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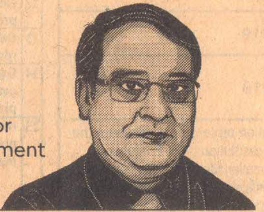
Jan IIP falls, but difficult to gauge impact on steel demand



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GROWTH IN INDUSTRIAL production boosts steel consumption as some of the critical segments of industry are steel intensive. Hence, the fall in the index causes concern for steel industry.

However, it is difficult to predict precisely by how much the impact is translated into lowering the demand for steel on a monthly basis, as the lagged effect of demand contraction may get reflected in subsequent months as well. On the same logic, the net impact over a period of, say, six months gets neutralised by the monthly ups and downs of IIP and a trend analysis becomes appropriate.

The IIP for January 2019 shows that manufacturing (weight: 77.6%) goes down to 1.3% from 2.7% and (-) 0.6% growths in previous two months, leading to drop in IIP to 1.7% from 2.4% 0.3% growth rates observed in last two months. The mining sector favoured by MM&DR policy guidelines has clocked 3.9% growth in the month.

The cumulative growths of both manufacturing and IIP during the first 10 months of the current fiscal stand at 4.4%. Under manufacturing, some of the steel-intensive segments have performed relatively weak during the month. Manufacturing of fabricated metal products has gone down to grow at (-) 9.0% in January while machinery and equipment manufacturing dropped to (-) 2.2%.

Manufacturing of motor vehicles and trailers has performed in the reverse by achieving (-) 1.4% growth in the month. The same is reflected in a somewhat sombre growth of 8.8% in production of automobiles in April-February'19. While commercial vehicles achieved sales growth of 19.7% during the period (contributed by both medium, heavy and light commercial vehicles), sales of passenger vehicles and two-wheelers have gone up by 3.3% and 6.9%, respectively, during the first 11 months of the current fiscal.

The automobile sector has been maintaining an average growth between 12-14% during the previous months. Apart from fresh production, sales growths have been dependent on sales from inventory as well as by 15.5% rise in automobile exports (primarily by exports of 2/3 wheelers). The furniture manufacturing has gone down by 12% in January.

From the perspective of use-based classification, the capital goods segment after exhibiting respectable growth in months of October'18 and December'18 has clocked a (-)3.2% growth in January, closely followed by the consumer durable segment with a monthly growth of 1.8% only. The consumption growth during April-January'19 period in plates and HR and CR sheets/coils has been restricted to 1.3%, (-) 1.6% and 3.8%, respectively.

On the positive side, manufacturing of electrical equipment has clocked a growth of 7.8% in January and making the cumulative growth to reach 3.8%. This gets reflected in electricity generation index to grow at the 0.8% rate in January and 5.9% cumulatively. Also, consumption of electrical sheets has gone up by 26.3% in January, with imports rising 16.4% during the period.

In addition, the shipbuilding and parts, agricultural tractors and roller and ball bearings segments have achieved monthly growth rates of 132.8%, 35% and 30%, respectively, in January. This is good news for rising demand for plates, sheets, structural and alloy and special and steel product categories. The production growth of bars and rods of alloy and SS has also contributed to the IIP rise. Manufacturing of other transport dominated by rails and shipbuilding has achieved a monthly growth rate of 13% in January following a massive 18% rise in December'18.

One significant contributor for steel demand in the country is infrastructure and construction segment that has grown by a respectable 7.9% in the month and cumulatively at 8.4% during the period. It may be mentioned that this segment grew by 10.1% in last December and 8.9% in October'18.

As around 62% steel is accounted for by this industrial segment, a high growth in the segment leads to rise in steel consumption of 7.4% during the first 11 months of FY19.

It is therefore apparent that IIP figures for January are provisional and would undergo revision twice in coming months with changes in November and December indices.

A conclusive evidence of impact of monthly IIP on steel consumption must await the impending revisions of the recent months' indices as non-receipt of monthly data on specific segments and receipt of cumulative data for the segment in the subsequent month may make significant changes in the perceived role of the segment in influencing steel consumption. Only in October'18 the manufacturing sector and total IIP had observed growth rates ranging 8.2-8.4%.

From this point of view, the annual IIP data is a much better indicator to display its influence on steel consumption unless a prolonged growth or stagnancy covering a period exceeding 6 months indicates a definite trend.

(Views expressed are personal)