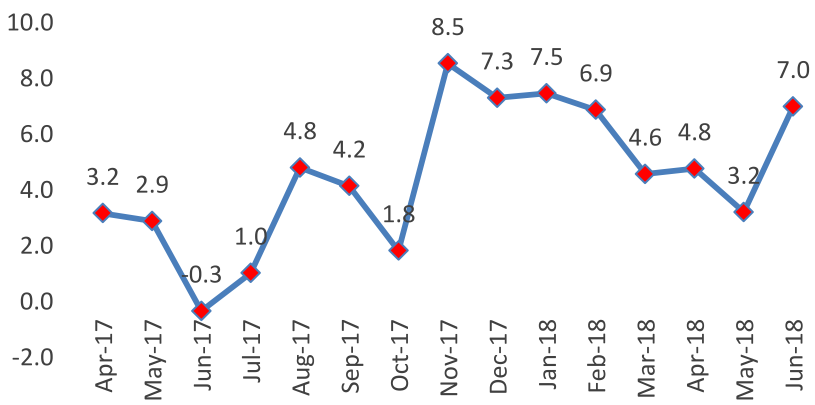
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-022-6754 3515

For the first quarter of fiscal year 2018-19, the industrial production has grown at 5.2% on the cumulative basis, higher compared with 1.9% growth in the comparable period in the previous fiscal year.

In June'18, the index of industrial production has grown substantially at 7% as against the contraction of -0.3% in June'17 and 3.2% growth in May'18. This is the highest growth since February'18.

CARE Ratings had estimated the growth of 5.6% for the month of June'18.

IIP Growth (%)



Source: MOSPI

There has been broad based growth across sectors on the cumulative basis. The higher growth can also be ascribed to the downturn in the industrial production in June'17 ahead of the implementation of the GST. The growth has been driven by manufacturing, mining and within the used based classification by primary goods, capital goods, infrastructure goods and consumer durables.

Key Highlights:

Monthly – June'18

- In June'18, the growth can be ascribed to increased growth across segments compared with the growth in the comparable month in the previous year.

- Mining sector grew by 6.6% in June'18 compared with 0.1% growth in June'17.
- Manufacturing sector activities have grown and sector registered substantial growth by 6.9% as against the contraction by -0.7% in June'17. The high growth can partially be ascribed to lower base effect.
- Within the used based classification, all segments registered positive growth contributing to the overall growth during the month. Except infrastructure goods all registered growth in the industrial output as against the contraction in June'17.
- Primary goods that has highest weight in general IIP grew by 9.3% compared with the contraction of -0.3% in June'17.
- Consumer durables registered highest growth in all segments at 13.1% (-3.5% in June'17) followed by capital goods at 9.6% (-6.1% in June'17) and infrastructure goods at 8.5% (1% in June'17).
- In June'18, intermediate goods grew by 2.4% compared with a contraction of -1.2% in June'17.
- The pace of growth has lowered in consumer non-durables which grew at 0.5% as against 4.8% growth in comparable month previous year.

Cumulative: Apr-June'18 (Q1 FY19)

- On the sectoral basis, all sectors registered growth very close to the overall IIP growth of 5.2%.
- Mining sector, index-heavyweight, grew at a higher rate of 5.4% as against 1.1% growth in Q1 FY18.
- The manufacturing sector grew at the same rate of 5.2% as with overall IIP growth, compared with 1.6% growth in Q1 FY18.
  - Within the manufacturing sector, 12 out of 23 industries recorded higher growth than average manufacturing sector growth of 5.2%
  - Computer, electronic and optical products (34.5%), motor vehicles, trailers and semi-trailers (21.8%), and other transport equipment (12.2%) registered highest growth than overall mfg. sector growth.
  - Basic metals which have highest weight in mfg. grew at a slower pace of 3.8% compared with overall mfg. growth.
  - The highest contraction was witnessed in other manufacturing (-35.2%), tobacco (-17.6%) and rubber & plastic products (-5.4%)
- Electricity sector registered growth of 4.9% on the cumulative basis, lower than 5.3% growth in comparable quarter in the previous year.

- Within the used based classification, the growth during this period was driven by primary goods, capital goods, infra goods and consumer durables. The base effect has worked in case of capital, infrastructure and consumer durable goods.
  - Primary goods, which have highest weight in IIP grew at 5.9%, higher than 2.2% growth in April-June'17.
  - Capital goods that have lowest weight in IIP grew by 9.5% compared with a contraction by -4.2% in the comparable months in the previous year.
  - Infrastructure/construction goods grew at 7.7%, higher than 1.1% growth in Q1 FY18.
  - Consumer durables grew at substantial 7.9% as against the contraction of -1.2% in corresponding quarter in the previous year. Intermediate goods grew at 1.6%.
  - The growth in consumer non-durables was muted at 1.8%, lower than 7.8% in Q1 FY18.

Table 1: Cumulative IIP Growth – Sectoral and Used-Based

%	Below IIP (5.2%) Weight	% growth		Above IIP (5.2%) Weight	% growth
Electricity	7.99	4.9	Mining	14.37	5.4
			Manufacturing	77.63	5.2
Used based Classification					
Intermediate Goods	17.22	1.6	Primary Goods	34.05	5.9
Consumer Non-Durables	15.33	1.8	Capital Goods	8.22	9.5
			Infrastructure /Construction Goods	12.34	7.7
			Consumer Durables	12.84	7.9

Source: MOSPI

Table 2: Mfg growth industry wise-Apr-May'18

Industry	Below Mfg growth Weight	%	Industry	Above Mfg. growth Weight	%
Basic metals	12.8	3.8	Beverages	1.0	7.4
Chemicals and chemical products	7.9	5.1	Coke and refined petroleum products	11.8	6.0
Leather and related products	0.5	-0.8	Computer, electronic and optical products	1.6	34.5
Paper and paper products	0.9	-1.6	Electrical equipment	3.0	6.8
Pharmaceuticals products	5.0	-0.6	Fabricated metal products	2.7	11.4
Rubber and plastics products	2.4	-5.4	Food products	5.3	11.9
Textiles	3.3	-0.4	Machinery and equipment n.e.c.	4.8	5.2
Tobacco products	0.8	-17.6	Motor vehicles, trailers and semi-trailers	4.9	21.8
Wearing apparel	1.3	-4.9	Other non-metallic mineral products	4.1	10.5
Other manufacturing	0.9	-35.2	Wood and products of wood	0.2	5.5
Printing and reproduction of recorded media	0.7	-4.5	Furniture	0.1	10.5
			Other transport equipment	1.8	12.2

Source: MOSPI

CARE Ratings' View:

It does appear that notwithstanding the low base effect growth has picked up which bodes well for the full year. **If these rates are sustained in the next 2-3 quarters, we can hope to get to the 5-6% mark for the year which will be a significant recovery.**

We can expect slack in consumption in July and august which should bounce back subsequently once the festival season begins from late August. The government needs to keep up with the spending as per budget to ensure there is no slippage. Segments such as computers, auto, machinery will continue to be the prime drivers this year.

CORPORATE OFFICE:
CARE RATINGS LIMITED (Formerly known as CREDIT ANALYSIS & RESEARCH LIMITED)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings