



## Slowdown in Manufacturing Activity

### What is the issue?

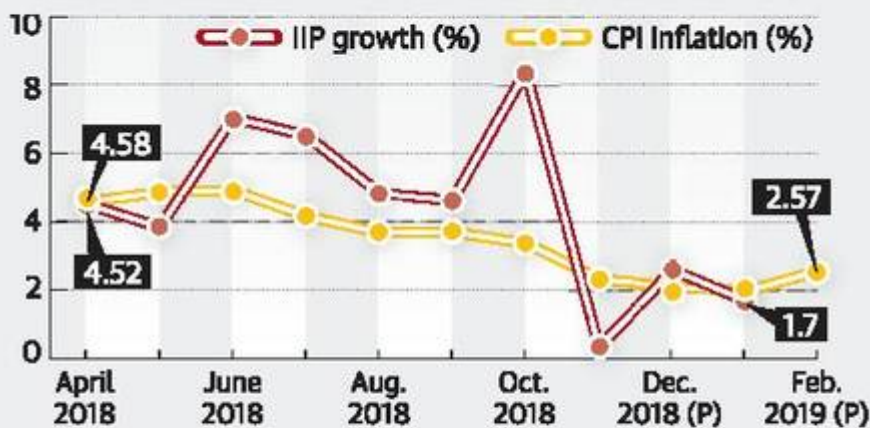
Latest manufacturing and inflation data shows that the manufacturing activity in the country continues to remain dull.

### How is industrial production at present?

- The latest Index of Industrial Production (IIP) data shows that output across the broad sector expanded 1.3% in January, 2019.
- This is a clear loss of momentum from the 3% pace in December, 2018 and a drastic slowdown from the 8.7% growth seen in January 2018.
- Overall, industrial output growth slumped to 1.7% from 2.6% in December, 2018 and 7.5% a year earlier.
- It's because production in 12 of the 23 industry groups that comprise the manufacturing sector shrank from a year earlier.

### Double whammy

The moderation in IIP indicates a continuing slowdown while there was sequential rise in food prices



NOTE:  
P = PROVISIONAL

SOURCE: CMIE

### What are the worrying trends?

- The key job-creating industries, including textiles, leather and related products, pharmaceuticals, rubber and plastic products, and motor vehicles, reported contractions.
- This is an unhealthy sign for the real economy.
- Capital goods contracted 3.2%, in contrast with the 12.4% expansion posted a year earlier.
- Notably, this is a closely watched indicator for business spending plans, and a sustained revival on this vital front may take time.
- Moreover, with sentiment on capex at a one-year low, Indian businesses plan to curb outlays on hiring and capital spending.
- Besides, growth in consumer durables output was low at 1.8% (7.6% in January 2018).
- This is another clear sign that spending on consumption of non-essentials remains in search of favourable factors.

### **What does the inflation scenario indicate?**

- The price gains measured by the Consumer Price Index (CPI) accelerated to a four-month high of 2.57% in February, 2019.
- However, there is a persistent deflationary trend in the prices of some farm items.
- This is unfavourable to the economy as it reflects a collapse in pricing power in the agrarian heartland.
- Vegetables, fruits and pulses and products all posted negative rates of inflation from a year earlier, of around -7%, -4% and -3% respectively.
- Urban consumers may be benefitted with the increased affordability of vegetables and fruits.
- But the rural demand for manufactured goods will remain depressed unless there is a meaningful growth in the farm sector's economic fortunes.

### **How does the future look?**

- Saudi Arabia has committed to deepening its production cuts in order to keep crude oil prices well-supported.
- So it appears unlikely that India's fuel and energy costs will stay favourable for much longer.
- With elections approaching, political parties are sure to increase their spending to woo voters, which may lead to inflation.
- However, for now, with growth slowing and inflation still comfortably within the RBI's 2%-6% target range, an interest rate cut is expected to boost the economy.

**Source: The Hindu**



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