

INVESTMENT-LED SECTORS DRIVE GROWTH

# Factory output grows 5.2% in May, up from 4.5% in April

Industrial growth seen moderating to 3-4% in June

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New Delhi, July 12

THANKS TO DOUBLE-digit expansion in heavy manufacturing and resources sectors, India's industrial production grew 5.2% on year in May, compared with 4.46% in April, according to official data released on Wednesday.

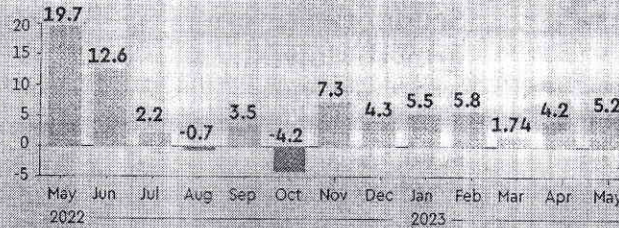
Though this indicated that measures to boost the supply side of the economy are bearing fruit, high frequency indicators suggest that the growth may have top slowed to below 4% in June.

The expansion of the Index of Industrial Production in May was driven by a 5.7% growth of the manufacturing sector which accounts for 77.6% of the index.

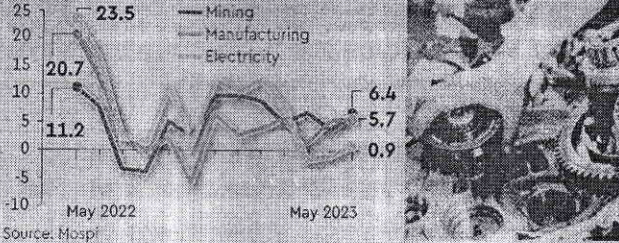
Within manufacturing, investment-driven sectors like machinery, electrical equipment, motor vehicles, plastic and mineral products have seen growth of around 10% and more but some key consumer products manufacturing areas like apparel and furniture

ON THE RISE

IIP, (% change, y-o-y)



Sectoral growth (% change y-o-y)



Source: Mospil

have shown a decline of as much as 20%.

These sectors of the industry performing well are those driven by investments - be it the government or private sector.

Infrastructure and construction goods have grown by 14%

while capital goods are up 8.2% in May. The consumer durable segment has seen a growth of just 1.1%. The growth seen in production of Fast Moving Consumer Goods can be attributed to some revival in rural demand post rabi harvest, Chief Economist at Bank

of Baroda Madan Sabnavis said.

"Infra related non-metallic minerals and metals have done well in line with higher government capex. This trend will slow down during monsoon time when activity decelerates," he added.

Two factors can swing the industrial performance in the coming months - likely slowdown in the advanced economies as interest rates stay elevated and monsoon performance that will critically influence rural demand, Chief Economist at CRISIL Dharmakirti Joshi said,

"While overall monsoon has turned normal, spatial distribution remains very uneven and kharif sowing lower on-year across most crops. The El Nino has set in as expected, whose intensity and timing will weigh on the rain performance this year," he said

Economists expect IIP growth will moderate to 3-4% in June as indicated by performance of high frequency indicators like freight and traffic movement, generation of GST e-way bills, cargo traffic at major ports, and rail freight traffic which deteriorated as compared to May. The decline will be despite higher coal and finished steel production in June.

