

BENCHMARKS **LIVE**Sensex 55,526.72 **145.55**

NSE LOSER-LARGE CAP

Apollo Hospital 3,646.85 **-192.15**

FEATURED FUNDS

Edelweiss Recently Liste...

★★★★★

3Y RETURN

22.88 %**INVEST NOW****MARKET WATCH** ▼

THE ECONOMIC TIMES | News

English Edition ▼ | Print Edition

Subscribe

Sign In

Get Benefits Worth Rs. 8700

Home ETPRime Markets **News** Industry RISE Politics Wealth Mutual Funds Tech Jobs Opinion NRI Panache ET NOW More ▼India Decoded Web Stories Morning Brief Podcast Newsblogs **Economy** ▼ Industry Politics Company ▼ Defence ▼ More ▼

Business News › News › Economy › Indicators › High input costs continue taking a toll on India's manufacturing sector

High input costs continue taking a toll on India's manufacturing sector

By Anand JC, ET Online

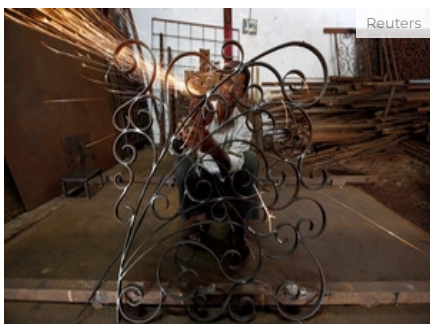
Last Updated: Jun 01, 2022, 06:37 PM IST

11

SHARE FONT SIZE SAVE PRINT COMMENT

Synopsis

Increasing inflationary pressures and supply chain bottlenecks remain a cause of concern for the manufacturing sector, which saw a contraction of 0.2% on an annual basis in May. Data shows that business sentiment was dampened by inflation concerns in May, with the overall level of confidence the second-lowest in just over two years.



Reuters

Increasing inflationary pressures and supply chain bottlenecks remain a cause of concern for the [manufacturing sector](#), which saw a contraction of 0.2% on an annual basis in Q4FY22.

GDP data showed that [India's](#) economy grew by a modest 4.1% in Q4FY22, down

from 5.4% in the previous quarter. Indian economy's pace of recovery slowed down owing to global supply bottlenecks caused by the Russia-Ukraine conflict and higher input costs.

While the overall industrial activity in the fourth quarter registered a growth, the [manufacturing](#) sector remained the sole laggard.

Ad TGM

Earn ₹112500/month from trading. All profits in bank account

VISIT SITE



Sponsored by

Most Popular Stories

1. An ECG machine in your pocket: How a couple is saving hearts with their Made in India device



2. Why are multibagger Adani Group stocks facing heavy selloff?



"The contraction in the manufacturing sector - that struggled with supply

bottlenecks and high input prices- in the last quarter of FY22 is a cause of concern,” Rajani Sinha, Chief Economist, CareEdge said. Sinha added that high input prices will continue to negatively impact manufacturing sector.

ET PRIME - TOP TRENDING STORIES



Check out which Nifty50 stocks analysts recommend for you to 'Buy' this week



Stocks with 10 on 10 score on Stock Reports Plus



Subscribe to **ETPrime**

ET Online

3. Ready for the world! From HUL to Tata, Indian execs & their kids strike a happy pose at Harvard graduation

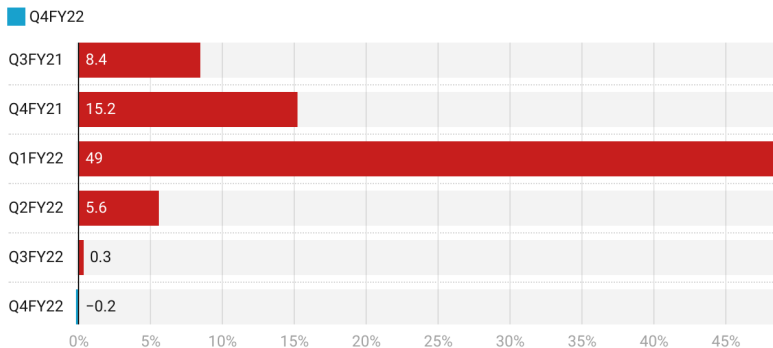


4. Job vacancies are at an all-time high in Canada. Here's how you can cash in



Rising cost pressures drag manufacturing sector growth

High commodity and input prices have been a pain point for the manufacturing sector (year-on-year growth in % terms)



Source: MOSPI

TOP TRENDING NEWS

Government E Marketplace Portal

Covid India Cases News Live

KK Death News

PM Kisan Status

Popular in Economy

1. Unfavourable environment for EMs like India: Rob Subbaraman, Nomura



2. The tailwinds that will propel the economy forward in these turbulent times



3. Govt collects Rs 1.41 lakh crore GST in May



4. India cuts base import price of palm oil; raises soyoil price



5. India asked to supply more than 1.5 million tonnes wheat



The S&P Global India Manufacturing PMI data on Wednesday pointed to a sustained recovery across the sector. However, input costs rose for the twenty-second successive month in May, with companies reporting higher prices for electronic components, energy, freight, foodstuff, metals, and textiles.

