Rising Steel Imports Call for Critical Enablers in Budget

Economic growth in a developing country must reflect itself in the growth of industry. The extent of growth in a sector, however, becomes non-uniform depending on the sectoral dominance, stimulus available for various sub-segments in terms of investment, growth opportunities and potential.

The latest changes in the measurement of economic growth in India in terms of Gross Value Added (GVA) in place of physical output make it difficult to interpret the results in tandem with other indicators. The advance estimates of national income for FY16 shows a GDP growth of 7.6% over 7.2% in the previous year. Up to the third quarter (April-December,15), GDP has been assessed to grow by 7.5%. This has been achieved by 7.4% growth in GVA of industry and 9.5% growth in manufacturing sector. Compared to this creditable achievement, the industry sector has exhibited a growth of only 3.1% in physical output and same growth rate of 3.1% growth in manufacturing output as measured by index of industrial production.

The difference in growth estimates by two different methodologies originates in the definition of GVA that measures the value of output less value of inputs, the latter showing a steep decline in the current year. Further as 69% of manufacturing sector is accounted by organised private corporate sector, the fall in cost of production has enlarged the differential between output and input.

On the other hand, the growth in physical output entirely depends on the improved market scenario, both in domestic and exports, and the determinants of the product markets are influenced by various factors beyond the cost of production alone.

It is also a fact that a buoyant market would have exhibited a much higher growth in GVA in manufacturing by raising the value of output of different segments.

Unfortunately the single factor which could have largely influenced the dichotomous journey between IIP and GVA , namely, gross fixed capital formation as a percentage of GDP, has been consistently coming down from 34.3% in FY12 to 29.4% in FY16. The relative share of Gross Capital Formation in manufacturing in total GCF has also dropped from 19.2% in FY12 to 16.4% in FY15. The construction, electricity, gas and water services sectors also could not escape the adverse impact of decelerating share of capital formation during the period resulting in slowing down of growth in these sectors.

This happens to be a critical risk factor and needs to be reversed if manufacturing and electricity sectors are to look up once again.

The lagged impact of slower growth in capital formation or asset creation activities in around 86% components of industrial production (manufacturing, electricity) has restricted steel demand growth at only 4.2% in April-Jan '16 period. Empirically it has been proved that steel intensity of investment in infrastructure, construction and manufacturing is substantially higher than investment in consumer goods and other service sectors. As a result, a few critical steel-intensive segments exhibited near-stagnant growth, namely, fabricated metal products (0.9%), machinery and equipment (1.9%), electrical machinery (0.8%) and other transport equipment (nil growth) during the period.

This had a major constraining impact on domestic production of finished steel of different items and consumption of these items indicated growth much below their potential and the incremental rise in market was contributed by higher flows of cheap imports.

For instance in first 8 months of current fiscal, domestic production of plates dropped by 11.3%, but consumption was higher by 4.5% helped by import growth of 55%, non-alloy Hot Rolled coils production came down by 8%, consumption lower by 5.5% with imports higher by a hefty 92%, non-alloy Cold Rolled production dropped by 7.1%, consumption rose by 5.6% helped by import growth of 13.5%, GP/GC sheets production lower by 6.1% and consumption showed no growth with imports growing by 26%.

While the total finished steel availability in the domestic market was lower by1.4% during the period, real consumption of finished steel could rise by 5.1% strongly supported by import growth of 35%. The scenario calls for critical enablers in the Budget.