

IIP, inflation data show turnaround may be on the way

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Factory production, measured on a new, more recent base year, grew more robustly and in a less volatile manner than had been presumed in the year to March, indicating that an industrial turnaround may be under way. Retail inflation slowed to a record low in April.

Under the new series with a 2011-12 base year, the Index of Industrial Production (IIP) rose 5% in the financial year and 2.7% in March, data released on Friday by the Central Statistics Office (CSO) showed.

Under the old series with a 2004-05 base year, IIP rose by a mere 0.7% in the full year and 2.5% in March.

The CSO and the department of industrial policy and promotion (DIPP) shifted to the more recent base year for IIP and Wholesale Price Index-based (WPI-based) inflation, respectively, to derive a more accurate and realistic picture of the key indicators. This will align these data with gross domestic product (GDP) data, which is already being measured on a 2011-12 base year.

The new series of IIP data demonstrates a rebound of industrial output in 2016-17, the industry lobby group Confederation of Indian Industry (CII) said in a statement.

“These signs of an upturn in IIP are encouraging, as it is indicative of stronger manufacturing activity based on consumption demand that was not getting reflected in the data captured in the earlier base of 2004-05,” it said.

On the new base year, the mining sector has almost the same weightage (14.4%) in the new series as in the old series (14.2%). Manufacturing has a higher weightage at 77.6%, up from 75.5%. The weightage of electricity in IIP under the new series has declined to 8% from 10.3%.

To reduce volatility in the capital goods segment, data in the new series will now be captured in terms of ‘work in progress’ to better represent growth in the segment and to avoid reporting of production figures in bulk after the completion of production.

“The new IIP series indicates that volume growth in the industrial sector in the last five years has not been as anaemic as previously feared. Nevertheless, annual growth of manufacturing and mining remained sub-5.5% from FY2013 to FY2017. While mining and manufacturing recorded a meaningful improvement in growth in FY2017 relative to FY2016, volume expansion remained moderate. Electricity has remained the fastest growing sector since FY2014,” said Aditi Nayar, principal economist, ICRA Ltd.

Under the new series, the manufacturing sector grew 1.2% in March and the mining and electricity sectors grew 9.7% and 6.2%, respectively.

Separate data released by CSO showed that India's retail price inflation dropped to a new record low at 2.99% in April from a nearly five-month high of 3.89% in March on a lower base effect and lower food prices.

Updated WPI-based inflation for the same month under the new series with a 2011-12 base year also eased to 3.85% in April from 5.3% in the previous month.

DIPP updated WPI to the new series by assigning revised weights to the list of items it tracks to better reflect the price situation. It also excluded excise duty while computing WPI to insulate it from changes in fiscal policy such as implementation of the goods and services tax.

Economists say the lower CPI and WPI numbers aren't likely to provide room for any policy rate cut anytime soon due to upside risks to core inflation, which excludes food and fuel.

The Reserve Bank of India's monetary policy committee, with a mid-term target retail inflation target of 4%, has maintained a hawkish stance on inflation.

Inflation in the next couple of months is contingent upon the monsoon. The India Meteorological Department forecast on Wednesday that the country will receive higher monsoon rainfall than previously predicted, as concerns have eased over El Nino, a weather phenomenon associated with drought-like conditions in the subcontinent.

A poor monsoon could lead food prices to rise and force the central bank to raise interest rates for the first time in more than three years.

The third advance estimates of food grain production in 2016-17, released by the ministry of agriculture on Tuesday, signalled a record harvest of 273.38 million tonnes, beating a previous forecast of 271.98 million. Economists are hopeful these conditions will ease food prices in the coming months.