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A FALTERING RECOVERY: THE HINDU EDITORIAL ON FLAILING FACTORY OUTPUT TRENDS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Production levels in India’s industries appear to be hitting a roadblock amid what the government has described in the Union Budget as an ‘overall, sharp rebound and recovery of the economy’ reflecting the ‘country’s strong resilience’. Factory output as measured by the Index of Industrial Production (IIP) fell for the fourth straight month in December 2021 to a 10-month low of 0.4%, compared to the same month in 2020. While the Omicron variant had become a worry by then, its impact was limited to contact-intensive services sectors with no restrictions posed on manufacturing activity. From a nearly 13% year-on-year growth in August 2021, thanks to a low COVID-19 lockdown-hit base, the IIP growth has tapered off every passing month — from 4.35% in September to 4% in October to just 1.3% in November. It may be recalled that by September 2020, most of the lockdown restrictions that could have plagued factories had been eased, so perhaps some labour force gaps and the shock to confidence and demand were the only hiccups for production managers. It was believed that those hiccups had been largely overcome after the deadly second wave receded in 2021. If that were indeed the case, industrial output should have seen a sharper pick-up in the last four months of 2021 than the mere 2.5% monthly average, particularly with festive season demand in play. That January’s GST collections, reflecting activity in December, hit a fresh record may suggest all is well, but tax revenues also get bumped up by inflation and quarterly filing options for smaller taxpayers. Moreover, GST revenues from imports of goods have been persistently rising faster than revenues from domestic transactions that include services imports. What makes the trend even harder to decipher is the volatility in month-on-month IIP numbers – since August, the overall index has alternated between a contraction and expansion every month, even as the percentage year-on-year growth has steadily collapsed.

The Economy Survey for 2021-22 seemed to be describing a different landscape when it stated that a nascent private investment recovery is expected to accelerate as corporate profits and capital raising actions have boomed. “Expected increase in private consumption levels will propel capacity utilisation, thereby fuelling private investment activity,” it said, citing an RBI survey that signals rising investor optimism and expansion in production in the upcoming quarters. Economists believe the IIP prints suggest that the Budget’s bet that public capital spending will catalyse a consumption- and investment-led recovery, is on a weak footing. Manufacturing actually shrank in December, with capital goods (reflecting investment activity) contracting by a sharp 4.6% from 2020 levels and staying below pre-pandemic levels. Consumer durables saw a fourth consecutive month of contraction, while even non-durables tanked after a few months of insipid growth. With high commodity costs cramping producers, consumers still in cautious mode and the threat of a steep fuel price hike looming after March 10’s election results, the going isn’t likely to get smoother any time soon. That the central bank remains in growth-accommodative mode while the world is changing gears to tackle inflation, indicates its concern about the durability and quality of India’s recovery. The government must urgently reboot its rose-tinted assessment of the economy and recalibrate its approach so that the ‘on-paper’ optimism is reflected in billowing factory chimneys.

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