

Industry

Industrial recovery continued in the first half of this year. GDP from industry grew at 8.6 per cent, the highest since 1997-98 — quarterly GDP data is available only from 1996-97 — surpassing the previous best of 8.0 per cent in the first half of 2000-01 by 0.6 percentage points.

During the same time the Index of Industrial Production-General (IIP-G) grew by 8.4 per cent. More encouragingly, it was led by the manufacturing sector (9.4 per cent). Mining (1.1 per cent) and electricity (4.8 per cent) pulled down first half IIP-G growth.

Our Business Expectations Survey reflects this buoyancy. The Business Confidence Index (BCI) for next six months, which was 146 in July-September 2005 increased to 151.4 during October-December 2005. This is the highest level since November 1994.

Industrial Output: Broad Trends

Industrial output during April-November, as measured by the IIP which covers manufacturing, mining and electricity, grew by 8.3 per cent. This is 0.3 percentage points lower than the growth in the same period in 2004-05.

As in previous years, manufacturing has been the major driver. The Index of Industrial Production-Manufacturing (IIP-M) grew by 9.4 per cent in April-November 2005-06 as compared to 9.1 per cent in the same period last year (Table I.1). But mining-quarrying and electricity are dragging down the IIP-G growth (Fig I.1).

The infrastructure sector's performance has been lacklustre. Infrastructure industries, which have a weight of 26.88 per cent in IIP, grew only by 4.4 per cent in April-November compared to 6.6 per cent growth in the same period last year

During first half industrial sector GDP grew at 8.6 per cent, the highest since 1997-98 surpassing the previous best of 8.0 per cent in the first half of 2000-01 by 0.6 percentage points

Table I.1: Growth of Index of Industrial Production (Percentage Change, Y-o-Y)

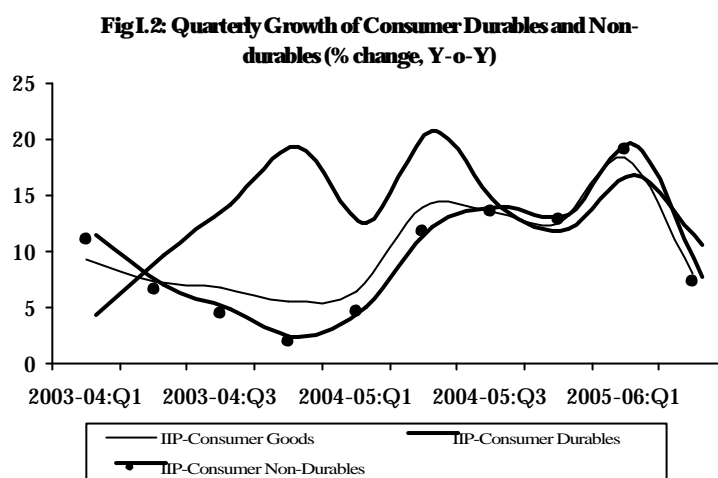
Sector	2004-05	2004-05 (April-November)	2005-06 (April- November)
General	8.4	8.6	8.3
Manufacturing	9.1	9.1	9.4
Mining & Quarrying	4.4	5.1	0.5
Electricity	5.2	6.7	4.9
Basic Goods	5.5	5.9	6.0
Capital Goods	13.9	12.9	15.9
Intermediate Goods	6.1	7.3	3.0
Consumer Goods	11.7	11.2	12.9
Consumer Durable	14.3	15.8	13.4
Consumer Non-Durable	10.8	9.7	12.8

Source: CSO

(Table I.2). Barring cement, the growth of the rest of the sectors has been lower than last year. Housing construction and infrastructure projects such as the National Highway Development Programme (NHDP) are driving the growth of the cement and steel industries. Cement dispatches by large plants during April-October 2005 grew by 10 per cent and production and exports by large cement plants during the same period grew by 9.8 per cent and 26.7 per cent respectively. Prospects for cement in the short- and medium-term look bright because of the real estate boom and road widening projects under NHDP III.

Coal and steel registered 6.2 per cent and 7.2 per cent growth respectively during this period. However, crude petroleum and petroleum products registered a decline in their production. A fire on the ONGC platform in Bombay High has been mainly responsible for the decline in crude production growth. Similarly, the shutdown of Reliance's Jamnagar refinery contributed to the decline in petro-products production.

The poor performance of thermal electricity generation is mainly responsible for the decline in electricity generation growth, which grew by only 1.4 per cent because of problems with coal supplies. It has been 95.6 per cent of the target for the period. Central sector generation has been



102 per cent of the target, generation by SEBs and private generators has been 92 per cent and 89 per cent of the target respectively.

