

IIP shrinks 0.1%; at 4-year low

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Industrial activity falls in June amid 6.77% contraction in output of capital goods

Industrial activity in June contracted 0.1%, the lowest reading since June 2013, driven primarily by a 6.77% contraction in capital goods.

Data for growth in the Index of Industrial Production (IIP) for May was revised to 2.8%. The fall in capital goods production was the most drastic contraction since September 2016.

Manufacturing drags

Data showed manufacturing contracted by 0.41% in June, from a growth of 2.61% in the preceding month. "Unsurprisingly, the unfavourable base effect, the reduction in inventories ahead of the transition to the GST, and slide in growth of non-oil exports culminated in a marginal contraction of 0.1% in the IIP in June 2017, a 48-month low," Aditi Nayar, Principal Economist, ICRA, said in e-mailed comments. "While mild, the year-on-year degrowth in June 2017 was pervasive, with 15 of the 23 sub-groups of manufacturing and four of the six use-based industries, recording a contraction in that month."

The mining sector witnessed a slight acceleration in growth to 0.4%, from 0.2% in May.

Growth in the electricity sector slowed drastically from May's 8.29% to 2.15% in June.

Consumer durables also witnessed a contraction of 2.13% in June, from a growth of 0.8% in the previous month.

"Consumer durables and non durables continue to provide mixed signals regarding demand, with the former contracting by 2.1% in June 2017 and the latter rising by 4.9% in the same month, recording the best performance among the use-based groups," Ms. Nayar wrote. "The year-on-year contraction in capital goods output for the third consecutive month highlights the continuing sluggishness in private sector investment activity."

The outlook, however, seems more optimistic with a favourable monsoon and the Seventh Pay Commission payout projected to bolster consumer demand.

"Since GST has already kicked in, the restocking of inventories will take place that is likely to boost industrial output," Care Ratings wrote in a note