III—INDUSTRIAL RECOVERY

25. Last year a number of signs pointed to the beginning of recovery in industrial production and the hope was expressed in the Economic Survey for 1967-68 that industrial production would soon resume its upward trend. That hope has been substantially realised ; the index of industrial production for the first nine months of 1968 is 5·6 per cent higher than in the same period last year. For the year as a whole, the rate of growth of industrial output is likely to be between 5 and 6 per cent.

26. Industrial production had increased at over 8 per cent per year during the calendar years 1961 to 1964. In 1965 there was a slight slackening and the rate of growth was 7·2 per cent. It was in 1966 that the growth rate declined to only 1 per cent and in 1967 industrial output was slightly lower than in the previous year. In these two years Indian industry experienced a "recession" in the sense that the growth rate of industrial output declined sharply.

TABLE 6

Profile of Growth in Industry

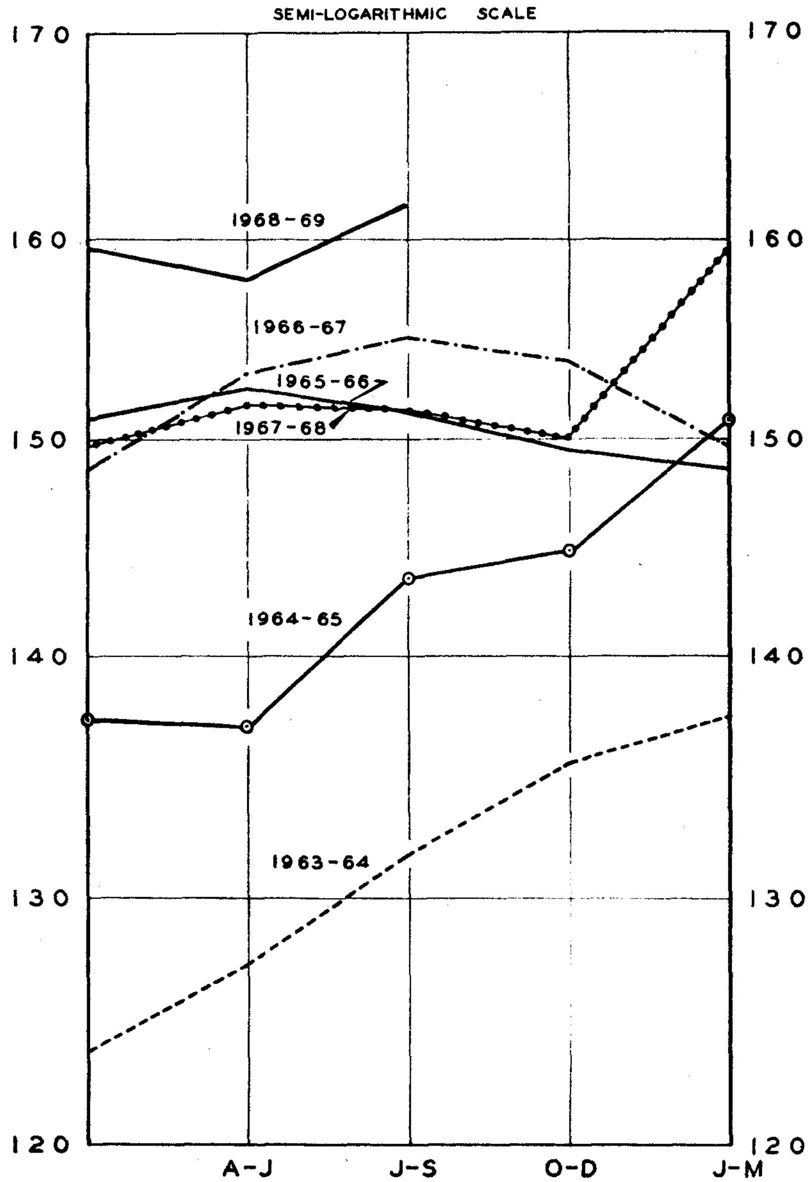
Industry	1960-65 average annual growth rate per cent	Percentage growth in the year over preceding year		
		1966	1967	Jan-Sept. 1968*
1	2	3	4	5
Machinery except electrical	27·8	+18·0	+6·2	+10·6
Manufacture of wood and cork except furniture	27·0	—14·2	+8·2	—1·7
Metal Products	21·1	+1·9	—8·3	—8·3
Electrical machinery	20·9	+10·0	+8·2	+10·4
Transport equipment	20·9	—19·5	—11·9	+0·6
Electricity generated	18·2	+8·9	+11·0	+16·0
Basic metals	16·0	+3·6	—4·4	+5·9
Mfg. of footwear and other wearing apparel and made up textile goods	13·9	+8·7	+5·5	—2·6
Rubber Products	11·9	+0·5	+7·0	+12·2
Petroleum products	11·4	—24·9	+19·6	+11·0

(*contd.*)

INDEX OF INDUSTRIAL PRODUCTION

(QUARTERLY AVERAGES)

1960 = 100



MINISTRY OF FINANCE, ECONOMIC DIVISION.

