

The excuse of falling Industrial Output; High Finance Cost or Weak Demand

FICCI in its Economic Outlook Survey estimates India's (IIP) index of industrial production to be 2 per cent for the financial year 2019-20, which is half in comparison to the of India's industrial production growth in the previous financial year 2018, which was 4.4 percent. IIP contracted for three consecutive months i.e. from August to October in the financial year 2020, thereafter expanding at a meagre pace of 1.8 per cent in November 2019 and again, in the last month of the year, December there was a contraction of 0.3 percent. However, during the entire year, 0.6 per cent cumulative growth was registered in the first eight months of the fiscal year. This brought down the overall estimations of IIP for the year.

The core sector which accounts for 40 per cent of the index of industrial production showed a growth of 1.3 per cent in December. Thus, the culprit turned out to be the manufacturing sector which contracted by 1.2 per cent along with the sharp decline in consumer durables and non- durables. Even the series of events does not support in the recovery of the consumer durables sector and the growth impulses seem unstable and not uniform across sectors. Due to the outbreak of coronavirus in China, the factories are likely to be shut down creating a cascading effect on supply chain networks from automobiles to mobile phones. Sensing the Indications of the intensive impact of the outbreak of virus worldwide, Indian manufacturers are likely to face a spell of troubles.

Meanwhile, both consumer price inflation and wholesale price inflation keeping in trend with the January prints accelerated to 7.59 per cent and 3.1percent respectively. The rise in both indexes is majorly due to the rise in food prices. Moreover, there is an expectation that inflation at least for the next two quarters will be likely to remain above the RBI's median of 4 per cent.

Owing to continuous low sentiments on external and domestic demand, production and employment scenario, the manufacturing sector is likely to remain passive even in quarter 3 of the financial year 2020.

The central bank has already put a halt on its rate cut cycle and it seems that the next cut will not happen until later this calendar year. Even the interest rate through other measures is being lower down. It looks like as if growth is not being held back by high financial cost but by poor consumer demand as banks are reporting poor credit growth due to the unwillingness of businesses to invest.



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