

## Industrial output in September shrinks to lowest in seven years

**IIP DATA** Factory output declines for the second straight month, 17 of 23 groups in sector contract

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**NEW DELHI:** India's factory output shrank for the second straight month at 4.3% in September, recording its worst show since the present series was launched in April 2012.

All components of industrial output—mining, manufacturing and electricity—fell during the month, pointing towards a deepening economic downturn.

The persistent slowdown in industrial growth may force the central bank to go for another round of interest rate cuts in December.

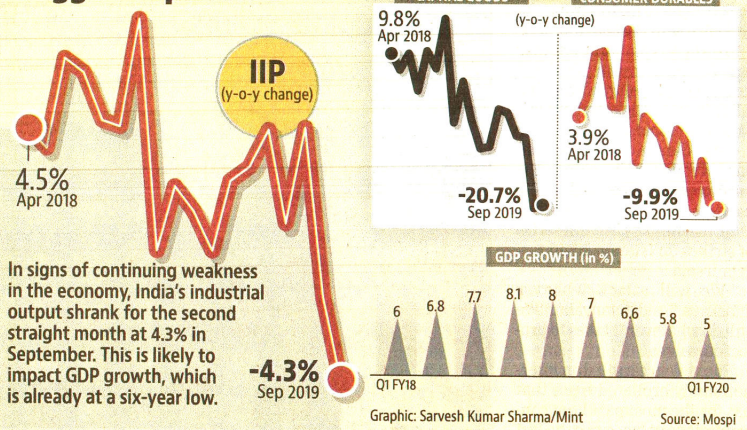
Data released by the statistics department on Monday showed capital goods that indicate investment demand in the economy shrinking 20.7% in its ninth straight month of contraction, while both consumer durables and consumer non-durables also contracted, signalling a continuing slump in consumption demand.

The sequential worsening in the performance of consumer durables and non-durables in September belies any hopes of a pre-festive restocking of inventories, said Aditi Nayar, principal economist at CARE Ratings.

"The late withdrawal of the monsoon is likely to have dampened construction activity in various states, contributing to the contraction in the output of infrastructure/construction goods in September."

In terms of industries, 17 out of the 23 groups in the manufacturing sector contracted during the month.

### Sluggish September



In signs of continuing weakness in the economy, India's industrial output shrank for the second straight month at 4.3% in September. This is likely to impact GDP growth, which is already at a six-year low.

The top negative contributors were mining, bars and rods of alloys and stainless steel, auto parts, commercial vehicles and two-wheelers, while the highest positive contributors were mild steel slabs, fragrance and oil essentials, hot-rolled coils, electric heaters and medicinal formulations.

The outlook for industrial output in October is also not encouraging, with a worsening in the pace of contraction of electricity generation, marginal increase in auto sales and only a mild improvement in the pace of decline in the output of Coal India Ltd.

The ailing auto sector showed signs of improvement during festive sales, with domestic passenger vehicles sales rising 0.3%

in October, but that may not be enough to pull the sector out of a demand slump.

India's power demand fell 13.2% in October from a year ago, posting its steepest monthly decline in over 12 years, government data showed.

"The sharp contraction in electricity generation in October 2019 is likely to have been led by multiple factors, including weaker demand from industry following curtailed production schedules in some sectors, as well as lower domestic demand and farm offtake related to higher than normal rainfall," said Nayar.

Indian businesses have been battling a demand slowdown and liquidity crunch, which

resulted in gross domestic product (GDP) growth cooling to a six-year low of 5% in the June quarter, while private consumption expenditure was at an 18-quarter low of 3.1%.

The Narendra Modi administration has taken a series of steps to reverse the growth slowdown, including a cut in the corporate tax rate in September to 22% from 30% earlier for companies not availing of any tax breaks, and to 15% from 25% for new manufacturers.

The Union cabinet cleared a proposal last week to set up a ₹25,000 crore debt fund to complete stalled housing projects, a move expected to boost cement and steel sectors in the months ahead.