

Economic Slow Down: An Empirical Study of Indian Core Industries Performance

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Abstract

Reflecting a slowdown in the economy, the growth rate of eight core infrastructure sectors dipped to 2% in March and 4.3% during 2011-12 on account of poor performance in crude oil and natural gas. The growth rate of eight industries like crude oil, petroleum refinery products, natural gas, fertilisers, coal, electricity, cement and finished steel etc. have a weightage of 37.9% in the Index of Industrial Production (IIP), in March 2012 moderated to 2% from 6.5% in the same month last year. India's GDP growth slows down to 6.1% in the third quarter of 2011-2 over the corresponding quarter of the previous year the lowest in 2 years. The impact of economic slowdown has been felt in all section of industry including agriculture and service also. The figure makes central statistical organization's (CSO) forecast of 6.9% growth in the financial year ending march 2012 look optimist given the slippages in agriculture and manufacturing sectors, it will be difficult for GDP to recover much ground in January-March period the undefined GDP during the 1st 9 month of 2011-12 has grown to 6.9% only way below 8.1% growth recorded during the same period a year ago. This empirical study highlights the performance of Indian core industries during the economic slowdown. Secondary sources have used to analyse the paper.

Keywords: Indian Core Industries; Economic Slow Down, Industry Performance, GDP

1. Introduction

Global growth is projected to drop from 4% in 2011 to 3.5% in 2012 because of weak activity during the second half of 2011 and the first half of 2012. As India integrates into a seamless world, it cannot remain impervious to developments abroad. The unfolding of the Euro zone crisis and uncertainty surrounding the global economy have impacted the Indian economy causing drop in growth, higher current account deficit and declining capital inflows. Some important aspects of different sectors have been analysed below to study the effectiveness economic slow down.

i. Agriculture

The growth prospects for agriculture in 2012-13 will hinge on the performance of monsoon. Early indications from the reports from agencies such as Indian Institute of Tropical Meteorology suggest that southwest monsoon is expected to be 'largely' normal this year. Surplus in grain stocks is expected in the coming year. By the end of June this year, the food the food grain stocks with the government may reach 75 million tonnes. Managing these stocks will be a challenge for the government. The signals from the price trends in milk, fruits & vegetables, eggs, meat & fish and oilseeds is that improvement on the supply

side of these commodities are necessary for meeting the supply-demand gap.

ii. Industry and Services

Over the last financial year the manufacturing and mining sectors significantly slowed down with mining growth rate dipping in negative category. The growth rate in the electricity sector jumped up from 5.4 per cent in 2010-11 to 8.7 % in 2011-12. Capital and intermediate goods grew at negative growth rates in 2011-12. Except steel and crude petroleum, all other sectors' growth rates in core infrastructure industries showed improvement in 2011-12. The growth rate of services GDP with construction excluded stood marginally higher (8.9 %) as compared to when it is included (8.7 %) in 2011-12:Q3. A major segment of services GDP, viz., 'trade, hotel restaurants, and transport storage and communication' accounts for nearly 27 % share in total GDP. Its growth rate decelerated to 9.2 % during Q3:2011-12 as compared to 9.9 % increase in Q3:2010-11.

iii. External Trade

The merchandise exports in April-December 2011-12 touched \$221.8 billion compared with \$173.2 billion in the corresponding period of last year posting growth of 28 %. Imports have grown by 29.5 % and touched \$354.3 billion. The performances of two major categories of services, viz. software and business services, which used to extend major boost to India's net earnings from service exports have slowed down. The current account deficit is touching close to 4 per cent of GDP in 2011-12 due to slow export growth and rising import bill. The gross FDI inflows posted impressive increase 38.4 % in April-December 2011 and touched \$35.9 billion compared with \$26 billion in the corresponding period of 2010. FII activity has been less brisk in April-December 2011 compared with the corresponding period of 2010 - the FII inflows at \$130 billion were 36 % less and the corresponding outflows at \$127.2 billion were less by 26.7 %.