Data shows that business sentiment was dampened by [inflation](#) concerns in May, with the overall level of confidence the second-lowest in just over two years.

“While firms appear to be focusing on the now, the survey's gauge of business optimism shows a sense of unease among manufacturers. The overall level of sentiment was the second-lowest seen for two years, with panellists generally expecting growth prospects to be harmed by acute price pressures,” Pollyanna De Lima, Economics Associate Director at S&P Global Market Intelligence, said.

NEXT STORY

View: There is more to India's inflation problem than meets the eye



Read the **ET** Print Edition now!

Indulge in digital reading experience of ET newspaper exactly as it is.

[Read Now](#)

READ MORE NEWS ON

By Dipti Deshpande, ET CONTRIBUTORS Last Updated: Jun 02, 2022, 09:47 AM IST

Synopsis

Consumer price index (CPI) inflation is expected to touch 6.3% average this fiscal from 5.5% in the last. Given this, the Reserve Bank of India (RBI) is expected to raise the policy repo rate by another 75-100 basis points (bps), taking the cumulative rate hike for the year to 115-140 bps.



Representative image

11 COMMENTS ON THIS STORY

A [persistent](#) and broad-based increase in prices is the biggest headwind consumers are facing today. The other worry is a concomitant increase in interest rates.

Consumer price index (CPI) inflation is expected to touch 6.3% average this fiscal from 5.5% in the last. Given this,

the [Reserve Bank of India \(RBI\)](#) is expected to raise the policy [repo rate](#) by another 75-100 basis points (bps), taking the cumulative rate hike for the year to 115-140 bps. Industry is affected because of rise in costthey are always passing it to customer..... unfortunate that nobody is talking about the pain facing by consumer due rise in cost Which of these will hurt [growth](#) more?

[VIEW COMMENTS](#)

[ADD COMMENTS](#)

To be sure, both affect economic recovery. Higher prices push up the cost of living and, thereby, erode the purchasing power of consumers. Higher cost of borrowing strangles demand in interest rate-sensitive segments.

ET Prime stories of the day



#BhaDiPa

OTT

Kande Pohe, Aai Ani Me:

necessities could impact demand immediately.

crosses regional borders.

Can it become

Second at 6.3%, average inflation in fiscal 2023 will be 240 bps higher than the

pre-pandemic three-year average rate, whereas the repo rate of ~5.4% at end-

fiscal 2023, will still be 50 bps lower than the pre-pandemic three-year average

of 5.9%, implying the real policy rate will still be in the negative zone.



CLIMATE CHANGE

Three ways technological

climate goals



RECENT HIT

Inside the tardy roll-out of

solar-pump scheme: debt-

ridden farmers, wary

suppliers, sluggish states

Most Popular Opinion

1. Energy geopolitics: Invest in quagmires?

By Sanjeev Choudhary

2. Coming monsoon to a theatre near you

SHARE FONT SIZE SAVE PRINT COMI

Why Indians are unhappy about UK's new visa

Most Popular Stories

1. Why are multibagger Adani

Group stocks facing heavy

Top Category Deals

UPTO 40% OFF

2. Ready for the world! From

HUL to Tata, Indian execs &

their kids strike a happy pose

at Harvard graduation

Starting ₹22499

3. Job vacancies are at an all-

time high in Canada. Here's

how you can cash in

[Explore 20+ Categori](#)

4. Air India announces

new recruitment for

cabin crew, relaxes age

criteria to 40 years from 35

landslide win, AAP faces anger in Punjab

TOP TRENDING NEWS

Johnny Depp

Sensex Today

Facebook Executive

NEET PG 2022 Result

To be sure, consumers don't have much choice to curtail spending since price rise is seen mostly in unavoidable necessities. Over the past three months (February to April 2022), food inflation rose 7.3% on average, while the cost of cooking food (cooking gas) shot up 15%. Prices of clothing have also been rising, as manufacturers raise retail prices to cushion the impact of higher input costs.

Moreover, necessities now go beyond roti, kapda and makaan to also include spending on [healthcare](#), transportation and education. All these take up two-thirds of consumer spending, and inflation in this category jumped to 8% in April from 5.5% in December.

