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Research Paper

Slowdown of Indian Industrial Sector – An Over View

Economics

KEYWORDS : Slowdown of Industrial Sector, Gross Domestic Product, Industrial Production

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ABSTRACT

The Indian scenario of the growth of industrial production is one of the rising trends with significant ups and downs spread over a number of years. High inflation pressures and risks from persisting twin deficits during the year 2012-13. in India. Suitable policies would help contain fiscal deficits and moderate inflation towards the later part of the year; and the economy have been facing significant challenges remain ahead for reviving growth. However, sincere efforts and strict supervision would make a balanced industrial development both public and private sector.

It is fact that industrial development alone can provide a secure basis for a rapid growth of income industries produce products which are largely dependent upon man's efforts, as against agriculture where man's hand work is restricted by the limited factor of nature. In the sphere of industries, man can by putting in more effort and application of ever-improving technology, push on with the objective of producing more and more economic goods.

The Indian scenario of the growth of industrial production is one of the rising trends with significant ups and downs spread over a number of years. Overall the growth rate of industrial production has been over six percent since 1951. This has, however, not been a steady figure through all these years. One can discern three sub trends in the growth rates during the period; high; low; and higher. The first sub-trend lasted for 15 years since 1951 (From 1951 to 1965). During the period the growth is high than the long term trend rate, and an accelerating one. Beginning from 4.8 % for the first four years since independence (1947-51), the growth came to be 5.7 % during 1951-51. This moved up to 7.2 % during 1955-60 and further to a high of nine percent during 1960-65. This was followed by the second sub trend, which lasted for 10 years (from 1966-1976), when this rising trend got a setback. The growth rate fell considerably during this period. The growth decelerated to 4.1 per cent and this became lower than the long term trend rate. However, this poor showing was more than compensated by the rise in the growth rate over the trend rate in the third period since the mid 1970's, starting from a growth rate of 4.6 per cent during 1976-81, it rose and remained high in the range of about 7 % and over 9 % during the 1980's, except for one year (1982-83) when it was low at 3.2 %, for the decade as a whole (1980-81 to 1990-91) the growth rate was 7.9 %. The rise in the growth position continued to mark the 90's, with the growth rate at six per cent (1991-2000). Since the recent uptrend has persisted for long, even longer than the earlier one (preceding 1965), the growth rate of industrial output may be said to have moved on to a higher path.

However, the growth rate of GDP at market prices nearly halved during 2012-13 due to a reduction of growth in consumption and fixed investment. Private consumption expenditure, which accounts for around 60 per cent of real GDP at market process, continued to decelerate for the second consecutive year due to the persistence of high consumer price inflation. Supply bottlenecks and weak demand further dragged fixed investment growth for the second consecutive year.

During the period 2013, the GDP growth is already at a 10-year low of five per cent against 6.2 per cent the previous year. CRISIL is downright bearish. "All our forecasts - growth, inflation, fiscal deficit and CAD - are under revision and they will be revised unfavorably," India's real GDP growth continued to moderate for the second successive year in 2012-13 and dropped to 5.0 per cent, the lowest in the past 10 years. Many a factors has contributed to growth moderation over past two years, stating that the structural impediments, high inflation for three years and cyclical slowdown in both global and domestic economies. Consequently, activity in all major sectors of the economy decelerated during the year, with the industrial sector.

In the case of mining sector, slack in manufacturing activity due to slowing external and domestic demand and deceleration in electricity generation on the back of coal shortages compounded to result in stagnating industrial activity. Some of the factors like domestic policy uncertainties, governance concerns and earlier monetary tightening adversely impacted on the growth of the industrial and services sectors.

In 2012, the South West monsoon, the major source of rainfall in the country, was 8 per cent below the long period average, while the North- east monsoon during the year was 21 per cent below the LPA. The delayed onset of the south west monsoon, coupled with its uneven progress and distribution, especially during the kharif sowing months of June and July dented kharif production significantly. The impact of the deficient north-east monsoon on rabi crops was relatively mild. With this, most kharif crops witnessed a decline in production while rabli pulses, oilseeds and coarse cereals registered a significant increase in production over the previous rabi season, resulted significantly affected the industrial sector. The performance of industries in respect of their production can be well depicted in terms of the rate at which the industrial output has grown and the changes in the structural composition of industries that have marked the industrial scene. The trends in respect of these two aspects industries are traced since independence.

