Economics

December 11, 2015

Industrial Output: October 2015

The Index of Industrial Production for October has shown a surprise jump to 9.8% over the corresponding period in the previous year. *CARE had projected IIP to grow at 6.4%*. The upbeat industrial data comes on the back of robust growth in Electricity (10.6%) and consumer durables sector (42.2%). The high industrial growth is widely attributed to the pre-festive demand supported by low base effect (Oct'14 was -2.4%).

The table below depicts the industrial production in brief while comparing the same with FY15 figures.

Cumulative Picture: (April –October FY16 over April – October FY15)

At the cumulative level, industrial output expanded by 4.8% during April-Oct'15 relatively higher as against 2.2% in the same period last year. Thus, industrial activity indicates an improvement compared to the year ago levels.

Table 1: Growth in IIP (%)

%	April –October FY15	April – October FY16
All Industries	**2.2**	**4.8**
Mining and Quarrying	2.1	2.0
Manufacturing	1.0	5.1
Electricity	10.8	5.2

Source: MOSPI

On the cumulative basis, the performance across the various sectors is given below:

- Mining sector shows mild pick-up year-on-year as it registered a growth of 4.7% in October'15 compared to 4.5% last year. However, if we look at the cumulative growth rate in FY16, the sectoral growth is rather subdued at 2%.
- Manufacturing segment has witnessed a considerable pick up during the period April-Oct'15 as industries increase production with the expectations of high demand during the festival season. The manufacturing growth is very encouraging as it stands at 10.6% for Oct'15. However, the high number could be attributed partly to the low base effect of last year which had registered a negative growth of 5.6%.

    - Out of the 22 industries 17 industries recorded a positive cumulative growth.
    - The 'Furniture' (138.9%) industry recorded the highest cumulative growth rate, followed by 'Office accounting & computing machinery' (48.4%) and 'Radio, TV & communication equipment' (47.5%).
    - Remaining 5 industry groups were the negative performers. The worst performing industry group 'Publishing, printing & reproduction of recorded media' showed a growth

of -10.2%. ‘Medical, precision & optical instruments, watches & clocks’ (-6.8%) followed. ‘Coke, refined petroleum products & nuclear fuel’ had negative growth of 2.9%.

Performance: Used Based Classification

Table 2: Use Based Classification

%	Apr –October FY15	Apr – October FY16
Basic Goods	8.1	4.4
Capital Goods	4.6	8.9
Intermediate Goods	1.5	2.6
Consumer Goods	-6.3	4.5
Of which		
Consumer Durables	-16.0	11.8
Consumer Non- Durables	1.1	0.1

Source: MOSPI

A use-based analysis (Table 2) provides further clarity in reading the industrial growth data-

- The year-on-year growth in basic goods output has been lower at 4.1% for October’15 as compared to 9.7% last year in the same month. Also, the cumulative growth for FY16 is recorded lower at 4.1% against 9.7% registered last year in Apr’14-Oct’14.
- The growth in capital goods has seen a considerable pick-up considering the steps taken by the Government towards infrastructural development. The capital goods output is welcoming at 16.1% compared to last year’s negative growth of 3.2%. This would have some positive effects for the pick-up in economic activity. On a cumulative basis as well, capital goods output nearly doubled from 4.6% in Apr-Oct’15 to 8.9% in the same period this fiscal.
- Consumer goods output has also shown encouraging results with a y-o-y growth of 6.7%. Most of the growth in consumer goods output is attributed to the high growth of consumer durables (42.2%). Consumer non-durables also picked up with 4.7% growth in Oct’15 compared to -3.6% in Oct’14.
    - Although the low base effect in consumer goods output is evident with -18.2% growth last year. However, the pre-festive demand as reflected in positive growth of automobile sector, wearing apparel, furniture contributed to the growth numbers.

CARE’s view

- The significant pick up in the manufacturing segment driven in large part by festive demand is likely to be carried forward in November’15 too.
- However, the benefits arising out of the low base effect, experienced in October’15, is expected to wear-off in the coming months.
- The performance of the industrial sector on a cumulative basis gives a clearer picture of the overall performance which is marked by improvement from the last fiscal. ***We, thus retain our outlook that growth in IIP would be 4-5% for FY16.***

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