

Industrial Growth - November 2018

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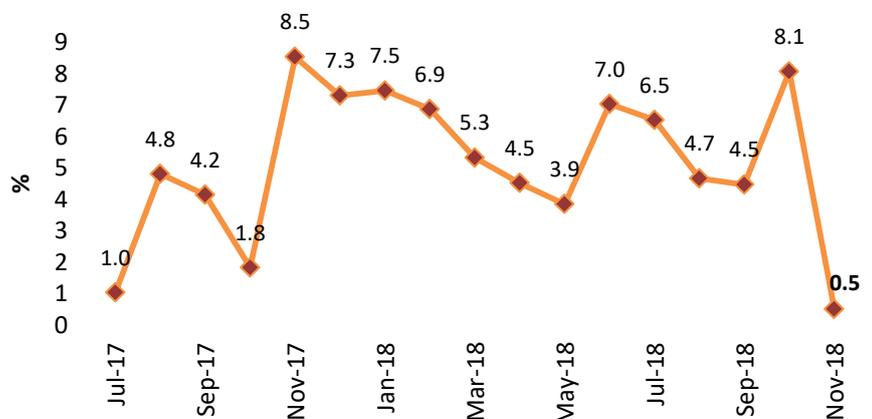
The growth industrial output for Nov'18 came it at a mere 0.5%, a 17 month low, which was a sharp reversal from the high growth rate of the previous month (8%).

The IIP growth for the month came in notably lower than expectations. CARE Ratings had estimated the IIP to grow by 2.7% for the month.

For the first 8 month of the current fiscal year (Apr-Nov), the growth in IIP at 5% is higher than the year ago growth of 3.2% and can be ascribed to higher growth during Jul-Oct'18.

The lackluster growth in industrial output in Nov'18 was mainly on account of the growth contraction in the manufacturing segment (-0.4% growth). The lower growth can also in part be attributed to the high base of a year ago (8.5% growth in Nov'17).

Chart 1: IIP Growth (%)



Source: MOSPI

Key Highlights:

- Mining and electricity registered positive growth during the month. Output growth of these segments was higher than that in the comparable month of last year. Electricity sector grew by 5.1% higher than 3.9% growth in the comparable month a year ago. Mining sector grew by 2.7% compared with the 1.4% growth in the comparable period of the previous year.
- Manufacturing Sector saw a contraction and came in at 17-month low of -0.4% as against 10.4% growth in Nov'17. The high base effect has been a factor for the growth decline in the segment.

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- Within manufacturing sector 13 out of the 23 industry groups recorded negative growth during the month, which dragged down the overall manufacturing performance during the month
- The highest contraction was registered in fabricated metal products (-13.4%) followed by electrical equipment (-9.6%).
- Within manufacturing, the industries that saw positive growth included apparels which registered a double digit growth of 22%, followed by wood and wood products (7.6%), other transport equipment (7.4%) and tobacco products (6.1%)
- The basic metal which has the highest weight in IIP manufacturing component, grew by 2.1%

Under Use-based classification –

- Primary goods grew by 3.2% compared with 3.3% in Nov'17
- Consumer durables contracted by -0.9% which is the lowest since Nov'17. The growth in the corresponding period in the previous year was 7.3%.
- Capital goods contracted by 3.1% for the first time since Apr'18. The growth in the comparable period previous year was 5.7%.
- The sharp contraction in growth rate of capital goods and intermediate good which cast a shadow on investment demand in the economy. The contraction in consumer goods output during the month, despite it being a period that sees high festive and year end demand, points towards the subdued demand situation of the domestic economy.
- The growth in the infrastructure sector has been encouraging. It grew by 5% during Nov'18 despite the high base of a year ago (14% growth in Nov'17). The higher output of the segment is indicative of the increased government focus and spending on creating and developing infrastructure viz. roads.

Cumulative – Apr-Nov'18

- Mining sector grew by 3.7% compared with the 3% growth in the comparable period a year ago.
- Manufacturing Sector grew by 5% higher than 3.1% growth during Apr-Nov'17
 - Within manufacturing sector, the higher growth for the first 8 months of the fiscal was by the favourable/positive growth in 18 out of the 23 industries. Of these, 7 industries recorded a double digit growth, such as furniture (25.5%), computer, electronic and optical products (18%), wood and wood products (14.7%).
 - The industries that have seen negative growth include tobacco products (-7.1%), printing and reproduction of recorded media (-5.2%) among others.
- Electricity sector has been higher this year at 6.6% from the 5.2% growth of last year (Apr-Nov'17).

Under Use-based classification –

- Consumer durables grew by 8.2% in the first 8 months of the current fiscal year, which is a five year high.
- Primary goods grew by 4.8% compared with the 3.5% growth in the corresponding period last year.
- Capital goods grew by 7.2% which was the highest growth in the past five years.
- Infrastructure sector growth rose to a 5 year high of 8.3% this year compared with the 3.9% growth of last year.
- Consumer Non-Durables grew by 3.9% lower than the 9.6% growth in the Apr-Nov'17.

Table 1: Cumulative IIP Growth – Sectoral and Used-Based (Apr-Nov'18)

%	< 5.0% growth		> 5.0% growth		
	Weight	% growth	Weight	% growth	
Sector Based Components					
Manufacturing	77.63	5.0	Mining	14.37	3.7
			Electricity	7.99	6.6
Use Based Components					
Primary Goods	34.05	3.2	Infrastructure /Construction Goods	12.34	5.0
Intermediate Goods	17.22	-4.5			
Consumer Non-Durables	15.33	-0.6			
Capital Goods	8.22	-3.4			
Consumer Durables	12.84	-0.9			

Source: MOSPI

Table 2: Cumulative Manufacturing Growth – Industry Wise (Apr-Nov'18)

Industry	Below Mfg Growth (5.0%)		Industry	Above Mfg Growth (5.0%)	
	Weight	%		Weight	%
Coke and refined petroleum products	11.8	4.5	Food products	5.3	11.3
Basic metals	12.8	3.5	Beverages	1	6.3
Chemicals and chemical products	7.9	2.8	Wearing apparel	1.3	8.4
Textiles	3.3	2.5	Wood and products of wood	0.2	14.7
Pharmaceuticals	5	2.5	Other non-metallic mineral products	4.1	10.1
Electrical equipment	3	2.1	Fabricated metal products	2.7	3.5
Leather and related products	0.5	1.7	Computer, electronic and optical products	1.6	18
Rubber and plastics products	2.4	-1.6	Machinery and equipment n.e.c.	4.8	6.4
Paper and paper products	0.9	-2.4	Motor vehicles, trailers and semi-trailers	4.9	13.7
Printing and reproduction of recorded media	0.7	-5.2	Other transport equipment	1.8	13.3
Tobacco products	0.8	-7.1	Furniture	0.1	25.5
Other manufacturing	0.9	-16.6			

Source: MOSPI

CARE Ratings' View:

Industrial output in the coming months is likely to be driven by the infrastructure segment. Industrial output is likely to be pressured by an unfavourable base. We expect the growth in industrial output for the current fiscal year as a whole to be in the range of 5-6%.