

Industry and infrastructure

1.66 The industrial sector witnessed a slowdown in the first nine months of the current financial year. The growth of 9 per cent during April-December 2007, when viewed against the back drop of the robust growth witnessed in the preceding four years, suggests that there is a certain degree of moderation in the momentum of the industrial sector. The consumer durable goods sector in particular has shown a distinct slowdown. This is linked to the hardening of interest rates and therefore to the conditions prevailing in the domestic credit sector. In contrast, the capital goods industry has sustained strong growth performance during 2007-08 (April-December).

1.67 At the product group level, the moderation in growth has been selective. Industries like chemicals, food products, leather, jute textiles, wood products and miscellaneous manufacturing products witnessed acceleration in growth, while basic metals, machinery and equipments, rubber, plastic and petroleum products and beverages and tobacco recorded lower but strong growth during April-December 2007. Other industries including textiles (except jute textiles), automotives, paper, non-metallic mineral products and metal products slowed down visibly during the period. The slowdown in the case of less import-intensive sectors like textiles is coincident with the decline in the growth of exports arising from the sharp appreciation in the rupee vis-a-vis the dollar. Within automobiles, while passenger cars, scooters and mopeds witnessed buoyant growth, the production of motor cycles and three wheelers slackened. In a nutshell, the industrial sector has produced mixed results in the current fiscal.

1.68 The picture with regard to forward-looking variables such as investment, particularly in the corporate sector, has been encouraging. Corporate profitability during the first half of 2007-08 on the whole increased in the manufacturing sector except for certain groups like textiles, food products and

beverages. Higher profits backed by sound balance sheets were also reflected in an increase in the planned corporate investment. The outstanding gross bank credit to the industrial sector which had increased (from end-March) very slowly during April-August 2007 picked up in later months to touch 8.3 per cent during April-November 2007. These developments are also reflected in the robust growth of the capital goods sector. The continued buoyancy in industrial and corporate investment thus reflects the confidence in the growth prospects of the industrial sector.

1.69 Accompanying the recent moderation in industrial growth, the growth performance of some segments of the infrastructure sector during April-December 2007-08 such as power generation and movement of railway freight, as also the production of universal intermediates like steel, cement and petroleum, have shown a subdued performance. In the power sector, though the planned capacity addition is unlikely to be achieved, the growth in capacity seen in the current year is distinctly higher than in the previous years. The movement of cargo handled by major ports and air cargo (exports and imports) has showed improved performance as compared to the corresponding period last year. With increased rural penetration of mobile telephony, the telecom sector has continued its strong growth.

1.70 The recent moderation in the growth of the industrial sector has raised concerns in some quarters about the sustainability of the high growth of the sector. To deal with the situation emerging from the slowdown of some export oriented sectors of relatively low import intensity including textiles, handicrafts, leather, etc, the Government took certain measures to tide over the situation in the short run. But it needs to be emphasised that, over the medium term, there is little choice but to improve productivity, even if there are issues pertaining to the exchange rate of currencies of competing countries.