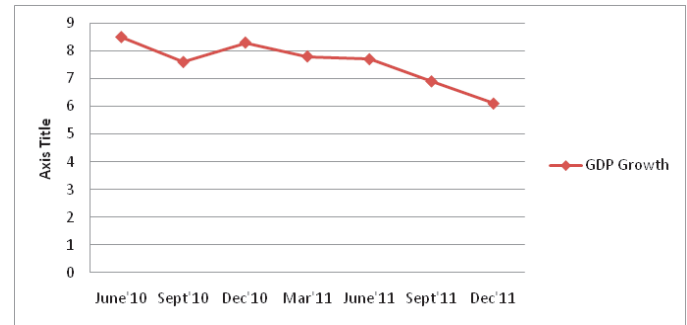
iv. Public Finance

Fiscal deficit has fallen from 8.9 % in Q4: 2010-11 to 4.3 per cent in Q3: 2011-12. The revenue collection from all major tax items has been growing in Q3:2011-12 over Q3:2010-11 except for excise and other smaller tax items (Securities Transaction Tax, Banking Cash Transaction Tax, Fringe Benefit Tax, Wealth Tax etc.). Net non-tax revenue increased by 41 % in Q3:2011-12 compared to corresponding quarter of the previous fiscal. The central government spent merely 1.7 % of GDP on capital account (plan and non-plan combined) in Q3:2011-12, while expenditure on revenue account (plan and non-plan combined) was 11.2 % of GDP.

v. Money and Capital Markets

A combination of increasing policy interest rates, adverse impact on spending on investment or consumer durables and the weak global demand conditions affected investment outlook and also reduced growth of demand for credit even as the inflation rate declined in December. Reflecting slower growth of the economy, growth of bank credit to commercial sector fell, the growth of bank credit to the government increased. Inflation rate has declined but rise in the prices of Crude Petroleum, Fuel & Power, Milk, Eggs, Meat & Fish continues unabated in double digits.

The low investment growth is the prime concern to achieve higher growth. The growth in investment expenditure as represented by gross fixed capital formation remained positively further 2nd year in succession. On the other hand, while growth in private final consumption expenditure in the 3rd quarter rose to 6.2% from 2.9% in the preceding 3 months, the Govt. consumption expenditure standard downs to 4.4% from 6.1% in the premium quarter.

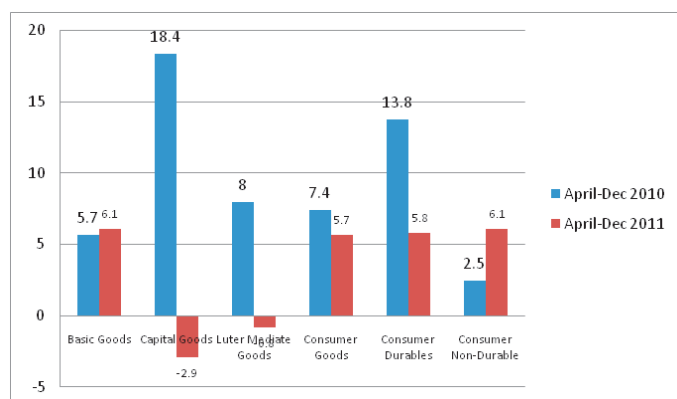


Source: CSO, Govt. of India

Fig. 1: GDP Growth (%)

From the above figure it is observed that the GDP growth in quarter ended Dec'11 lowest in 2 years. The growth in Asian economies is expected to slow down further in the 1st quarter of 2012. It is suggested that India may feel more economic pins in the mouth ahead. China's January - March 2012 growth is forecast to drop for 5th straight quarter. India has struggled to bend down inflation, so the central bank has kept interest rate at a 3 year high of 8.5%. While policy makers elsewhere in the region are cutting rates. High inflation, a fall in exports due to European debt crisis and weak mining output were some of the factors that contributed to the further slowdown in India's GDP growth rate.

As per CSO estimation the manufacturing output saw a decline in growth to mere 0.4% in October - December 2011 quarter from 7.8% in the same period a year ago. The negative performance of mining is seen with a contraction of output by 3.1% as compared to 6.1% rise during the same quarter a year ago. Also, despite harvest, the farm sector growth stood pegged at a meager 2.7% during the quarter as against a robust 11% increase recorded in the corresponding quarter in 2010-11. The growth rate of industrial output is 0.4% in the 3rd quarter of 2011-12 against 7.8% in the same quarter a year ago. The cumulative industrial output grows 3.4% during April-December 2012 compared to 7.6% in the corresponding period of the previous year. This indicates sharp fall in the growth rate of the index of industrial production (IIP) also. The index grows 3.6% during April-December 2011 against 8.3% in the same period a year ago.



