

THE ECONOMIC TIMES

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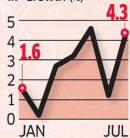
Fri, 13 Sep-19; Economic Times - Delhi; Size : 119 sq.cm.;
Circulation:84027; Page : 1

Factory Output Grows 4.3% in July

July Spring

Industrial growth recovers, but uncertainties remain

IIP Growth (%)



WHAT IT MEANS

Recovery uncertain

RBI may cut rates

Will it sustain?

High-speed indicators down in Aug

Auto sales crash; coal output down

Oil consumption growth slows in August

Pick-up in intermediate & primary goods gives hope

Govt expected to announce more

stimulus measures

CPI at 3.21% in Aug; experts say these numbers may not reflect revival, need to wait till festive season ends

Our Bureau

New Delhi: Industrial growth picked up pace in July, providing some relief to a government battling to revive the slowing economy and deteriorating consumer sentiment, but experts cautioned that the uptick may not last.

Industrial production, as measured by the index of industrial production (IIP), rose 4.3% in July, much impro-

ved from that for June, which has been revised down to 1.2% from 2% estimated earlier; data released by the statistics office on Friday showed. It was 6.5% in July last year.

Manufacturing, with highest weight of 77.6% in IIP, reported 4.2% growth

Cumulative April-July growth was 3.3%, well below 5.4% for the same period in the last fiscal.

Separately released data showed consumer inflation rising marginally to 3.21% in

August from 3.15% in July, but remained well below the Reserve Bank of India (RBI) target rate of 4%.

Experts cautioned against reading too much into one month's numbers.

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‘Recovery Trend may be Short-lived’

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“Given the disappointing trends revealed by the high-frequency data available for August 2019, we should not conclude that a recovery is underway based on the pickup in industrial growth in July 2019,” said Aditi Nayar, principal economist, ICRA, adding that the trend is likely to be short-lived.

Passenger car sales declined 41% in August.

“It will be too early to term this as recovery and one has to wait for some more time and completion of forthcoming festive season to judge whether the industrial recovery is there for real,” said DK Pant, chief economist, India Ratings. Economic growth plunged to a 25-quarter low of 5% in the June quarter.

The government has responded with several measures such as capital in-

fusion in banks and relaxation in foreign direct investment limits for select sectors. It has promised steps to revive the housing and automobile sectors soon.

With inflation in a comfortable range, the RBI is likely to add to rate cuts of 110 basis points already announced this year when it reviews monetary policy in early October. A basis point is 0.01 percentage point.

The central bank has already mandated banks shift to an external benchmark such as repo rate or yields on government securities to ensure its rate cuts are passed to consumers.

BROAD-BASED RECOVERY

All the three key constituents of IIP — manufacturing, mining, electricity — reported better numbers in July. Manufacturing, which has the high-

est weight of 77.6% in the IIP, reported 4.2% growth in July against an almost flat June. Mining output rose 4.9% in July while electricity generation was up 4.8%.

In terms of sectors, food products, apparel and basic metals reported double-digit growth. In all, 13 out of 23 industry groups reported positive growth.

Production of consumer non-durables, a barometer for the rural economy, rose 8.3% in July but that of consumer durables, demand for which is more urban centric, fell 2.7%. Production of capital goods, an indicator of investment activity, fell 7.1%.

“IIP growth has surprised for the month of July. An increase in intermediate goods production signals that there could be some pickup going ahead,” said Sakshi Gupta, senior economist at HDFC Bank.