

Factory growth accelerated in Feb, inflation remains a concern

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BENGALURU: India's factory activity growth accelerated in February as the threat from a third Covid-19 wave eased, while some softening of price pressures meant demand and business expectations strengthened, a private survey showed.

However, the survey was conducted before Russia invaded Ukraine, which led to an immediate spike in oil prices. India is the world's third-largest importer of oil so the crisis will add to inflationary pressure and hurt consumer sentiment.

The Manufacturing Purchasing Managers' Index, compiled by IHS Markit from Feb. 10-22, improved to 54.9 in February from 54.0 in January. February's reading exceeded expectations for 54.3 in a Reuters poll and was above the 50-mark that separates growth from contraction for an

eight month.

"For now, India's manufacturing sector has weathered the storm of the Omicron variant, undoubtedly supported by the relatively high inoculation rate," noted Shreeya Patel, an economist at IHS Markit.

Output and new orders expanded for an eighth month in a row in February, led by the consumer goods sector on favourable demand and increasing sales. Growth in international demand for Indian manufactured goods rose marginally to a three-month high.

Business expectations for the next 12 months improved and the index rose to a four-month high on hopes of a return to normality and expansion plans.

However, firms continued to shed jobs for a third month, although the pace of decline was marginal and the slowest in the sequence.

The input prices index was at a six-month low in February but showed raw material costs had risen for a 19th month, driven by higher prices of metals, cotton, chemicals and rubber. Factories passed some of those higher expenses to customers.

"There were, however, some key concerns that continued to threaten growth. Most prominently, cost pressures remained elevated as a result of shortages while delivery times lengthened once again," added Patel.

The economy expanded 5.4% last quarter, slower than the previous two quarters and below 6.0% growth expected in a Reuters poll.

A jump in oil prices due to the Russia-Ukraine crisis is likely to have a big impact on inflation and the rupee as well as widening India's current account deficit, slowing growth further.

The Reserve Bank of India was expected to raise rates next quarter to combat inflation, but if the crisis deepens it could change those predictions.