Hydro and nuclear power generation has been 110 and 111 per cent of the target. In case of hydropower generation, the central sector's performance has been poor in relation to the SEBs and the private sector. Central sector power generation has been 97 per cent of the target as against 119 and 126 per cent for the state and private sectors.

Growth of both net sales and profitability declined in first half of this fiscal

Corporate Performance

The growth of both net sales and profitability declined in first half of this fiscal. The growth of net sales declined from 21.7 per cent in the first half last year to 18.3 per cent this year (Table I.3). Profit after tax

Table I.2: Performance of Infrastructure Industries (Percentage Change, Y-o-Y)

Sector	Weights	2004-05		2005-06
		2004-05	2004-05 April-November	2005-06 April-November
Crude Petroleum	4.17	1.8	3.3	-5.7
Petroleum Products	2.00	4.3	6.3	-0.7
Coal	3.22	6.1	6.7	6.2
Electricity	10.17	5.2	6.7	4.8
Cement	1.99	6.6	6.7	10.6
Steel	5.13	4.8	8.0	7.2
Total	26.88	4.9	6.6	4.4

Source: CSO

Table I.3: Performance of Corporate Sector (Percentage Change, Y-o-Y)

Indicator	2004-05: H1	2005-06: H1
Net Sales	21.7	18.3
Other Income	4.8	15.2
Interest	-4.6	-9.9
PBDT	39.9	9.4
Depreciation	11.5	2.2
Tax	47.7	11.0
PAT	57.9	12.6

Number of Companies: 2088

Source: CMIE Prowess Database

(PAT) declined from 57.9 per cent to 12.6 per cent for the same period. Fierce competition to absorb the rise in input prices, hardening of interest rates and, above all, the fringe benefit tax are some of the reasons for this decline in profitability. However, 12.6 per cent PAT growth is still very good growth as it was achieved over the 57.9 per cent growth in first half of last year.

Use-based Classification

During FY 2004-05 capital goods grew by 13.9 per cent. Even in this fiscal for April-November this sector has clocked a growth of 15.9 per cent (Table I.1). The creditable performance of the capital goods sector in 2005-06 comes on top of the high growth base of 2004-05. Despite that high growth base, the y-o-y monthly growth of the capital goods sector has been more than 11.8 per cent this year.

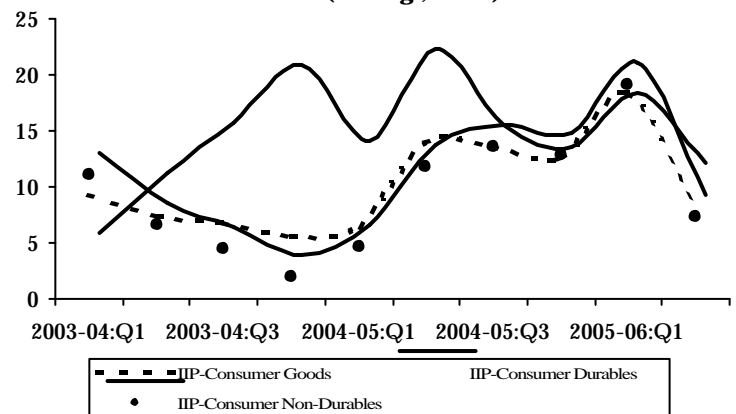
The growth of both machinery & equipment and transport equipment and parts has been over 10 per cent for April-November 2005 period. The growth of machinery and equipment during April-November 2005 slowed to 10.1 per cent compared to 22.6 per cent during April-November 2004. For transport equipment and parts it increased to 12.5 per cent from 3.3 per cent. This growth comes over the high base last year.

At the disaggregated level, the production of wells/offshore platforms went up by 507 per cent and laboratory and scientific instrument's production grew by 113.6 per cent during April-November 2005. The production of material handling equipment, turbines, PVC/PICL, furnaces and boilers went up by 113 per cent, 107 per cent, 92 per cent, 89 per cent and 85 per cent respectively. Even the import of capital goods during April-October 2005 grew by 32 per cent. Clearly, investment activity in the economy is buoyant.

Consumer goods production increased by 12.9 per cent during April-November. It was 11.2 per cent during the same period last year. The growth of consumer durables declined to 13.4 per cent compared to 15.8 per cent last year

Growth of both machinery & equipment and transport equipment & parts has been over 10 per cent for April-November 2005 period

Fig I.2: Quarterly Growth of Consumer Durables and Non-durables (% change, Y-o-Y)



(Fig I.2). The production of non-durables grew at 12.8 per cent compared to 9.7 per cent growth in the same period last year. Except for July and August, consumer durables growth in each month of this fiscal has been over of 10.3 per cent.

Some sectors of the consumer durables segment that have done well during April-November are: AC single phase house meters (167 per cent), window air conditioners (99 per cent) and bicycle tubes (83 per cent).

