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IMPACT OF COVID 19 ON INDUSTRIAL SECTOR IN INDIA

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Abstract:

India's GDP was decelerating even before COVID pandemic, from 8.3 % in 16-17 to 7.1%, 6.1, and 4.2% in the next three years. India's economy posted its steepest contraction on record in the April-June quarter of the 2020-21 fiscal year as the strict lockdown imposed to arrest the spread of COVID infection stalled economic activity, shut out consumption and investment, and led to job and income losses. The government on 13th May 2020 announced the stimulus package meant for extending a helping hand to MSMEs, NBFCs, DISCOMs and salary earners. The aggregate amount involved in this package was Rs. 5.94 lakh crore. Data released by NSO showed GDP in April-June of 2020-21 slumped 23.9 % compared with a growth of 3.1 % in the previous quarter (Jan-Mar). Tourism and hospitality contribute approx. 9.2 % to the country's GDP. The sector consists of a large workforce of approx. 42.7 million. With a lockdown being imposed for less than a month had resulted in the industry facing a loss of USD 22 billion (25 % shrank) and also not the forget leaving 50 million people being laid-off due to less demand for tourism, being faced with the crisis globally. According to FAITH (Federation Association of Tourism and Hospitality) over 95% MSMEs of 53000 travel agents, 115000 tour operators, 53000 hospitality services and over 5 lakh restaurants in India are facing the brunt of adequate cash flow in the sector since feb., 2020. Among major economies, India's contraction was the sharpest. After declining by 24.4% in the first quarter last year, the economy has registered growth rates of -7.5%, 0.4%, 1.6%, and 20.1 % in subsequent quarters. This V shaped curve of recovery is testimony to the strong fundamentals of the economy.

Introduction:

For the developing countries like India, industries are the life line of the economy. Rapid development of industrialization promotes the growth of agriculture, transport and communication. Industries can increase the national income, solve the problem of employment, and achieve social justice and balanced economic growth and development. Export oriented industries increase the foreign exchange and decrease the trade deficit in developing countries. With help of industrialization, a developing country like China will come forward as the world's most powerful country.

There is a positive relationship between national income and growth of industries in the country. Industrialization plays a crucial role in the country whether it is developed or developing. The share of the industrial sector in the GDP is an indicator of the level of industrialization of a country. Following the contribution of Industrial sector in GDP of major countries in the world; USA 18.88%(2017), France 19.4% (2017), Germany 30.7% (2017), Japan 30.1% (2017), China 40.5% (2017), Russia 32.4 %(2017), India 29.73 % (2018), Pakistan 20.91%(2018), Shri Lanka

30.05 %(20.17). Industrial sector provides about 25 % of employment out of total workforce in a developing country like India. India's share in global exports remains a measly 1.7%, industrialization can help to raise this ratio. However, India's GDP was decelerating even before COVID, from 8.3 % in 16-17 to 7.1%, 6.1, and 4.2% in the next three years. India's economy posted its steepest contraction on record in the April-June quarter of the 2020-21 fiscal year as the strict lockdown imposed to arrest the spread of COVID infection stalled economic activity, shut out consumption and investment, and led to job and income losses. The government on 13th May 2020 announced the stimulus package meant for extending a helping hand to MSMEs, NBFCs, DISCOMs and salary earners. The aggregate amount involved in this package was Rs. 5.94 lakh crore. Data released by NSO showed GDP in April-June of 2020-21 slumped 23.9 % compared with a growth of 3.1 % in the previous quarter (Jan-Mar). Tourism and hospitality contribute approx. 9.2 % to the country's GDP. The sector consists of a large workforce of approx. 42.7 million. With a lockdown being imposed for less than a month had resulted in the industry facing a loss of USD 22 billion (25 % shrank) and also not the forget leaving 50 million people being laid-off due to less demand for tourism, being faced with the crisis globally. According to FAITH (Federation Association of Tourism and Hospitality) over 95% MSMEs of 53000 travel agents, 115000 tour operators, 53000 hospitality services and over 5 lakh restaurants in India are facing the brunt of adequate cash flow in the sector since feb., 2020. Among major economies, India's contraction was the sharpest. Automobile industry contributes approx. 9.5 % per GDP and employs a total of 40 million as its workforce. Had also severely affected the flow of workforce into the sector. What become worse is that auto manufacturers see it difficult to restore the sector's position back in economy.