Source: CSO, Govt. of India

Fig. 2: Industrial Performance Used Based (YoY Change)

The growth of key infrastructure sectors, which showed some improvement in last November with a healthy 6.7% growth, dipped against in January 2012. The index of production of 8 core industries such as crude oil, petroleum refinery products, natural gas, fertilizers, coal, electricity, cement and finished steel increased only by 0.5% last January against 6.4% in the same month of 2011. It is observed from the above figure that the lower capital goods production to affect future industrial growth. Financial year 2011-12 India would have only option to forget it. From April 2011 to 1st week of March 2012, the stock more of index had fallen more than 10%. In April 2011, the sensx was at 19,000 mark. In December, if comes down drastically to 15,000 mark. However, in the current year it has recorded to 17,000 more. The main ramous blind its poor performance are the negative trend of global indices and the poor performance of domestic economy.

Table 1: Movement of the Sensx (Rs. in Crore) from April 11 to March 12

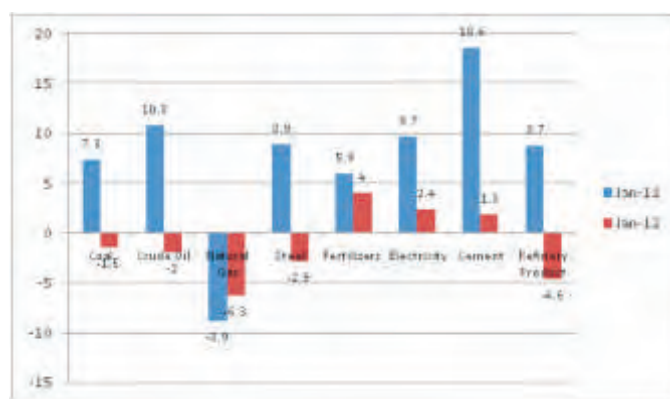
Month & Year	F11	D11
February '12	23236	-11541
January '12	9469	-6729
December '11	-2387	928
November '11	6508	5960
October '11	1842	-2116
September '11	-3088	1747
August '11	-11559	7991
July '11	4282	31
June '11	2662	-99
May '11	-3705	4093
April '11	4	-558
Total	14248	-294

Source: Stock Market, BE Bureau March 2012

F11 – Foreign Industrial Investors

D11 – Domestic Institutional Investors

The negative output in the core sector is a grim prologue to the level of industrial and covers all economic growth that can be expected during the 4th quarter of the current fiscal. Decline in crude oil, petroleum refinery products, natural, gas current and finished steel etc. indicate a slow down economy.



Source: CSO, Govt. of India

Fig. 3: Sector Wise Performance (Fig. in %) of Indian Core Industries

The above figure shows that India's core eight core sectors dropped to just 2% in March compared to 6.5% growth in the same month last year 2010-11 due to dismal performance of Crude Oil, Natural Gas and Steel sectors. Core sector comprising crude oil, Cement, Steel, Petroleum refinery products, Natural gas, Fertilizers and Coal, growth stood at 6.8% in the previous month of February. The Core sector growth for the previous financial year 2011-12 stood at 4.3% compared to 6.6% growth in the previous financial year 2010-11. Natural gas and crude oil sectors output dropped by 10.1% and 2.9% respectively in March which pulled down the combined Core sector growth. Steel, Petroleum, electricity and fertilizer sectors output growth dropped to 2.3%, 1.6%, 2.1% and 1.5% respectively in the same month compared to 12%, 8.5%, 7.6% and 3.9% growths respectively a year ago period. At the same time, coal and cement sectors growth stood at 6.8% and 7.1% respectively in the same month. All these eight core sectors have 37.9% weightage in the Index of Industrial Production (IIP). Dismal growth data of the core sectors is expected to affect the IIP numbers as well for the reporting month.

Sector Wise Performance of Indian Core Industries (January 2012)

Natural Resources

i. Coal

Coal production recorded a growth of 7.5% in January 2012, compared with negative growth of 1.3% in January 2011. However, in cumulative terms, coal production had contracted 1.5% during April-January 2012 compared with its growth at 0.6% during the same period of 2010-11. The main reasons behind this contraction, as generated by various reports, are the bottlenecks in import and Coal India's struggle to cope with the demand. An overwhelming demand for energy has compelled India to become a mammoth-like producer of power, with coal accounting for about 50 percent of all electricity produced. With that being said, in recent years India has endured growing economic woes and uncertainties. Surprisingly, its massive coal industry has emerged as the primary culprit. In coal, it appears that a combination of undeveloped policies, poor management and growing environmental concerns have substantially contributed to a slowdown in economic growth. Simply put:

when retail electricity prices are lower than the actual cost of producing power, you know there is a drastic problem. In fact, the coal industry has grown so backwards that whilst power plant capacity jumped 11 % last year.

