IIP shrinks 3.8%, 3rd straight month of fall

October capital goods output down for 9th mth in a row

SUBHAYAN CHAKRABORTY
New Delhi, 12 December

Industrial output declined 3.8 per cent in October — the third straight month of contraction that may further dampen the economic growth numbers in the third quarter of 2019-20. The decrease in the industrial production was albeit less than 4.3 per cent in the previous month.

All the major segments of the Index of Industrial Production (IIP) — mining, manufacturing, and electricity — saw a decline in October, showed official data released on Thursday.

Contraction in the manufacturing sector, which accounts for 78 per cent of the index, stood at 2.1 per cent, though down from a 3.9 per cent fall in September. Of the 23 sub-sectors within manufacturing, 18 recorded year-on-year contractions; it was 17 in the previous month.

October, the month when the festive season kicks in, saw output of consumer durables contract for a fifth straight month

Electricity generation fell 12.2 per cent and mining 8 per cent in October. IIP grew a mere 0.5 per cent in the first seven months of the current financial year, against 5.7 per cent in the corresponding period of the previous year.

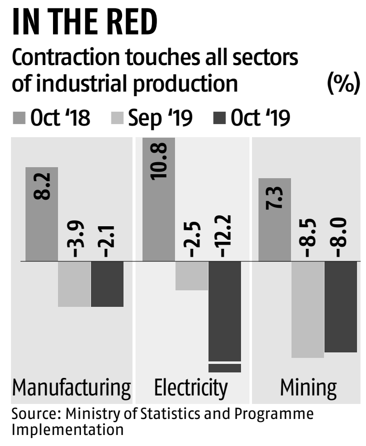
The IIP database showed that contraction remained entrenched across the automobile segment, with motor vehicle production falling 28 per cent in October, after a 25 per cent fall in the previous month.

Auto components, commercial vehicles, and two-wheelers were flagged by the government as sectors pulling down overall IIP growth.

Machinery production reduced 18.1 per cent, the same as last month. However, the production of electronic goods sustained the biggest hit, going down 31 per cent in October, up from a 10.6 per cent fall in September. This came after the government pushed manufacturing in the sector in a sustained manner over the past one year through a series of benefits and a phased manufacturing programme aimed at reducing imports of electronics goods.

The capital goods segment, which signifies investment, contracted 21 per cent in October, after similar levels of fall in the previous two months. Production in the category remained in the red for a ninth-straight month despite the government's efforts to open up even more sectors to easier foreign direct investment (FDI).

With heavy rainfall affecting the pace of construction, infrastructure/construction goods recorded an unsurprising 9.2 per cent contraction in October.



Consumer demand fizzles

October's industrial production also showed that consumer demand remained in the doldrums. October, the month when the festive season kicks in, saw production of consumer durables contract for a fifth consecutive month. Production contracted 18 per cent, against a 10 per cent contraction in the previous month. Negative growth baffled economists, who said e-commerce sales in October were high and should have been on the back of positive growth in this segment.

Crucially, the consumer non-durables category remained in the contractionary zone for a second month, with production thinning 1.1 per cent, after a 0.4 per cent shave in the previous month.

"While the sharp contraction in capital goods and consumer durables appears alarming, it comes on an extremely high base of October 2018. In our view, we should await the data for November 2019 to get a clearer sense of how these two categories are likely to perform in Q3FY20," said Aditi Nayar, principal economist at ICRA.

With the output of the core sectors falling a record 5.8 per cent in October to an at least 14-year low, and production by seven of the eight industries declining, slow economic growth is expected by economists in the third quarter of FY20.

Experts predicted that GDP growth is likely to slip in the third quarter from 4.5 per cent in the second quarter. As a result, the pressure on the Reserve Bank of India to go for another rate cut will increase, despite elevated CPI inflation, they said.

Make policies for a Brand Northeast, World Bank tells Centre

ISHITA AYAN DUTT
Kolkata, 12 December

The Union government could consider creating a brand for the Northeast to better leverage its potential, a World Bank report said.

Brand Northeast would build on elements, such as healthy living, environmental sustainability, social responsibility, and service orientation. These elements stem from the Northeast Region's (NER's) strengths.

While the global branding exercise could be leveraged for promotion of individual production from the NER, cluster promotion activities for specific sectors and value chains could in turn help strengthen the global brand, the report said.

According to the report, policy interventions can help the NER play to its own strengths to better leverage growth opportunities offered by global trends, creating a "Brand Northeast" was one such. The other interventions suggested were optimising the developments in connectivity and leveraging the private sector to maximise the impact of quality infrastructure and focusing on clear demand for quality services. The report called for reorienting Northeast's supply base to serve the changing global demand. For instance, the Northeast, with its strengths in organic and near-organic production, could play a major role in India's quest to become a global player in fresh fruits and vegetables, especially in the context of changing consumer preferences.

