India Industrial Output Rose 2.7 Percent In August

Erika Kinetz, AP Business Writer

MUMBAI, India (AP) — Industrial production in India rose 2.7 percent in August, more than expected on a rebound in mining activity, though investment still appears weak.

Markets took the news in stride Friday, suggesting that investors believe the numbers will do little to convince the central back to cut interest rates when it meets later this month.

Mining output rose 2.0 percent, a bounce for the troubled sector, which posted a 5.5 percent contraction a year earlier. Manufacturing rose 2.9 percent and electricity output increased 1.9 percent from the year before.

Production of capital goods — a sign of investment in physical assets such as machinery — slid 1.7 percent.

A CNBC-TV-18 poll had forecast a rise of around 1 percent in industrial production.

Madhavi Arora, an economist at Kotak Mahindra Bank, said there is still little growth momentum in India's economy.

"On a sequential basis, you haven't seen much of a gain," she said. "We believe this is going to be a saucer-shaped recovery, rather than a V-shaped recovery."

New Delhi has been scrambling to enact investor friendly measures to kick start growth and improve sentiment in Asia's third-largest economy. Arora said their impact won't be felt for another 12 to 24 months even if the government is able to push through additional reforms and foreign investors do take advantage of eased restrictions.

Much also still needs to be done to clean up India's power sector, with many state utilities facing bankruptcy. India's mining sector has been hobbled by scandal, fights over land, and bureaucratic bottlenecks.

The central bank has made clear that inflation remains its primary concern, despite economic growth slowing to levels not seen since 2009, when India was struggling with the impact of the Great Recession. Arora said Friday's data is unlikely to give the bank the confidence to cut its key interest rate on Oct. 30.

"We think the Reserve Bank will have a tough time to reason out a rate cut if inflation remains worrisome," she said. "If the Reserve Bank does cut the rate it will be surprising."

The World Bank and the International Monetary Fund earlier this week cut their predictions for India's economic growth. The World Bank expects India's economy to grow 6 percent for the year, and the International Monetary Fund forecasts growth of just 4.9 percent, down from its earlier projection of 6.1 percent.

The government also revised its July industrial production data, saying output contracted 0.2 percent, down from its earlier estimate of 0.1 percent growth.

August's uptick was the biggest rise in industrial output since February, according to FactSet.

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