On the other hand, the consumer non-durables sector has consistently posted more than 10.7 per cent growth every month except in July, August and September 2005. The major drivers of consumer non-durables growth in April-November were hair oil, penicillin, sugar, toothpaste and sulphur drug. The growth momentum of both consumer durable and non-durable segments is continuing in this fiscal as well.

The performance of the basic goods sector during April-November 2005 has been similar to last year (6 per cent this year vis-à-vis 5.9 per cent last year). Continued buoyancy of the construction sector is pushing up the growth of this sector. Copper metal cathode, carbon steel, HR sheets, formaldehyde and salt are the major segments pushing up the growth of the basic goods sector.

The intermediate goods sector is the only sector pulling down growth of IIP-M this fiscal. During April-November 2005 it grew at 3 per cent as against 7.3 per cent growth last year.

Industrial Output at Two-Digit Level

Four out of 17 industry groups at the two-digit level showed negative growth during April-November 2005 as compared to three last year (Table I.4). Food products witnessed highest decline in growth rate (4.2 per cent) during the period followed by wood and wood products (3.5 per cent), metal products and

parts (2.1 per cent) and wool, silk and man made fibre textiles (1.1 per cent). Other manufacturing industries showed highest growth of 23.3 per cent in April-November 2005, followed by textile products (including apparel, 21.6 per cent), beverage, tobacco and related products (17.0 per cent) and basic metal and alloys industries (15.3 per cent). Industry group such as transport equipment and parts, basic chemicals and chemical products (excluding petroleum and coal products), cotton textiles and machinery and equipment (excluding transport equipment and parts) registered more than 10 per cent growth in April-November 2005.

The growth performance of textile products (including wearing apparel) during April-November 2005 has been very good. This sector has registered second highest growth after other manufacturing industries. However, 2.2 per cent decline in exports of textiles (excluding ready made garments) and 16 per cent growth in exports of ready made garments during April-October 2005 does not jell with growth of this sector. On the whole, the data at the two-digit level suggests the broadening and deepening of economic activity across various industrial sectors.

Prospects

Although industrial growth during April-November 2005 reflects a continuation of the trend observed in the last two years, the real issue is whether we are witnessing the beginnings of a downturn.

Our view is that it is too early to term the downturn in IIP growth as a general slowing down of the economy.

Is industrial demand riding on the back of a soft interest rate regime? If so, as interest rates harden what will happen?

We subscribe to the view that while the interest rate is important, it is not the sole factor that influences investment decisions. The political environment and

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investment climates also matter.

According to the latest round of our BES, 5.6 per cent more respondents believe that the present investment climate is positive. This, along with the sustained growth of IIP-capital goods and the buoyant imports of capital goods, suggests that investment activity will continue for some more time. The construction boom, the demand from infrastructure projects, not to mention Bharat Nirman, should keep domestic demand going.

The worry is global demand. Exports growth during April-December 2005 was at 18 per cent but signs of slowing.

With the hardening of global interest rates and the US economy highly vulnerable to random shocks, it is hard to be very sanguine.

High commodity prices (including oil) and the fast emerging infrastructure bottlenecks are also a major risk.

Table I.4: Industrial Performance at Two-digit Level (Percentage Change, Y-o-Y)

Two-digit Industries	2004-05	2004-05		2005-06
		(April-November)		
Food Products	-0.4	-2.4	-4.2	
Beverages, Tobacco and Related Products	10.8	9.2	17.0	
Cotton Textiles	7.5	8.4	11.7	
Wool, Silk and Man-made Fibre Textiles	3.5	5.0	-1.1	
Jute and other Vegetable Fibre Textiles (Except Cotton)	3.7	-2.8	2.6	
Textile Products (Including Wearing Apparel)	19.2	12.0	21.6	
Wood and Wood Products, Furniture & Fixtures	-8.5	-9.3	-3.5	
Paper and Paper Products and Printing, Publishing and Allied Industries	10.5	2.6	5.8	
Leather and Leather and Fur Products	6.8	4.4	1.4	
Basic Chemicals and Chemical Products (Except Products of Petroleum and Coal)	14.5	17.2	11.9	
Rubber, Plastic, Petroleum and Coal Products	2.4	3.1	2.8	
Non-metallic Mineral Products	1.5	1.6	8.3	
Basic Metal and Alloy Industries	5.4	3.0	15.3	
Metal Products and Parts (Except Machinery and Equipment)	5.8	7.3	-2.1	
Machinery and Equipment other than Transport Equipment	19.8	22.6	10.1	
Transport Equipment and Parts	4.1	3.3	12.5	
Other Manufacturing Industries	18.6	19.3	23.3	

Source: CSO