1	2	3	4	5
Chemicals	10·8	+8·3	+3·3	+8·6
of which :				
Fertilizers	10·5	+7·1	+26·5	+25·8
Synthetic fibres	14·8	+4·2	+14·3	+6·5
General Index	**10·2**	**+1·0**	**—0·5**	**+5·6**
Non-metallic mineral Products	9·8	—0·1	+4·5	—1·2
of which :				
Cement	7·0	+4·6	+2·1	+3·5
Beverage and tobacco industries	9·5	+7·7	—6·0	+7·8
Paper and Paper Products	9·4	+8·8	+4·4	+11.4
Mining and quarrying	6·3	+4·1	—0·9	+4·9
Food mfg. industries	4·6	+3·5	—12·2	—3·0
Leather and fur Products (except foot-wear)	4·5	—1·5	—3·0	—11·8
Mfg. of textiles	3·0	—5·1	—1·2	+7·2
of which :				
Cotton textiles	2·3	—4·6	—1·5	+9·6
Woollen textiles	7·3	—5·0	—5·5	+9·9
Jute manufacture	4·1	—16·5	+3·7	—3·6

*Provisional.

NOTE : The rates of growth in the above table relate to the new Index of Industrial Production with base 1960 = 100.

27. While "recession" affected the general industrial scene, output in a number of industries continued to grow at fairly rapid rates even during these years. Examples are electricity generation and refining of petroleum. Similarly, basic industrial chemicals were not affected. For most of these products, output was limited by capacity and not demand, and rose as fresh capacity was installed. Thus fertilizer output grew in 1966 at a rate somewhat higher than in 1965 and at a sharply increased rate in 1967.

28. The "recession" occurred primarily in agriculture-based industries and in equipment industries other than those catering for the requirements of agriculture. It was the result of declines in agricultural output in two successive years. On the supply side, agricultural raw materials like sugarcane, raw cotton and oilseeds were available in reduced quantities. The demand for consumer goods was affected by the reduction in farm incomes. It became necessary to adopt restrictive fiscal and monetary policies in order to hold inflation in check; and the restraint on public investment affected the demand for the output of steel and equipment industries. A slowing down in private investment also occurred, in part because of the decline in incomes and savings and in part because of a less optimistic outlook on the part of industrialists. The ability of industry to finance new investment was also affected by the rise in cost of inputs at a time when output could not be raised in a number of industries because of slack demand conditions.

