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DOUBLE BLOW TO ECONOMY...

Factory Output Shrinks, Retail Inflation Surges to Near 6-Yr High

Green Shoots Delayed

(In %)	CPI	IIP
Aug	3.28	-1.4
Sep	3.99	-4.6
Oct	4.62	-3.9
Nov	5.54	1.8
Dec	7.35	-0.3
Jan	7.59	

INDUSTRY WOBBLY Growth (%)

Manufacturing	-1.2
Electricity	-0.1
Capital goods	-18.2
Consumer durables	-6.7
Consumer non-durables	-3.7

PRICE JUMPS (%)

Veggies	50.19
Pulses	16.71
Food and beverages	11.79
Meat and fish	10.50
Egg	10.41

ROAD AHEAD Maintaining 4% headline inflation challenging | FY20 IIP forecast at 2% on weak demand, investment

IIP contraction could further dent FY20 growth estimates; no rate cuts in sight

Our Bureau

New Delhi: Factory output shrank in December after a mild pickup in November while retail inflation accelerated to a 68-month high in January in twin blows to the struggling economy.

Data released by the statistics office showed industrial output contracted 0.3% in December compared with a 1.8% rise in November. April-November industrial growth was 0.5% against 4.7% in the year-earlier period.

The simultaneously released Consumer Price Index (CPI) showed retail inflation raced to 7.59% in January from 7.35% in December, strengthening the likelihood of a prolonged pause in interest rates by the Reserve Bank of India (RBI) despite muted growth.

'RECOVER ₹46,000-CR GST DUES'
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On Tuesday, finance minister Nirmala Sitharaman had said the economy was on the mend, relying on seven indicators, including the index of industrial production (IIP), to show that green shoots have started to emerge in the economy.

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Independent economists expect a further dip in industrial production as global trade gets hit due to the coronavirus outbreak. "We expect third-quarter growth to be muted and there could be supply side disruptions for some commodities we import from China due to the coronavirus," said Upasna Bhardwaj, economist at Kotak Mahindra Bank.

Manufacturing output contracted 1.2% compared with 2.9% growth in the same month a year ago while electricity generation shrank for a fifth month in a row, declining 0.1% in December as against 4.5% growth in the year ago.

MINING OUTPUT GREW 5.4%.

"The monthly swing in factory output growth between positive and negative territory over the past few months clearly suggests that industrial production is still weak and is showing no signs of stabilising," said Sunil Kumar Sinha, principal economist, India Ratings and Research.

The contraction could further dent growth estimates for the year.

The statistics office has lowered the FY19 GDP growth rate to 6.1% from the provisional estimate of 6.8% and has forecast 5% growth in FY20, its slowest pace in 11 years. The Economic Survey 2020 sees a recovery to 6-6.5% in FY21.

At the use-based level, the steepest contraction was in the capital goods sector at 18.2% followed by 6.7% in consumer durables and 3.7% in consumer non-durables.

The only silver lining came from intermediate goods which has been showing a positive growth momentum and expanded in double digits — 12.5% — for the third consecutive month. "At two-digit classification, 16 out of the 23 industry groups in the manufacturing sector showed negative growth during the month of December 2019," the National Statistics Office said in a statement.

INFLATION CORE CONCERN

At 7.59%, January retail inflation was well above the Reserve Bank of India's (RBI) medium-term target for the fourth straight month. The target is 4% with a margin of two percentage points on either side.

The previous high for retail inflation was 8.3% in May 2014.

In its monetary policy review last week, the RBI had maintained status quo on rates, as it revised the consumer inflation target upward to 6.5% for the January-March quarter.

The next policy review is due in April.

Food inflation declined to 13.63% from 14.19% in December as that for vegetables slightly cooled to 50.2%, as against 60.5% in December 2019. Among protein-rich items, meat and fish inflation was 10.50% during the month, while that for eggs was 10.41%.

"Regardless of the level of the CPI inflation, the stance of monetary policy is likely to be retained as accommodative, for as long as the monetary policy committee considers the output gap to be negative, in our view," said Aditi Nayar, principal economist at ICRA.

The timing and magnitude of the next rate cut will depend on how quickly inflation appears to revert towards 4%, she added.

Driven by various services, core inflation, which excludes food and fuel, was 4.1% and is a cause for concern, economists said. Average inflation in the April-January period stood at 4.5%, which was highest in the past three years. It was higher than 3.6% inflation registered during the same months in FY19.