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Manufacturing GVA rises in Q2; still a long way to go for turnaround

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Gross value added (GVA) in manufacturing grew by a marginal 0.6 per cent in the second quarter of financial year 2020-21 (Q2FY21), after declining for four consecutive quarters. However, experts said this did not indicate that there was a turnaround in manufacturing, as it continued to contract in volume terms.

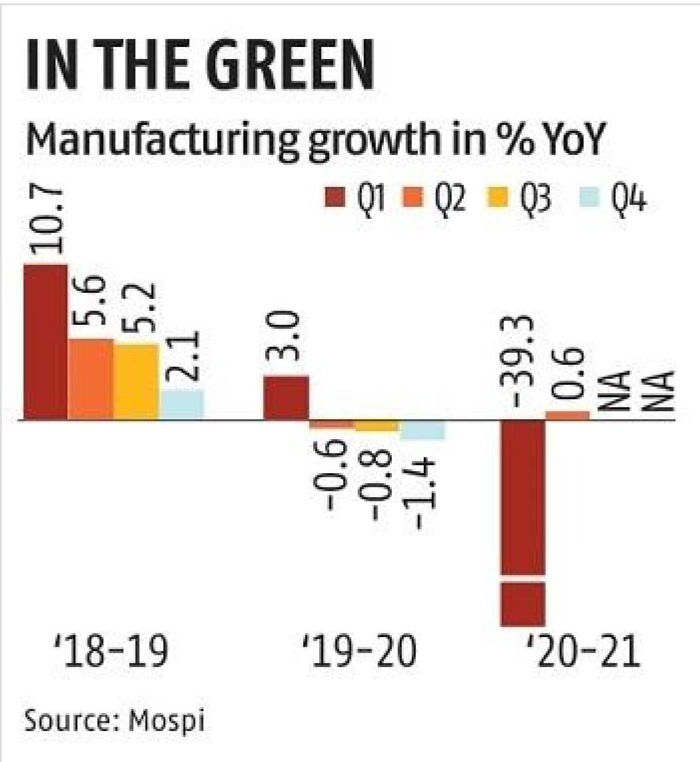
In volume terms, manufacturing contracted 6.66 per cent in Q2, way lesser than the steep fall of 40.49 per cent during the lockdown-affected Q1. “There was a minor bump in the manufacturing GVA because of the base effect,” said Devendra Pant, chief economist at India Ratings.

He said one reason for this was that manufacturing GVA started to decline from Q2 of FY20. Even after a rise in Q2 of FY21, the value of manufacturing at Rs 5.79 trillion (at constant prices) was more or less similar to the corresponding quarters of FY19 and FY18, when it was Rs 5.79 trillion and Rs 5.76 trillion, respectively, Pant explained. He said it was too early to say there was a turnaround, he suggested.

Madan Sabnavis, chief economist at CARE Ratings, said the moderate growth in manufacturing GVA showed that the profits of corporate India in Q2 was achieved by cutting costs because sales declined.

He said manufacturing continued to be negative in volume terms as was shown by the index of industrial production (IIP). Unless that turns positive, one cannot call it a turnaround, Sabnavis said.

He estimated that manufacturing would enter a growth trajectory in volume terms from December. But, that growth would not be much and, hence, would not qualify as a turnaround, he said.



In fact, manufacturing in volume terms has contracted in all six months of the current fiscal. However, the rate of fall has been moderating. From a 66.64 per cent decline in April, which was the first full month of lockdown, the fall stood at just 0.55 per cent in September. In fact, the contraction was in single digits in August as well at 7.86 per cent. The first month of the second quarter, July, saw a decline of 11.59 per cent, lower than 16.98 per cent in June and 37.85 per cent in May.

For a real turnaround in manufacturing, the production-linked incentive (PLI) schemes announced by the government have to bear fruit, experts said.

The Cabinet recently approved a Rs 1.45-trillion package by extending the PLI scheme to 10 more sectors. The policy for what the government calls the champion sectors has been tailored to attract investments, boost domestic manufacturing, enable companies to become part of the global supply chain and generate employment opportunities.

The latest approval was in addition to the already announced Rs 51,311 crore PLI scheme for three sectors. With this, the total incentives under the PLI schemes adds up to Rs 2 trillion.

It is on manufacturing that the government has pinned its hopes for labour intensive economic growth, which it says would be different from the jobless growth of the past.