ii. Crude Oil

Crude oil output contracted 2% in January 2012 compared with 10.8% growth in January 2011. There is a huge difference between the supply and demand mainly because of slow growth, absence of big global explores and high import rates. The economic and political uncertainty in Europe capped prices and a weaker euro also dampened the demand for dollar-priced crude. In spite of easing in crude oil price from record highs and rupee depreciating to a two-year low against the US dollar, Indian stock markets continue to be beaten down on rising fears of global recession.

iii. Natural Gas

The natural gas sector was the worst performer posting a negative 8.9% growth in January 2012. There has been a huge demand supply gap mainly because of delay in production from discovered assets and natural gas production has shown a year-on-year decline in May as well as April-May 2012, basically reflecting output reduction from Reliance Industries Krishna Godavari D-6 fields. A more significant pointer to economic activity, though, is from cement and steel production, with the former recording a decline and the latter a sharp dip in growth. Growth in demand is expected to catapult the overall demand to 196 million metric tons in 2011-2012 which since to be 220 during 1st quarter of 2012-13. The overall drop in the growth of the core industries - making up 37.9 per cent of the IIP- has been largely on account of natural gas and cement.

Industrial Resources

i. Steel

Steel also witnessed a negative production growth of 2.9% in January 2012 as against an expansion of 8.7% in January last year. Through small input, a demand-supply gap exists in the sector. Growth in steel consumption in India has slowed down significantly to around 2.5% in the first six months of the current financial year from around 14.5% in the corresponding period of last year, with project off take slowing down and other macroeconomic challenges also cropping up. Nevertheless, large steel capacity expansion projects are likely to get commissioned in the short to medium term. Almost 25 million tonnes of new capacity, which is about 30% the country's current production capacity, is expected to be commissioned in the next 18-24 months, which in turn could alter the domestic demand-supply position, thereby keeping realisations under check, notwithstanding any benefit that may accrue to steel players from a depreciating currency.

ii. Fertilizer

Fertilizer output also rose, but a lower in supply 4% in January this year as compared to 5.9% a year ago. The GDP of an economy requires contribution from major industries to be healthy. India is largely an agrarian economy; so agriculture makes the major contribution to the GDP. Role of major industries in India GDP is important as based on this only the total GDP is calculated. In terms of US Dollar exchange rate India's economy is the twelfth largest. Despite witnessing a slowdown, due to the global

recession, India's economy has huge potential of expansion which contributes more than 20% to GDP.

iii. Power

Electricity generation grew 10.6%, higher than 2.4% in January last year. There are two reasons mainly responsible, the first one is conundrum over fuel, which, even a couple of years ago was non-existent and the second one is mess created by the inability of state electricity boards and distribution utilities to charge consumers the right price for the electricity they consume leading to losses. NTPC was forced to halt work on two of its projects in Uttarakhand after pressure from environmentalists. Even last week there were protests in Assam against a large hydro project, Subansiri, being executed by NHPC in Arunachal Pradesh. Hydel projects have always been sensitive anyway due to submergence of land.

iv. Cement

Cement output increased by 10.6% as compared to a growth of 1.8%. According to latest reports, the sector also reported improved sales in February 2012 mainly based on higher rural housing demand. V. Srinivasan, Research Analyst of Angle Broking, said that demand has been good over the last few months, especially in the northern and western regions of India. He added that "with improved demand, cement manufacturers may not find it hard to pass on the incremental cost to the end consumer."

v. Refinery

Petroleum refinery output contracted to 4.6% from 8.7% and steel production declined by (-) 2.9% from 8.7%, 2011. However, the overall petroleum refinery product output does not include the output of Reliance's SEZ refinery unit at Jamnagar as the crude throughput is not reported by it. It had refining capacity of 29 million tones. Despite surging global oil prices, the global demand for liquid fuels & other petroleum⁷ is expected to increase from 85.0 mn barrels per day in 2006 to 106.6 mn barrels per day in 2030. Non-OECD Asian countries, mainly China & India, are expected to witness significant increase in the demand for oil & gas. The demand for petroleum products in India is estimated to grow at an annual rate of around 6% to reach the level of 370 Mtoe per annum in 2025 owing to high GDP growth rate, rapidly growing vehicle population and better road infrastructure. On exploration & development front, given the recent exploration & development efforts under way in India (like the commencement of production from RIL's KG Basin fields, the scheduled commencement of Cairn India's production and the potential development of the discoveries announced by GSPC & ONGC), crude oil production is likely to increase by over 30% in the next five years. On the other hand, natural gas production is expected to more than double from the current level of about 90 MSCMPD by 2012. Moreover, the considerable activity in the exploration & production sector is expected to attract more foreign players. Nonetheless, the global economic slowdown and the consequent cut-back in capital expenditures by some oil exploration companies might have some dampening impact on the exploration & production activities.

