Imports and IIP reflect the same trend

Though analysts were looking at a contracting IIP in November given the string of disappointing sales numbers being reported, the sharp 2.1% contraction caught most unawares, more so given that the base effect was also beneficial—November 2012 growth contracted 1% over the previous year. Capital goods growing just 0.3% wasn't much of a surprise given the dramatic slowing in private sector investments—new project starts, according to CMIE data, were down to around R20,000 crore for the December quarter, and for the first time in the past several years, were lower than those for the government sector. With fewer new projects, the number of completed projects is falling steadily, by around a fourth over the year. What comes as a big surprise, though, is the 22% contraction in consumer durables. Once again, there was the helpful base effect—November 2012 growth was a mere 1.1%. This means that, contrary to what has been the overarching commentary on consumption levels, rural demand has begun to get affected by the slowing economy—in any case, given how nearly two-thirds of the FMCG demand comes from urban areas, it was always a bit of a stretch to think that agriculture had done so well it would more than compensate for slowing urban demand.

The slowing, in fact, is also evidenced by import growth which, for non-oil/non-gold has fallen a tenth. The good news here, though, is that though exports have slowed, the current account deficit for Q3 will likely be around the same as it was in Q2 at around 1.2% of GDP, so the year's CAD will likely be in the 2.5%-of-GDP range. Exports slowing is curious, more so since the global economy is recovering—one argument, that RIL's export refinery had a shutdown in December, is disingenuous since the firm had record exports in that month.

In overall terms, given the slowing of jobs creation in the non-agriculture sector, both sets of data released on Thursday complicate the problem in the months ahead. A Crisil analysis pointed to how, in the absence of jobs creation in industry and services, the next five years will see 20-25% of job seekers being forced to take up employment in agriculture. The new manufacturing policy that is supposed to create 100 million jobs by 2025 is the solution to this problem, but this requires manufacturing to grow at 14% per year for the next decade—in the first eight months of the year, however, it contracted by 0.6%.