Deepening economic slowdown calls for further intervention by the government

Economy Report

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IIP contracts to series low of -4.3% in September 2019

➤ All three components of IIP reported contraction in output in September
➤ 17 out of the 23 industry groups in the manufacturing sector reported negative growth

As per the quick estimates of Index of Industrial Production (IIP) for September 2019, released by the Ministry of Statistics and Programme Implementation (MoSPI), the Index of Industrial Production (IIP) contracted by -4.3% in September 2019, compared to 4.8% growth registered a year ago (Table 1). This is the lowest production performance of IIP in the 2011-12 series. The current level of fall in growth was witnessed 8 years ago in October 2011 (-5%).

The manufacturing sector index showed some increase in July, but thereafter has been on the decline and reported the worst decline ever in the current series of IIP. Within the manufacturing sector, 17 out of 23 industries in two-digit classification have shown decline in production (Chart 1). Manufacturing index in IIP represents nearly 77.6% of total industrial production. Prolonged decline in Manufacture of motor vehicles, trailers and semi-trailers component of manufacturing index worsened further with 25% fall in production growth. On the back of slowdown in automobile sector, most of the manufacturing items continued to cut down the productions like auto parts which is adversely impacting services like logistics as well.

Chart 1: Top 5 negative contributors to Manufacturing growth

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacture of furniture</td>
<td>-23.6</td>
</tr>
<tr>
<td>Manufacture of motor vehicles, trailers and semi-trailers</td>
<td>-24.8</td>
</tr>
<tr>
<td>Manufacture of machinery and equipment n.e.c.</td>
<td>-18.1</td>
</tr>
<tr>
<td>Manufacture of fabricated metal products, except machinery and equipment</td>
<td>-22.0</td>
</tr>
<tr>
<td>Manufacture of rubber and plastics products</td>
<td>-12.6</td>
</tr>
</tbody>
</table>

Source: MoSPI, BWR Research
In line with Manufacturing sector (-3.9%), Electricity and Mining indices too reported negative growth of -2.6% and -8.5%, respectively in September 2019 (see Chart 2 and Table below).

Weaker demand conditions coupled with prolonged monsoon resulted this sharp contraction. This warrants immediate intervention by the government. The deepening slowdown is also reflected in the contraction in eight core industries output growth at -5.2% in September, its lowest level in the last 14 years (lowest growth in both 2004-05 series and 2011-12 series).

Note: IIP data for September 2019 are quick estimates. Source: MoSPI, BWR Research

In terms of use-based classification, all the items except Intermediate Goods continued to register negative growth reflecting the demand slowdown in the economy. Signalling the continued slump in consumption and negating any revival due to festival related demand, both Capital Goods and Consumer Durables reported huge fall in production (See Table 2).
Opportune time for the government to increase public spending to revive growth

The contraction in the IIP is the lowest in the current series and is almost 8-years low. The half yearly growth in IIP (April to September) is much lower at 1.3% in the current year compared to 5.3% growth reported in the corresponding period last year. This is of serious concern to the already worrisome economic conditions. There has been a broad-based decline in the industrial output across sectors, moreover the item groups under use-based classification also reported erratic growth trends in the current fiscal compared to previous year’s growth trends. All these portray severe slowdown in the economy and call for further intervention by the government. Specifically, the time is opportune to increase public spending financed by actively pursued strategic disinvestment.

The recent measures taken by the government to revive growth are expected to help reverse the current trend in the medium term. For faster results, there is a need to boost demand. October IIP may grow at moderate levels, while at the same time the key aspect will be to assess whether the festival demand has been higher than the previous year.
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