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CRISIL EconomyFirstCut

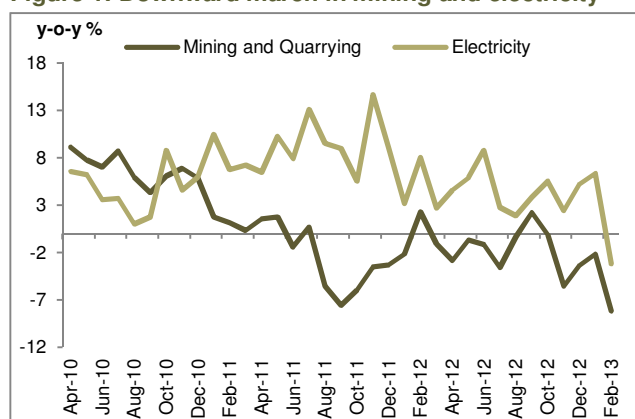
IIP: Assured fuel availability critical for industrial turnaround

Overview: India's core industries, the economy's lifeline, are slipping badly. February IIP data shows a decline in electricity output compared to the same month last year. Coal and gas shortages are partly to blame for this fall in power generation for the first time in several years (as reflected in IIP). This, along with the fact that mining output has contracted in 18 out of past 20 months leaves us with a key question – can we reverse industrial decline without rebuilding India's core industries? The answer is clearly no.

For sustainable industrial revival, India needs to push infrastructure and industrial investments. The turnaround in the investment scenario critically depends on assured fuel availability. In addition, India needs to create a competitive business environment by solving issues related to procedural delays, to attract foreign direct investment as well as spur investments from Indian companies. These would, in turn, help create jobs, improve incomes, and raise household consumption. In 2013-14 normal monsoons, pre-election government spending and a marginal reduction in the lending rates could, at best, provide a temporary respite to consumption.

- Industrial output grew by only 0.6 per cent in February 2013 compared to a year ago. Only manufacturing output grew by 2.2 per cent, while mining and quarrying, and electricity output contracted by 8.1 and 3.2 per cent respectively. Both the sectors posted their worst performance in several years.
- Consumer goods output grew, aided by a growth in output of consumer non-durables. Consumer durables' output, in contrast, continued to decline for the third consecutive month, suggesting a weak household demand.
- Output of the eight core infra industries, having nearly 38 per cent weight in IIP, contracted by 2.5 per cent in February compared to 3.1 per cent growth in the previous month. A decline in electricity generation and a fall in production of crude oil, coal, natural gas and fertilisers adversely impacted overall IIP.

Figure 1: Downward march in mining and electricity



Source: CSO, CRISIL Research

Table 1: Sectoral Growth (y-o-y %)

	Weight	April - February			
		Feb-12	Feb-13	FY12	FY13
General	1000.00	4.3	0.6	3.5	0.9
Manufacturing	755.27	4.1	2.2	3.7	1.0
Mining	141.57	2.3	-8.1	-2.1	-2.5
Electricity	103.16	8.0	-3.2	8.7	4.0
Basic	355.65	7.6	-1.8	5.9	2.3
Capital	92.57	10.5	9.5	-1.8	-7.6
Intermediates	265.14	1.0	-0.7	-0.7	1.5
Consumer Goods	286.64	-0.4	0.5	4.7	2.5
- Durables	53.65	-6.2	-2.7	2.7	2.7
- Non durables	232.99	4.4	2.9	6.4	2.3

Source: CSO, CRISIL Research



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