Performance of the Industrial Sector during COVID Pandemic Phases

In India, industrial production measures the output of businesses integrated in industrial sector of the economy. Manufacturing is the most important sector and accounts for 78 % of total production. The biggest segments within Manufacturing are: basic metals (13 % of total production); coke and refined petroleum products (12 %); chemicals and chemical products (8 %); food products (5 %); pharmaceuticals, medicinal chemical and botanical products (5 %); motor vehicles, trailers and semi-trailers (5 %); machinery and equipment n.e.c. (5 %); other non-metallic mineral products (4 %); and textiles, electrical equipment and fabricated metal products (3 % each). Mining accounts for 14 % of total output; and electricity accounts for 8 percent.

Here we are going study phase wise the impact of COVID pandemic on Industrial Sector in India.

A. Performance of the Industrial Sector in First Phase of COVID pandemic

In March 2020, India's industrial production plunged 16.7 % year-on-year. The steepest decline since records began in 1994 and much worse than market expectations of an 8.7 % tumble, as the COVID-19 pandemic forced many businesses to close. Manufacturing production contracted at a record pace (-20.6 % vs 3.1 %) and electricity output also fell (-6.8 % vs 11.5 %).

Industrial production in India slumped by 16.6 percent from a year earlier in June 2020, following a 33.9 % plunge in the previous month and compared to market expectations of a 20.0 % contraction. Manufacturing production shrank by 17.1 percent, mining output was down 19.8 % and electricity supply dropped 10.0 %.

In July of 2020, Industrial production in India shrank 10.4 % year-on-year. Following a downwardly revised 15.8 % fall in June and compared to forecasts of an 11.5 % drop. It marks the fifth straight month of falling industrial output due to the coronavirus pandemic and a prolonged lockdown. Manufacturing went down 11.1 %, mining sank 13 percent and electricity output declined 2.5 %. Considering April to July, industrial output plunged 29.2 %.

India's industrial production slumped 8.0 % from a year earlier in August 2020, following a revised 10.8 % tumble in the previous month and compared to market expectations of a 7.5 % contraction.

In September 2020, India's industrial production rose 0.2 % over a year earlier, after falling a downwardly revised 7.4 % in the previous month and beating market expectations of a 2 % contraction. It was the first increase in industrial production in seven months, mainly due to a rebound in mining (1.4 % vs -9 % in August); and electricity (4.9 % vs -1.8 %).

Industrial production in India jumped 3.6 % year-on-year in October of 2020, following an upwardly revised 0.5 % rise in September and beating market forecasts of 1.1 %. It is the strongest gain since February, before the coronavirus hit, as more activities reopen after a long lockdown. Manufacturing went up 3.5 %, the first rise in eight months and electricity output surged %. In contrast, mining shrank 1.5 %.

India's industrial production fell 1.9 % from a year earlier in November 2020, after rising an upwardly revised 4.2 % in the previous month and compared with market expectations of a 0.4 % drop. Manufacturing production shrank 1.7 percent (vs 4.1 percent in October) and mining output tumbled 7.3 percent (vs -1.3 percent in October), while electricity output rose 3.5 % (vs 11.2 % in October).