The Table -1 refers growth rates and spectral compost ion of real gross domestic product at 2004-05 prices. According to the table, the growth of agricultural and allied activities is continuously decreasing from 2010-11 onwards, showing that 7.9 percent to 1.9 per cent in 2012. On the other hand, industrial sector is 8.9 % in 2010-11 and 1.2 % in other sectors. While in the case of services sector, it is 10.0 % in 200-10 to 6.8 % in 2012-13. Even in the case of gross domestic product at factor cost, it is also declining at 9.3 % in 2010-11 and low 5.8 % at all India level. The table also shows that the share of real GDP in agricultural and allied activities is decreasing from 15.8 % in 2008-09 to 13.1% in 2012-13. In the case of industrial sector it is 2.4 % in 2009-10, 18.9 % in 2012-13. On the other hand, the service sector progress is impressive, indicating that it is 64.91 % in 2009-10 to 67.4 % in 2012-13. Further, Table -2 represents trends in index of industrial production (Base 2004-05), stating that the percentage of production of mining and quarrying is negative during 2012-13p. While in the case of manufacturing and electricity, it is impressive in the same reference period.

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Table -1, Growth rates and Sect oral composition of Real Gross Domestic Product- At 2004-05 (Per cent)

Sector	Growth Rate						Share in Real GDP				
	Average 2008-09 to 2012-13	2008-09	2009-10	2010-11	2011-12	2012-13#	2008-09	2009-10	2010-11	2011-12	2012-13#
1.Agriculture and Allied Activities	2.9	0.1	0.8	7.9	3.6	1.9	15.8	14.6	14.5	14.1	13.7
2.Industry	5.4	4.1	10.2	8.7	2.7	1.2	20.1	20.4	20.3	19.6	18.9
3.Services	8.8	9.4	10.0	9.8	7.9	6.8	64.1	64.9	65.2	66.3	67.4
4.Gross domestic Product at factor cost	7.2	6.7	8.6	9.3	6.2	5.0	100.0	100.0	100.0	100.0	100..0

Source: Central Statistics Office

Table -2, Trends in Index of industrial Production (Base: 2004-05=100)

Sector	Mining &quarrying		Manufacturing		Electricity		General	
Weight	14.2		75.5		10.3		100.0	
1.	2.	3.	4.	5.	6.	7	8.	9.
2008-09	115.4	2.6	153.8	2.5	123.3	2.7	145.2	2.5
		(11.5)		(78.9)		(9.6)		(100.0)
2009-10	124.5	7.9	161.3	4.8	130.8	6.1	152.9	5.3
		(16.8)		(73.1)		(10.10		(100.0)
2010-11	131.0	5.2	175.7	8.9	138.0	5.5	165.5	8.2
		(7.3)		(86.7)		(8.2)		(100.0)
2011-12	128.5	-2.0	181.0	3.0	149.3	8.2	170.3	2.9
		(-7.6)		(83.2)		(24.3)		(100.0)
2012-13p	125.5	-2.3	183.3	1.3	155.2	4.0	172.2	1.1
		(-21.9)		(91.2)		(31.7)		(100.0)

P= PROVISIONAL

Note: Figures in parentheses are relative conditions, computed as the ratio (in percentage terms) of the change in the index of the respective industry group to the change in the overall index adjusted for the weight of the relevant industry group

Source: Central Statistics Office

By the observations of above, India's economy has slowed remarkably in the past two years-from 9.3 per cent in FY11 to 5 per cent in FY13, the weakest in a decade. This has raised market concerns about a prolonged economic slowdown, apart from industrial sector. The Massachusetts Institute of Technology and Harvard economists argue that the economic success - or failure - of a country depends on the strength of its political and economic institutions. But an anodized steel-like institutional framework is something India sorely misses. Years of political disturbances reveals that the economy is facing with imbalances. In the recent years, the sharp slowdown in industrial growth in recent years has been attributed to factors such as the global slowdown, infrastructure bottlenecks, delays in environment clearances and land acquisition for projects, constraints on the availability of core inputs such as power, coal and iron ore, high inflation and interest rates. And also, it is founded that in the pre-liberalisation as well as the pro-leberalisation periods, output growth in manufacturing industry was mainly drives by domestic demand expansion followed by the contribution of export expansion.

Interest rates have been a key determinant of the investment cycle. The significant easing of rates post-global financial crisis led to a sharp jump in investment activity during 2009-10. Investments started falling from mid-2010, and have continued to remain weak. While a lack of movement on policy bottlenecks and negative supply shocks due to rising commodity prices are part of the explanation for this, a gradual increase in interest rates has also been a key driver. Therefore, a reduction in rates can lead to a pickup in investment activity.

To conclude that there is a significant push from the government to kick start the investment cycle. Since September 2012, the government has taken a number of steps to boost business confidence and increase activity. These include fiscal, infrastructure, and FDI reforms. In particular, the Cabinet Committee on Investments, which was created to remove bottlenecks, has met three times and cleared projects in oil and gas, mining, and roads. Added to this, existing policies and programmes ,which are specially designed for the growth and development of the industrial sector, should implement strictly; this would enables not only improve the production and productivity of the industrial sector, but also the employment and income levels would improve, in this vital sector, in the years to come. However, sincere efforts and strict supervision would make a balanced industrial development both in public and private sector.

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