

News » Business » Economy

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IIP DATA

Industrial production contracts 1.6% in January due to decline in output of capital goods

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New Delhi: Industrial production re-entered the negative territory by contracting 1.6 per cent in January, mainly on account of the decline in output of capital goods, manufacturing and mining sectors. The output of the manufacturing sector -- which constitutes 77.6 per cent of the Index of Industrial Production (IIP) -- shrank by 2 per cent in January, as against a growth of 1.8 per cent during the same month last fiscal, as per data released by the government on Friday.

The worst performance was witnessed by the capital goods sector, which recorded a contraction of 9.6 per cent during the month under review, compared to a 4.4 per cent decline a year ago.

A contraction of 3.7 per cent was registered in the mining sector in January, against a positive growth of 4.4 per cent in the year-ago period.

Meanwhile, the National Statistical Office (NSO), which releases the IIP data, has revised upwardly the IIP number for December 2020 from an earlier estimate of 1 per cent to 1.56 per cent.

The factory output was in negative territory in November 2020. It had posted positive growth during September and October 2020. Aditi Nayar, Principal Economist, Icria, said the slippage of consumer goods back into a year-on-year de-growth in January 2021 is a key disappointment.

"We remain circumspect regarding the intensity of the rebound in consumption immediately after the vaccine rollout widens, as some categories of households may choose to rebuild the savings that they had drained during the lockdown and post-lockdown period," she said.

The IIP contracted by 12.2 during April-January as against an almost flat growth of 0.5 per cent seen in the same period last fiscal.

As per the data, there was a contraction of 0.2 per cent in the consumer durables segment and 6.8 per cent in the consumer non-durable section. These two segments were in contraction during January 2020 also.

Nayar said the sharp worsening in the performance of capital goods in January 2021 was led by an adverse base effect, which is expected to be transient.

"While we expect the Central Government's capital spending to display a quick pace in the fourth quarter FY2021, the outgo from state governments is likely to be mixed, and the spending of the private sector may remain muted in the near term," she said.

M Govinda Rao, Chief Economic Adviser, **Brickwork Ratings**, said the contraction in IIP numbers for January comes as a bit of surprise after turning positive in December.

"The manufacturing sector continues to contract at 2 per cent shows that we still have some distance to cover before the economy recovers," he said.