Turnaround Possibilities Despite Poor Growth

After facing a downturn in January, Indian manufacturing is

expected to revive in the next couple of months based on the growth of automobile sector, one of the key segments of manufacturing. However, other major sectors that include textiles, electrical goods, engineering's, etc. have had a negative or flat growth rate during this period. This had brought down the growth of manufacturing to 0.4% for December 2011, a sharp decline from 7.8% in the same period previous year. India's engineering exports are showing signs of pick up after negative growth for three successive months. The first ten months of the fiscal April 2011 - January 2012 witnessed engineering exports growing by 21% over the same period in 2010-11. The following table explains the growth.

Table 2: Engineering Exports for April, 2011 - January, 2012

Engineering Exports (Month)	2010 Value in Million USD	2011 Value in Million USD	Growth (%)
April	3223.76	4904.25	52.75
May	3601.00	6033.90	67.56
June	4910.10	5408.44	10.15
July	2878.86	5733.01	99.14
August	3895.77	5973.90	53.34
September	4383.96	4353.58	-0.69
October	4277.11	4063.31	-5.00
November	6211.64	3890.92	-37.36
December	4009.23	4585.11	14.36
January	3682.95	4733.59	28.53
Total	41074.38	49700.00	21.00

Source: Trade, BE Bureau March 2012

Experts believe that higher input prices, a sharp jump in the borrowing cost and depressed output have resulted in this decline. The Economic Advisory Council reported that, "...manufacturing and construction have disappointed - the former particularly so from the second quarter onwards with October marking the bottom of the trough... The Purchase Managers Index (PMI) for January 2012 suggests a sizeable expansion and the output growth in the last quarter may on average be around 4%. In the construction sector there should be some improvement in the second half, a view that is reinforced by the strong uptick (13 and 17%) in cement output in November and December, 2011." According to the data released by the commerce and industry ministry, only four segments - electricity, cement, coal and fertilizers - recorded a positive growth in January 2012, raising concerns for the industry and the government. The dismal performance of the infrastructure sectors, which have a weight of 37.90% in the overall industrial production, is likely to weigh on the IIP numbers for January, scheduled to be released on March 12. Economist and FICCI secretary general Rajiv Kumar said the core sector numbers point towards slowdown in the economy. "The government must focus on strong and structural reform measures to prevent further deterioration".

Conclusion

Growth rebounded strongly in 2010-11, after the dip in 2008-09 in the wake of the global financial crisis and the recovery in 2009-10. However, inflation rose and remained stubbornly high throughout 2010-11 as supply-side shocks got generalised amidst strong aggregate demand. With added risks to growth

from inflation above the threshold level where growth-inflation trade-off can work, the Reserve Bank responded with eleven rate hikes between March 2010 and July 2011. This lifted effective policy rates by 475 basis points in the current interest rate cycle. As a result of monetary tightening and deteriorating global economic conditions, some moderation in growth and significant moderation in inflation from the later part of the year is anticipated going forward. However, risk demanding compression remains from likely slippage on envisaged fiscal consolidation. 2010-11 marked the completion of the process of recovery from the adverse impact of the global financial crisis and the consequent slowdown of the global economy. Slack in the advanced economies, with their output gap estimated at 3.4 per cent in 2010, as also the uncertainty about their future growth, employment and debt still impinge upon the activity levels in India. However, growth in India was back to the earlier high growth path. Starting in double digits, headline inflation remained elevated throughout 2010-11. With vegetable prices spiking following un-seasonal rains after a good monsoon and global commodity prices firming up in the second half of 2010-11, inflation expectations started to feed on themselves and cost push factors from the manufacturing side exerted pressures on inflation. Inflation turned persistent and generalised as a result. The stance of monetary policy continued to be anti-inflationary during the course of 2010-11 and in the year so far to contain inflation and anchor inflation expectations. Managing growth and price stability are the major challenges of macroeconomic policymaking. The Indian economy is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. This indicates a slowdown compared not just to the previous two years but 2003 to 2011 (except 2008-09). At the same time, the facts that by any cross country comparison, India remains among the front-runners. With agriculture and services continuing to perform well, India's slowdown can be attributed almost entirely for weakening industrial growth. The manufacturing sector grew by 2.7 per cent and 0.4 per cent in the second and third quarters of 2011-12.

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