TABLE 7

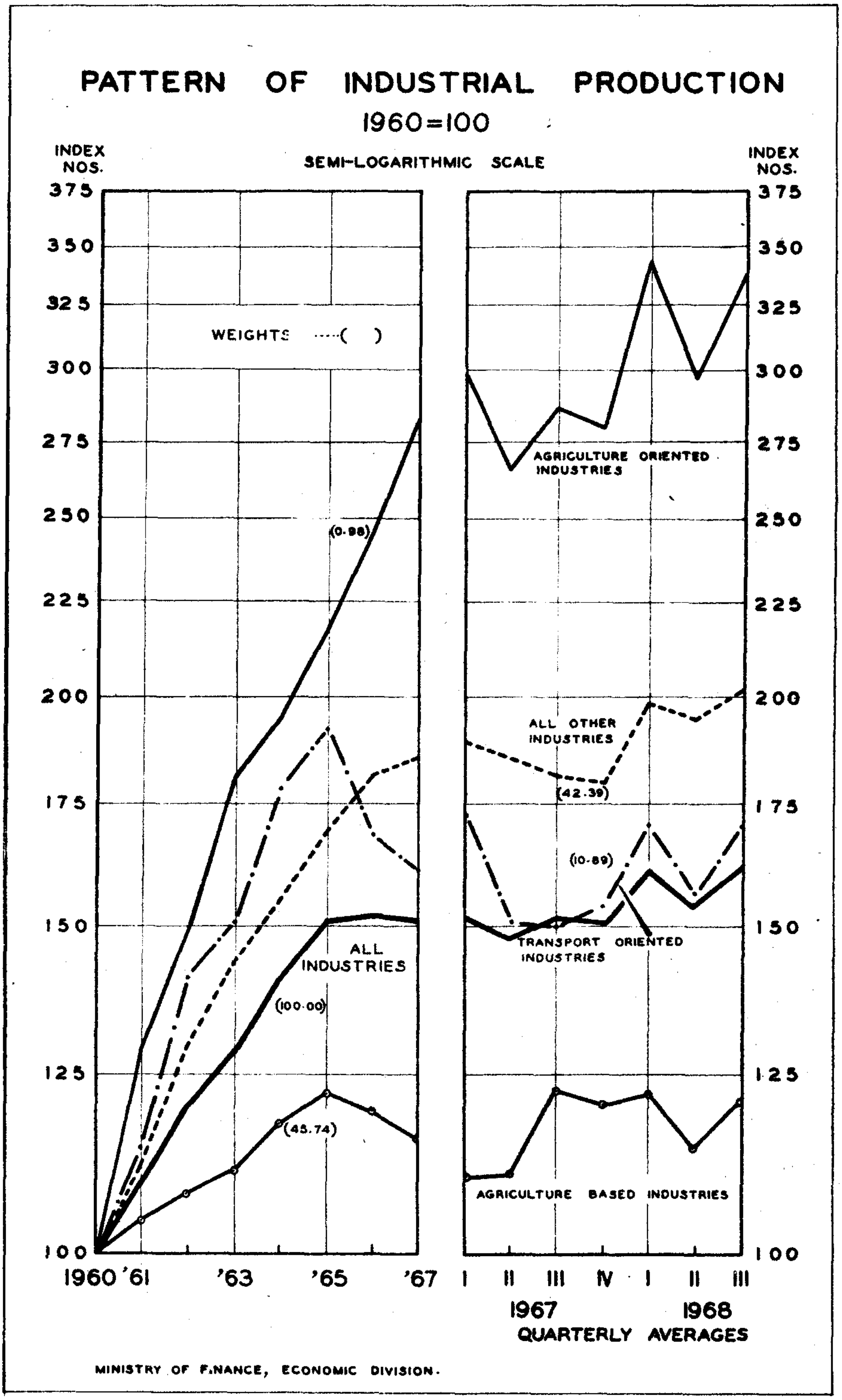
Availability[1] of Industrial Inputs

	1964-65	1965-66	1966-67	1967-68
Raw cotton (lakh bales) Sept.-August				
Production[2]	60·0	56·1	56·0	65·4
Imports	8·7	4·8	7·4	8·1
Availability	93·7	84·9	84·8	92·3
Raw jute[3] (lakh bales) July-June				
Production	76·0	57·6	65·8	75·0
Imports	5·2	12·0	16·4	Neg.
Availability	103·8	90·6	94·0	94·5
Major Oilseeds[4] (million tonnes) July-June				
Production	8·5	6·4	6·4	8·2
Sugarcane[5] (million tonnes) July-June				
Production	12·0	12·1	9·5	10·0

1. Availability is defined as production + imports + opening stocks.
2. Trade estimates.
3. Including mesta.
4. Groundnuts, rapeseed and mustard, linseed, sesamum and castorseed.
5. In terms of gur.

29. A number of measures had been taken to promote recovery. These included advance placement of orders of Government, the Railways and other public sector undertakings, provision of more liberal finance for purchase of indigenous road transport and other equipment by the Industrial Development Bank of India and later a reduction in interest rates generally. Several steps were taken to promote export of manufactures. The diversification of output was facilitated by several relaxations in the industrial licensing system. The grant of import licences for components and raw materials to priority industries on a need-based basis facilitated the adjustment of output to changing requirements. Export credit rates were also lowered.

30. The sharp rise in agricultural production in 1967-68 greatly increased the availability of major agricultural raw materials like fibres and oilseeds, which in turn facilitated the step up in production of agro-based industries whose output in the preceding years had been severely constrained by material shortages. Although production of commerical crops may not be quite as high during the current year, no serious shortfall in output has taken place, or is likely to take place, except in the case of raw jute. Production of jute this year declined seriously owing to a shift in acreage under cultivation towards food crops and damage by floods. As a consequence industrial requirements of this fibre are planned to be met by higher imports during the second half of the current fiscal year. The production of raw cotton and major oilseeds is likely to be somewhat lower as compared to 1967-68. However, with some drawing down of stocks held over from last year's crops, requirements are expected to be met



PATTERN OF INDUSTRIAL PRODUCTION
1960=100
INDEX NOS.
SEMI-LOGARITHMIC SCALE
INDEX NOS.
WEIGHTS ( )
AGRICULTURE ORIENTED INDUSTRIES
(0.98)
ALL OTHER INDUSTRIES
(42.39)
(10.89)
TRANSPORT ORIENTED INDUSTRIES
ALL INDUSTRIES
(100.00)
(45.74)
AGRICULTURE BASED INDUSTRIES
375
350
325
300
275
250
225
200
175
150
125
100
1960 '61 '63 '65 '67
I II III IV I II III
1967
1968
QUARTERLY AVERAGES
MINISTRY OF FINANCE, ECONOMIC DIVISION.

without greater recourse to imports. The production of sugarcane, which had risen very little in 1967-68, is expected to rise substantially during the current year.