Within the healthcare, transportation and education category, inflation rates in some items are quite telling. For instance, the cost of running one's vehicle has surged — fuel inflation is in double digits. For those utilising public transport, inflation is 6-7%. Worryingly, healthcare bills and medical expenses have increased 7% as demand surpasses supply. This has constrained the consumer's ability to spend on other discretionary items.

Meanwhile, manufacturers are facing a double whammy. In India, in the absence of a producer price index, the wholesale price index (WPI) is often used as a proxy. WPI inflation has been in double digits for 13 months now, suggesting producers are facing a stiff rise in input costs for that long, necessitating a pass-through to retail prices. Consequently, companies in the cement, consumer staples, consumer durables, automobiles and other sectors are raising prices, while some are reducing the volumes sold at earlier prices to protect margins.

But the extent of input cost increase far outweighs retail price increase as weak discretionary demand from consumers constrains the pricing power of manufacturers. The wide wedge between WPI and CPI inflation reflects this pass-through, which is so far insufficient and expected to continue for a while.

Another dimension of the inflation problem is that ~50% (as of fiscal 2022) of the consumer's spending is on services, whereas inflation rate at ~5% has stayed lower than goods' inflation rate at close to 8%. Here, too, input cost pressures on account of transportation and raw materials have been pinching producer margins. With demand staying weak throughout the pandemic, the ability to pass on these costs to retail prices stayed low.

But this is set to change.

The pandemic had spurred a clear shift in demand from services to goods, led mainly by social distancing requirements. However, with a decline in the fear factor, buoyed by higher vaccination rates and lower incidence of the virus, pent-up demand is moving away from goods to services again. Part of the shift may be reflective of normalisation of spending.

Popular in Economy

1. Unfavourable environment for EMs like India: Rob Subbaraman, Nomura
2. The tailwinds that will propel the economy forward in these turbulent times
3. Govt collects Rs 1.41 lakh crore GST in May
4. India cuts base import price of palm oil; raises soyoil price
5. India asked to supply more than 1.5 million tonnes wheat

ET


ET

ET

ET

ET

Most Popular Opinion

1. Energy geopolitics: Invest in quagmires?
 By Sanjeev Choudhary
2. Coming monsoon to a theatre near you
3. Need to know whys and hows of death

Top Category Deals



Starting ₹22499
Air Conditioners



Starting ₹6790
Refrigerators

[Explore 20+ Categories >](#)

Among services, the sharpest rise (so far in 2022) has been in hotel tariffs, cinema hall tickets, mobile and internet expenses, transportation fares and healthcare expenses, where inflation has been in the 7-13% range. But as demand for other services returns, so will pricing power in the hands of service providers, lending upside to services sector inflation.

In this milieu, the RBI again faces a tricky balancing act on the rate hike front. Rates need to be raised enough to control inflation and ensure that India's interest rate differential with other economies does not widen much. At the same time, demand is still weak, interest rates have already risen, and domestic financial conditions have begun approaching the 'tighter' zone. Rate hikes will thus have to be carefully handled so as to not disrupt the growth momentum.

In the short term, fiscal policy can coordinate with monetary policy to somewhat soften the inflation blow through duty rate cuts, extension of subsidies, and imposition of restrictions on exports (mainly for food). However, there is little room to do so, given a tight fiscal situation and the fact that most of the inflationary pressures are on account of external supply-side shocks.

(The writer is Principal Economist, [CRISIL](#))

(Disclaimer: The opinions expressed in this column are that of the writer. The facts and opinions expressed here do not reflect the views of www.economictimes.com.)

Latest News

1. Sidhu Moose Wala murder: 3 months after landslide win, AAP faces anger in Punjab
2. Delhi live: Arvind Kejriwal says Sisodia will be arrested next
3. Explained: Safe and not-safe uses of Aadhaar you must know



Read the **ET** Print Edition now!

Indulge in digital reading experience of ET newspaper exactly as it is.

[Read Now](#)

READ MORE NEWS ON

India Inflation Rbi Healthcare Reserve Bank Of India Rising Costs Repo Rate
Growth Raw Material Cost Persistent Crisil

(Catch all the **Business News**, **Breaking News** Events and **Latest News** Up ...*more*)

ETPrime stories of the day



OTT

Kande Pohe, Aai Ani Me: BhaDiPa's Marathi humor crosses regional borders. Can it become mainstream?

11 mins read



CLIMATE CHANGE

Three ways technological innovation can help meet climate goals

5 mins read



RECENT HIT

Inside the tardy roll-out of solar-pump scheme: debt-ridden farmers, wary suppliers, sluggish states

8 mins read