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So Much for the Optimism on Manufacturing

By Kunal Kumar Kundu

Rupak De Chowdhuri/Reuters

A worker at a factory in Kolkata, Feb. 12.

Dashing hopes of a swift recovery, India's industrial production in December contracted by 0.6 %. As we mentioned earlier, the sharp growth recorded in October of 8.3% was a reflection of a low base number the year before and does not herald signals of an imminent recovery. Even worse, the

November index was revised downward and now shows a contraction of 0.8%, compared to the earlier estimate of a 0.1% contraction.

The decline in industrial production was led by a 0.7% drop in manufacturing, which accounts for 75.5% of the Index of Industrial Production. The revised data for the previous month makes for even starker reading. While the first estimate showed growth of 0.3%, the revised estimate actually shows a contraction of 0.6%.

All this means that the advance estimate of the gross domestic product for the year ending March 31 released by the Central Statistical Organization last week (and disputed by the government) may be on the mark. The much talked-about uptick in activity (that the government has been publicly banking upon) has failed to materialize so far. On the other hand, the belt-tightening measures that the government has embarked on to control the fiscal deficit will compress government expenditure, weighing down the economy. Unless the services sector comes to the rescue (by clocking growth much higher than anticipated), the CSO estimate is likely to come true.

This data also brings out the sharp difference between the PMI data (which is a survey of large manufacturing units) and industrial production data (which covers units of all sizes.) While the December manufacturing PMI went up sharply to 54.7 (from 53.7 in November), the industrial production data moved in the opposite direction. This clearly highlights the difficulties being encountered by a large number of small and medium industrial units, faced as they are with high input inflation, high interest rates and lower demand.

A look at the disaggregated data shows that consumer goods production contracted by 4.2% during December (the highest contraction since March 2009). More importantly, the revised data for November now shows a contraction of 0.3% compared with an initial estimate of a 1% increase. Consumer non-durables contracted for the second straight month in December, an indication of falling rural demand. Going forward, one can expect this segment to record even poorer performance in the January to March quarter as the government cuts back on social sector spending.

It seems that slowdown continued into January. The Society for Indian Automobile Manufacturers said recently that passenger car sales contracted for the third straight month. Despite large discounts on offer, January sales fell by 12.5%. This follows a drop of 12.5% in December and 8.3% in November. For the 10-month period ending in January, overall sales are lower by 2% compared with the same period a year before. SIAM, which had earlier reduced its annual growth forecast for sales of passenger cars to 1% to 2% from an earlier estimate of 10% to 12% growth now believes that sales may fall even further.

When we wrote about October's industrial production data, we mentioned then that it is important to watch the data over the next two months before we can conclude that manufacturing in India is finally out of the woods. Quite evidently, we see no room for optimism now.

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