While India is a leading global producer of fruits and vegetables, accounting for 11 per cent of global production, its fruit exports form only 0.5 per cent of global fruit exports.

"The region can capitalise on rising demand for fresh fruits and vegetables, and for fresh, high-quality spices, especially those produced in an environmentally friendly and socially responsible manner. It can promote bamboo, an environment friendly resource. It can encourage nature-based tourism, as well as trade in medical and education services," said Sanjay Kathuria, lead economist, World Bank.

Retail inflation soars to 40-month high in Nov at 5.5%

Food prices rose the fastest in 5 years for the month in villages

ABHISHEK WAGHMARE
New Delhi, 12 December

The consumer price index (CPI) rose to a 40-month high in November, as prices jumped 5.54 per cent over the same month of the previous year.

Vegetables, which have become costlier in neighbourhood markets, contributed the most to lift the headline number. Vegetable inflation in November touched 30 per cent in villages and a staggering 48.6 per cent in cities and towns, the data by the National Statistics Office (NSO) shows.

Though supply disruption in vegetables, including onions, contributed to the rise, base effect favoured higher number for vegetables, as their prices had remained deflationary in the period from July 2018 and February 2019.

Cheaper vegetables last year are making the pinch of costlier veggies this year feel worse.

At the same time, demand in the economy remained weak as core inflation only marginally increased to 3.6 per cent in November, from 3.34 per cent in October. Core inflation excludes the volatile components of food and fuel, and low core inflation shows weak demand. Inflation in transport and communication, household goods and services, clothing, and recreation remained subdued, showing low spending power of consumers.

Experts said the worrying situation is slated to come down in the coming months as the impact of base effect subsides, but a looming situation of fiscal expansion risks rise in inflation. "The data confirms the worst fears, and the economy may be headed towards a stagflation," said M Govinda Rao, chief economic advisor at Brickwork Ratings.

Food grains production in the coming months is set to improve, as excess monsoons — though affected the summer crop adversely — would improve yields of the winter crop.

"With inflation perking up, fiscal deficit likely to exceed target and non-transmission of policy rate cut in the real economy, RBI did a balancing act in December 2019 policy review, and will continue to do so in upcoming policy meetings," said Sunil Kumar Sinha, principal economist at India Ratings.

Healthy groundwater and reservoir levels bode well for rabi output and yields of various cereals, and moderation in vegetable prices should douse food inflation to a large extent in early 2020, said Aditi Nayar, principal economist at ICRA.

"However, the decline in the area sown under rabi pulses and oilseeds poses a concern, given the high inflation being recorded by some of these items," she said.

Consumer spending on clothing has stagnated in villages, showing weak purchasing power. Inflation is high because of supply side constraints — lower production and base effect — and not due to rising demand. For revival in growth, rise in core inflation is crucial.

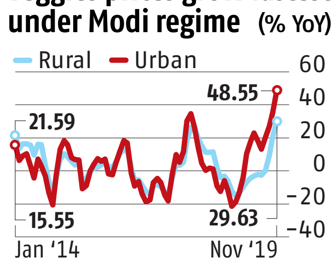
Core inflation, however, remained below 4 per cent for a second consecutive month. Among essential and premium services, prices of health and personal care items rose by 5.5 per cent and 6.3 per cent, respectively. Food inflation in cities touched 12.3 per cent, bagging the highest-since-2014 record once again. That in villages, too, jumped sharply to 8.8 per cent in November, from 6.4 per cent in October.

"Given that the base effect will be unfavourable in January and February, too, we may expect inflation to be in the region of 4.5-5 per cent in coming months even when prices of vegetables moderate when the next crop comes," said Madan Sabnavis, chief economist at CARE Ratings.

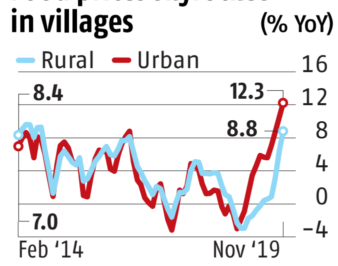
Prices of meat fish and eggs remained elevated, stronger in cities than in the rural.

HOW THE PRICES MOVED

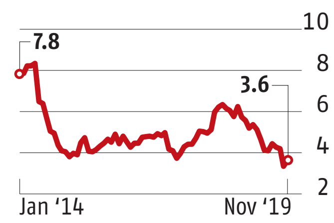
Veggies prices grow fastest under Modi regime (% YoY)



Food prices skyrocket in villages (% YoY)



Demand remains weak in Nov (% YoY)



Source: National Statistics Office