India's industrial production rose 1.0 % from a year earlier in December 2020, partially recovering from a revised 2.1 % decline in the previous month and easily beating market expectations of a 0.2 % contraction. Manufacturing production rebounded 1.6 % (vs -2.0 % in November), led by basic metals output (4.2 % vs 2.5 %), chemicals and chemical products (7.2 % vs 0.2 %), pharmaceuticals, medicinal chemical and botanical products (6.8 % vs -2.3 %t), motor vehicles, trailers and semi-trailers (5.4 % vs -0.7 %), and machinery and equipment n.e.c. (4.3 % vs -5.7 %). In contrast, output fell for both coke and refined petroleum products (-0.7 % vs -3.3 percent) and food products (-1.4 % vs 7.8 %).

India's industrial production dropped 1.6 % from a year earlier in January 2021, reversing an upwardly revised 1.6 % growth in the previous month and missing market expectations of a 0.9 % increase. Manufacturing output shrank 2.0 % (vs 2.1 percent in December), led by falls in production of coke and refined petroleum products (-0.5 percent vs -0.7 percent), food products (-2.6 % vs -1.8 %), pharmaceuticals, medicinal chemical and botanical products (-11.5 % vs 4.2 %), motor vehicles, trailers and semi-trailers (-0.9 % vs 6.4 %), and machinery and equipment (-7.6 % vs 9.4 %). By contrast, there were increases in production of basic metals (4.2 % vs 5.7 %) and chemicals and chemical products (3.1 % vs 7 %). Elsewhere, mining output contracted 3.7 % (vs -4.2 % in December), while electricity production rose 5.5 % (vs 5.1 % in December).

India's industrial output dropped 3.6 % from a year earlier in February 2021. Manufacturing production shrank 3.7 (vs -1.3 % in January), led by declines in manufacture of basic metals (-4.8 % vs 6.0 %), coke and refined petroleum products (-9.5 % vs -0.5 %), chemicals and chemical products (-1.8 % vs 2.6 %), food products (-0.6 % vs -3.3 %), pharmaceuticals, medicinal chemical and botanical products (-4.8 % vs -8.0 %), machinery and equipment n.e.c. (-1.9 % vs -7.2 %), and other non-metallic mineral products (-7.0 % vs -6.1 %). Meanwhile, mining output was down 5.5 % (vs -2.5 percent in January), while electricity output edged 0.1 %. There is a rise in unemployment rate, stagnation in wages, and a fall in per capita consumption. All these have led to a fall in GDP growth rate.

B. **Performance of the Industrial Sector in Second Phase of COVID pandemic**

The second wave of COVID pandemic begins in March 2021, however the impacts of this wave on Indian economy were less compare to the first wave of COVID pandemic. So, Indian economy saw little recover in this phase.

In March 2021, India's industrial output surged 22.4 % compared with the same month last year when a strict lockdown was in place due to the coronavirus outbreak. It was the largest increase in industrial activity on record.

In April of 2021, Industrial production in India surged 134.4 % year-on-year, the biggest increase ever, beating market forecasts of a 120 % gain. A low base effect from last year is weighing on the data as production fell at a record 57.3 percent in April 2020. When the majority of the establishments were not operating and many units had no production due to the coronavirus lockdown.

In May of 2021, industrial production in India rose 29.3 % year-on-year, below market expectations of 32 % as regional lockdowns in most states to contain the second wave of the coronavirus pandemic hurt activities. Manufacturing production advanced 34.5 %, led by motor vehicles, trailers and semi-trailers (208.2 %) and textiles (165.2 %). Also, output rose for mining (23.3 percent) and electricity (7.5 %).

In June of 2021, industrial output in India rose 13.6 % year-on-year slightly above market expectations of 13.5 %. Manufacturing production advanced 13 %, led by basic metals (24 %), coke and refined petroleum products (5.4%) and motor vehicles, trailers and semi-trailers (61.5%).

In July of 2021, industrial production in India increased 11.5 % year-on-year lower than 13.6 % in the previous month, but above market forecasts of 10.7 %. It is the fifth month of double-digit growth due to low base effects from last year and as the economy recovers from the coronavirus hit.

