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THE GROWTH DICHOTOMY: THE HINDU EDITORIAL ON SEPTEMBER’S INDEX OF INDUSTRIAL PRODUCTION DATA

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In September, the Index of Industrial Production or IIP rose 5.8%, almost half the 14-month-high 10.3% growth in August. Most economists anticipated a 7% to 8% uptick in the month that marks the onset of India’s packed festive calendar. September’s factory output growth was the slowest in three months, but also marked a 2.4% drop in production levels compared to August. Manufacturing led the decline, with year-on-year growth dropping from 9.3% in August to 4.5% in September and production volumes declining 2% month-on-month. In August, just seven of 23 manufacturing sectors had clocked a contraction but that list expanded to nine in September, with furniture dropping 20% and apparel production almost 18%. What is more worrying is that 12 sectors recorded a sequential decline in output this September, belying hopes that firms would ramp up inventories in anticipation of festive spending. Producers’ lack of confidence in consumers’ impulses is reflected in consumer durables and non-durables, which were up just 1% and 2.7%, respectively, on top of a 5.5%-plus contraction last September. Sequentially, consumer non-durables, what one may broadly consider as fast moving consumer goods involving smaller-ticket spends, were down 3.5% with the lowest output levels seen since November 2022. Electricity generation also fell 6.6% sequentially in September, perhaps due to the higher rainfall recorded over August.

On the whole, September’s IIP takes average factory output growth to 7.4% in the second quarter, lifting the uptick in the first half of 2023-24 to 6%. This may still weigh in well with the central bank chief’s hopes of Q2 GDP growth outpacing their official projection of 6.5%. But spliced up, the IIP indicates an asymmetry in the economy and a fresh fork lies in the road ahead. Consumer goods’ output was just 0.3% higher than pre-COVID-19 levels this September, with durables being the only use-based segment to record a contraction so far this year. By contrast, output has been more resilient in investment-linked sectors such as infrastructure/construction goods and capital goods, up 12.1% and 6.7%, respectively, this year. Public capex on infrastructure sectors has surely lifted output of items such as steel and cement through the first half of the year, while high inflation has eaten into all but the high-income consumers’ propensity to spend. Going forward, capex spends that have been front-loaded this year may moderate and additional revenue spends ahead of the Lok Sabha election are likely, especially with sensitive commodities such as fuel, urea and food facing fresh volatility in prices. That infrastructure and construction goods’ output in September was the lowest since March 2023, suggests one growth tide may be ebbing, which makes the other, more fragile consumption story even more critical to watch.

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