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Industrial Growth April-May 2010

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There was a slowdown in growth in industrial production in the month of May to 11.5% (2.1% in May 2009) as against 16.5% in April. For the two month period, the cumulative average growth rate was 14% as against 1.6% last year.

While the growth rate is lower than that in April, it still is high in the double digit range, though admittedly, the base year effect does tend to get reflected in higher growth numbers.

Some of the salient features of the performance are as follows:

- The manufacturing sector dominated the performance with growth of 12.3% in May and 15.1% for the period April-May. For the two month period, the mining and electricity sectors witnessed growth of 10.2% and 6.6% respectively.
- Fifteen of the seventeen industries under the sub-sector 'manufacturing' showed a positive growth rate in May relative to last year.
 - The highest growth rates were witnessed in metal products (39.8%) followed by jute products (26.9%), transport equipment (25.2%) and machinery (24.8%).
 - Double digit growth rates were witnessed in case of rubber, plastic products and leather and leather products groups.
- For the cumulative period of April-May, high growth rates in production were in metal products, machinery and transport equipment.
- The use-based classification reveals strong performance from the capital goods sector of 50.9% in April-May 2010 as against a fall of 4.7% last year. Intermediate goods too witnessed growth of 10.4% (7.3%) during this period. Consumer durable goods registered a smart increase of 28.1% on top of 15.3% last year, while non-durable goods turned in with positive growth of 3.5% (-8%). Basic goods had increased by 8.5% (4.1%).

Sector-wise growth rates: April-May (%)

	2009	2010
All industries	1.6	14
Mining & quarrying	3.4	10.2
Manufacturing	1.1	15.1
Food products	-23.4	14.9
Beverages, tobacco products	-7.5	-2.5
Cotton textiles	-1.6	4.9
Wool, silk & man--made fibre textiles	4.5	0.6
Jute & jute textiles	-8.7	12.3
Textile products	8.0	-2.2
Wood and wood products	19.8	-10.4
Paper & paper products	-0.9	8.6
Leather & leather products	-11.0	9.0
Chemicals & chemical products	0.6	8.2
Rubber, plastic, petro products	12.2	17.4
Non-metallic mineral products	7.8	4.1
Basic metal and alloy industries	5.1	10.1
Metal products	-3.4	35.8
Machinery and equipments	4.0	38.9
Transport equipment	4.3	29.1
Other manufacturing industries	5.5	29.9
Electricity	5.0	6.6
Use based classification		
Basic goods	4.1	8.5
Capital goods	-4.7	50.9
Intermediate goods	7.2	10.4
Consumer goods	-2.9	10
Durable	15.3	28.1
Non-durable	-8.1	3.5

Source: CSO

Sectoral performance for April-May 2010 over April-May 2009

- The impact of the low base year effect is quite palpable judging by the table above.
 - 6 of the 27 industries turned around after negative growth in 2009. Food, jute and metal products bounced back with double digit growth rates while the cotton textiles, paper and leather products groups had less than 10% growth rates in 2010.
 - 3 of the 17 industries continue to be in the negative zone this year: tobacco & beverages, textile products and wood products.
 - 6 groups continued with positive growth rates, albeit on a low base growth rate while rubber & plastic products grew by 17.4% on top of growth of 12.2% last year.
 - Non-metallic mineral products and woolen & silk products witnessed lower but positive growth rates in the current year.

Growth in the IIP variables hence are similar in scope to what was witnessed on the trade front where exports and imports grew smartly over negative growth rates in 2009. Exports expanded by 35.7% (-34.5% last year) and imports by 40.9% (-34%) during this period

Industrial growth going ahead

A double digit growth rate in monthly IIP numbers has been witnessed since August 2009, with September being the only exception when growth was 9.3%. The index for the manufacturing sector, which has been driver of industrial growth, had shown a sharp increase last year in June over May by 5% points and then remained virtually unchanged in July and August. This could statistically put pressure on the growth rates in the next three months of the current year.

However, the strong growth seen in the consumer goods and capital goods segment bodes well for Indian industry, which can counter the base-year influence. The automobile segment, comprising commercial vehicles, passenger cars and two wheelers have shown high growth rates in the month of June of over 30% which will drive the IIP number forward through its backward linkages on basic and intermediate goods.

Policy implications

The focus of RBI would continue to be inflation which is in the double digit range presently despite a slight decline in food inflation indices. The lower IIP growth number **cannot** be interpreted as being indicative of a slowdown in demand as yet, as both consumer and capital goods appear to be showing strong positive proclivities which indicate, along with the credit growth numbers (+2% growth for period April to June 18 as against -0.8% last year), that investment is buoyant. In these circumstances, it may be expected that the RBI will maintain inflation targeting as its chief goal, and a further increase in interest rates of 25 bps may be expected when the policy is announced on 27th July.

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