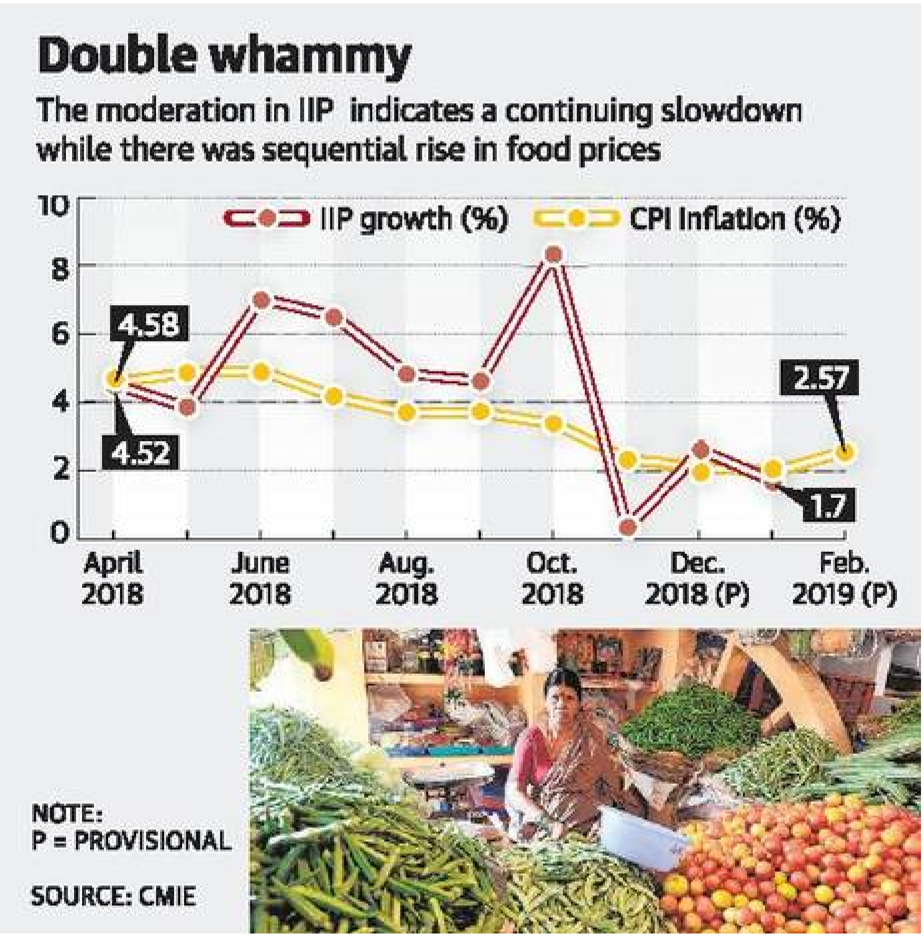
Slowdown in Manufacturing Activity

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.



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