

IIP growth gives some cheer amid slowdown

Rate cut likely as inflation in comfort zone despite spurt in factory output



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India's factory output rose in July amid mounting economic gloom, but the unexpected gain may not indicate a sustained recovery is in sight, likely prompting the central bank to press ahead with its fifth straight rate cut next month as August inflation remained within its comfort level.

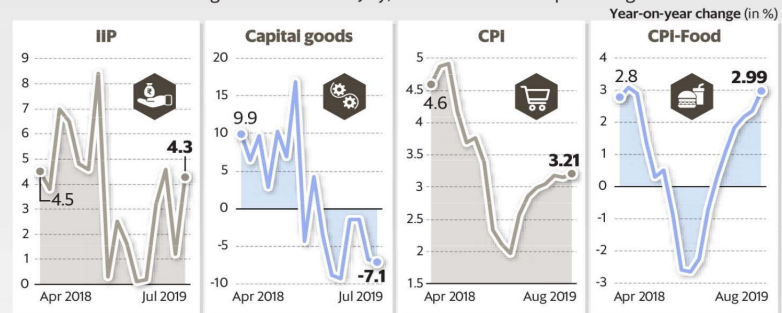
Data released by the statistics ministry on Thursday showed the index of industrial production (IIP) grew 4.3% in July from a downward-revised 1.2% a month ago, while retail inflation quickened to 3.21% in August from 3.15% in the previous month.

India's economy reported its weakest growth in more than six years at 5% in the June quarter, prompting the government to announce several measures to spur economic activity. Finance minister Nirmala Sitharaman has promised more measures for the real estate and automobile sectors to boost economic growth.

The Reserve Bank of India (RBI) has projected India's GDP growth for the current

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IIP grew 4.3% in July from 1.2% a month ago, despite a 7.1% contraction in capital goods. Retail inflation rose 3.21% in August from 3.15% in July, with food inflation quickening to 2.99%.



Source: Ministry of statistics and programme implementation

SARVESH KUMAR SHARMA/MINT

fiscal at 6.9%—in the range of 5.8-6.6% for the first half of 2019-20 and 7.3-7.5% for the second half. This may be further revised downward during its October policy review, given the lower-than-expected June quarter GDP growth.

It's too early to conclude that a recovery is underway, said Devendra Kumar Pant, chief economist

at India Ratings. "One has to wait for some more time and the completion of the forthcoming festive season to judge whether the industrial recovery is there for real. In the past, we had seen the pattern of some industrial revival and then collapse in industrial

recovery," he added. During July, manufacturing made a strong comeback,

growing 4.2%, while electricity surprisingly decelerated, growing only 4.8%. Mining output grew at a robust pace of 4.9% during the month.

The pickup in growth seems to have come on the back of intermediate goods, which grew 13.9% even as capital goods contracted 7.1%. Consumer durables also shrank 2.7% due to the slump in automobile sales, which have declined for the 10th straight month. However, consumer

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non-durables grew at a healthy pace of 8.3% on the back of robust growth in manufactured food products at 23.4%.

With private final consumption expenditure growth declining to 3.1% in the June quarter—the slowest in 18 quarters—the pressure will be on RBI to cut policy rates to support growth.

“We expect RBI to cut policy repo rate in its October 2019 monetary policy review,” Pant said. “However, its impact on growth is contingent on faster transmission and consumer



Food inflation quickened due to rising prices of meat and fish, vegetables and pulses.

response to rate cut. In a situation of declining income growth and fall in household savings rate, the policy rate cut is likely to achieve limited

objective.”

In August, retail inflation remained below RBI's medium-term target of 4% for the 13th consecutive month, while

food inflation quickened to 2.99% from 2.36% a month ago on the back of rising prices of meat and fish, vegetables and pulses.

Rural inflation (2.18%) stood at a much lower level than urban inflation (4.49%), indicating depressed demand conditions

in the rural economy.

Though the late surge in monsoon rain has narrowed the gap in kharif sowing to a mild 0.6% as on 6 September,

flooding in certain areas has led to a continued rise in the prices of vegetables such as onions. “This, in conjunction with an unfavourable base effect, is likely to contribute to a hardening

of food inflation in the ongoing month,” said Aditi Nayar, principal economist at Icria Ltd.

Rural inflation (2.18%) was lower than urban inflation (4.49%) pointing to depressed rural demand