In September of 2021, industrial output in India went up 3.1 % year-on-year easing from an upwardly revised 12 % rise in the previous month. Production slowed in all sectors: mining (8.6 % vs 23.6 %), manufacturing (2.7 % vs 9.9 %) and electricity (0.9 % vs 16 %).

In October of 2021, industrial production in India increased 3.2% y/y compared to an upwardly revised 3.3% rise in September and forecasts of a higher 4% rise. Manufacturing added 2%, electricity 3% and mining jumped 11.4%.

C) Performance of the Industrial Sector in Third Phase of COVID pandemic

The new variant of COVID virus Omicron was identified recently, might be it less effective than earlier feared helped elevate sentiments. However as fear about the impact of the Omicron variant on global economy will remained continue in the financial year 21-22.

In November of 2021, industrial production in India increased 1.4 percent y/y slowing from an upwardly revised 4 % growth in October. It was the smallest gain in industrial output since the sector started to recover in March 2021 as production slowed in all sectors, namely manufacturing (0.9 % vs upwardly revised 3.1 %), mining (5 % vs 11.5 %) and electricity (2.1 % vs 3.1 %).

Industrial production in India increased 1.4 % y/y in November 2021, slowing an upwardly revised 4 % growth in October and missing market expectations of a 3 % rise. It was the smallest gain in industrial output since the sector started to recover in March 2021 as production slowed in all sectors, namely manufacturing (0.9 percent vs upwardly revised 3.1 %) mining (5 % vs 11.5 %) and electricity (2.1 % vs 3.1 %) on a monthly basis, industrial output slumped 4.7% following an upwardly revised 5.1 % rise in October.

Challenges and concerns of Industrial Sector in India:

- Anti-dumping duty and quality control measures have led to domestic players pushing up prices.
- Industrial units need to deal with absence of adequate bank credit, apart from lower margins.
- For most units, top concern is rise in input prices.
- Payment delays are a concern.
- Need to improve the competitiveness of the overall MSME sector.
- Wasteful usage of resources/manpower.
- Energy inefficiency and associated high cost.
- Quality assurance/certification.
- Standardization of products and proper marketing channels to penetrate new markets.
- There is an increase in turnover due to higher raw material prices, but profitability is affected.

Recommendations

- There is need for fiscal and monetary measures to promote demand through reduction in personal income tax and promoting investment through lowering interest by banks.
- The way out of this situation now is to step up public infrastructure investment. This will help in complementing private investment to create demand.
- There is need for reviewing tax on personal income to drive the demand for goods and services.
- There is need of strong government policy to control the inflation.
- Government should support industries with cost effective input and deferred payment of outstanding loans. Indian exporters should be encouraged to face global competition. There is also need to for addressing issues relating to land, labour and agricultural marketing immediately.
- There should be a mechanism to allow for an automatic increase in the credit limit after factoring the higher cost of inputs, instead of businesses being asked to undertake excessive amount of paperwork.

Conclusion

After declining by 24.4% in the first quarter last year due COVID pandemic, the economy has registered growth rates of -7.5%, 0.4%, 1.6%, and 20.1 % in subsequent quarters. This V shaped curve of recovery is testimony to the strong fundamentals of the economy. In December 2021, the country's exports soared by an annual 37% to 37.3 billion. The trade deficit widened to $ 21.9 billion. Imports rose 38 % in December 2021 to $59.3 billion. Private equity and venture capital investor exit hit a record high in 2021 at $ 38.7 billion across 270 deals due to blockbuster year for public markets and hectic consolidation activity among digital enterprises. However, not every policy needs to be capitalist. Dignity of people along with economic growth is what makes a country truly developed, not just rich. Hope this budget will continue India's reformist agenda, press the accelerator harder.

Industrial sector in India, both automobiles and mobile phone manufacturing are considered to be one of the significant sectors which are said to highly contribute to India's GDP both in measure of its sales and of its employability. Considering these things as well as the recommendations mentioned above *will propel the indian economy and* hope the economy will bounce back.

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