31. The bumper harvest of 1967-68, and the consequent rise in disposable income in the agricultural sector, raised the demand for manufactured consumer goods, agricultural inputs and farm equipment. The good agricultural performance in the current year has reinforced this trend. The increased demand for consumer goods as a result of the good crop has materialised somewhat later than expected; but in the current year the recovery has been widespread. The production of the major manufactured consumer goods, cotton textiles, has been substantially higher this year. There has similarly been a sharp increase in the output of other manufactured consumer goods like radios, electric fans, electric lamps, bicycles and sewing machines. The farmers have spent part of their additional incomes increasing productivity; and the demand for tractors, for example, has increased substantially.

32. In industries like fertilizers, and various chemicals production has gone up as a result of the establishment of additional capacity. Similarly, the generation of electricity has increased at a more rapid rate than in the previous year due to the establishment of new generating capacity.

33. In the field of equipment manufacture, the output of commercial vehicles has revived to some extent because of the growing transport requirements resulting from the good crops. The metal and equipment industries generally have lagged behind. There has been a substantial expansion of output of equipment for export purposes, but installation of machine tools, and other industrial machinery for domestic requirements has not so far picked up significantly.

34. Capital raised through public issues by companies during 1968 was significantly less than in 1967. There are signs, however, that there is a revival of investor interest in equity issues. This is evident from the performance of the stock market. Since the start of the current financial year, the index of equity prices has risen by 6·3 per cent. Also considerable interest has been shown recently by investors in subscribing to certain public issues of capital. The extent of over-subscription in such issues surpassed any over-subscription in the preceding five years in equally attractive issues.

35. There has been considerable import substitution, particularly in the field of equipment. In the case of a number of new projects in fields such as fertilizers, petro-chemicals and aluminium, the proportion of equipment required to be imported has declined substantially in relation to past experience. This trend will be reinforced by the going into production this year of some major public sector projects like the Heavy Machine Tools Plant, Ranchi, and Instrumentation Ltd., Kota.

36. During the year some policy measures were taken to streamline controls. Two industries, namely the manufacture of steel

ingots and billets by concast plants and the manufacture of barium salts and compounds, were exempted from licensing under the Industries (Development and Regulation) Act in June 1968. The vanaspati industry was also similarly de-licensed, subject to certain conditions, in September 1968.

37. Control over capital issues was considerably relaxed. Control has been retained only over bonus issues and issue of capital at a premium by public limited companies and practically all other categories of issue of capital by companies have been exempted from control. In the case of public limited companies issuing capital exceeding Rs. 25 lakhs during a period of 12 months, the exemption from control is subject to certain criteria being met. A few of these are the observance of a debt equity ratio of 2:1 and an equity preference ratio of 3:1, issue of capital at par and issue of preference shares and debentures at rates of dividends and interest not exceeding certain limits.

38. Certain adjustments were also made with respect to controls on prices; these are referred to elsewhere in this Survey.

39. It is likely that in the coming year industrial production will expand further. If the availability of commercial crops like raw jute and oil seeds improves, this would facilitate the expansion of industrial production. Recovery is likely also in the industries producing equipment of various kinds. There is clearly need for the establishment of new capacity in industries such as cement, paper and sugar which rely almost entirely on indigenous equipment. In the case of the cotton textile industry, there is no need for capacity expansion. However, there are substantial requirements for modernisation, which can be met by utilisation of the output of the textile machinery industry. In view of the increased demand for cotton textiles, it is to be expected that the pace of modernisation will quicken. The capacity to manufacture fertilizer equipment is being fully utilised. Large orders have been placed on the equipment industries by the Bokaro project. The substantial investment being undertaken in the petro-chemicals, aluminium and other industries will also provide orders for indigenous equipment. Truck output can be expected to respond further to the growth of agricultural output and the revival of the economy. There will still remain problems of under-utilisation of capacity in areas such as the manufacture of heavy electrical equipment, coal mining machinery and heavy engineering equipment. Nevertheless, the overall picture will be one of an expansion of output, in the capital goods sectors.

40. It may be noted that substantial expansion of industrial capacity in several important sectors will result from imports of equipment for which foreign exchange has already been authorised. These areas of industry include fertilizers, caustic soda, soda ash, aluminium ingots, tractors, commerical vehicles, transformers and electric motors. Thus the industrial capacity of the economy is likely to expand considerably on the basis of the use of both indigenous and imported equipment. The Fourth Five Year Plan to be published soon, will indicate the directions in which further investments will require to be undertaken in the coming years, to meet the requirements of various industrial products.