

Economics

12 February 2009 | 8 pages

India Economics

Consumer Durables Drag Dec Industrial Output Down 2% YoY

- **Dec Industrial production below expectations - down 2%:** Industrial production was down -2% YoY below ours (+0.1%) as well as consensus expectations (Bloomberg at -0.4%; Reuters +1.3%). This follows the -0.3% contraction in Oct (which was the 1st contraction since the index was constructed in 1994) and the 1.7% growth in Nov. Cumulatively during the current fiscal (Apr-Dec), production slowed to 3.2% v/s 9% during the same period last year and poses some downside risks to the CSO's FY09 advance GDP estimate of 7.1%.
- **Highlights:** On a sectoral basis the contraction seen in Dec was due to manufacturing at -2.5% while electricity and mining saw growth of 1.6% and 1% respectively. As per the use-based classification, consumer goods contracted -2.7%, with durables down -12.8% (the steepest decline since March03). Intermediate goods remained in negative territory for the 5th month in a row, while capital and basic goods were up 4.2% and 1.7% respectively.
- **Implications – Advancement of rate cuts; fiscal measures:** While we continue to expect the RBI to cut rates by an additional 100bps-150bps in 1H2009, the contraction in output could advance easing. Secondly, given the upcoming elections, the govt will be coming out with its interim budget on Monday - Feb16 instead of a regular budget. While normally changes in taxation are not announced in an 'interim budget' we could see the poor data being used as a reason for additional spending/tax cuts.
- **Maintain FY10 GDP estimate of 5.5%:** Earlier this week, the CSO pegged FY09 GDP growth at 7.1%. This was slightly higher than our estimate of 6.8%. For FY10, we maintain our estimate of 5.5%. This factors a contraction in exports, a further deceleration in investment growth and a moderation in consumption.

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Figure 1. Trends and Components of Industrial Production (%YoY)

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Dec-07	Apr-Dec FY09	Apr-Dec FY08	Full Year FY09	Full Year FY08
Sectoral											
Mining	2.8	2.8	5.8	3.2	0.3	1.0	5.0	3.0	5.2	5.3	5.2
Manufacturing	6.9	1.7	6.2	-1.1	1.8	-2.5	8.6	3.3	9.6	9.1	12.5
Electricity	4.5	0.8	4.4	4.4	2.6	1.6	3.8	2.7	6.6	6.4	7.3
General	6.4	1.7	6.0	-0.3	1.7	-2.0	8.0	3.2	9.0	8.6	11.5
Use-based											
Basic goods	5.3	3.9	5.0	3.1	2.1	1.7	3.4	3.4	7.8	7.1	10.2
Capital goods	17.9	0.9	20.8	2.9	-0.1	4.2	17.6	7.7	20.4	18.1	18.5
Intermediate gds	3.0	-5.5	-2.5	-4.0	-4.2	-8.5	7.6	-1.6	9.6	9.0	12.0
Consumer gds	5.9	6.4	7.4	-2.2	7.3	-2.7	8.7	5.2	5.8	6.2	10.2
Durables	13.9	3.9	14.6	-3.1	-4.2	-12.8	2.8	2.5	-1.4	-0.9	9.6
Non-durables	3.4	7.3	4.8	-1.8	11.2	-0.1	10.3	6.0	8.4	8.7	10.4

Source: CSO

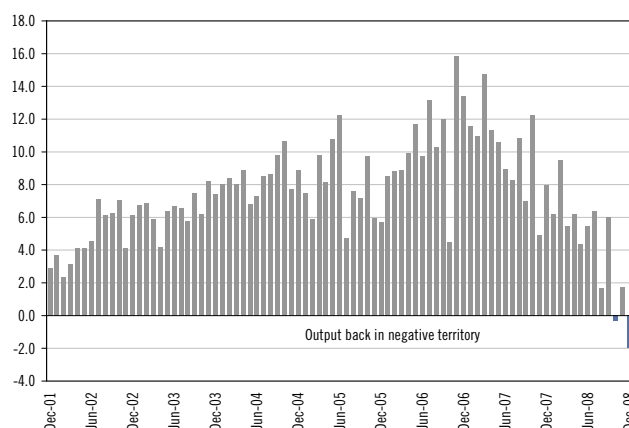
See Appendix A-1 for Analyst Certification and important disclosures.

Charting Trends in Industrial Production

Dec Industrial Production – Key Highlights

- Following a contraction in Oct and lackluster growth in Nov, industrial production once again dipped into the red in Dec08, down 2%YoY. Growth during Apr-Dec FY09 was up 3.2% vs. 9% during the same period last year.
- Numbers pose some downside risk to the CSO's FY09 Advance GDP estimate released earlier this week, of 7.1% (<https://www.citigroupgeo.com/pdf/SAP24395.pdf> for details).

Figure 2. Trends in Industrial Production (% YoY)



Sectoral Trends – All indicate a Slowdown

- Auto sales**, data available till Jan indicates a sharp fall across segments. Truck sales saw the largest fall while passenger car and 2-wheeler sales held up fairly well. Our analyst believes that fiscal stimulus and monetary easing will impact growth only after 6-9 months
- While **cement** dispatches came in at double-digits during Nov and Dec, growth slowed to 7.3% in Jan.
- Diesel consumption** decelerated to 1.8% in Dec v/s a 10% avg seen earlier this year.

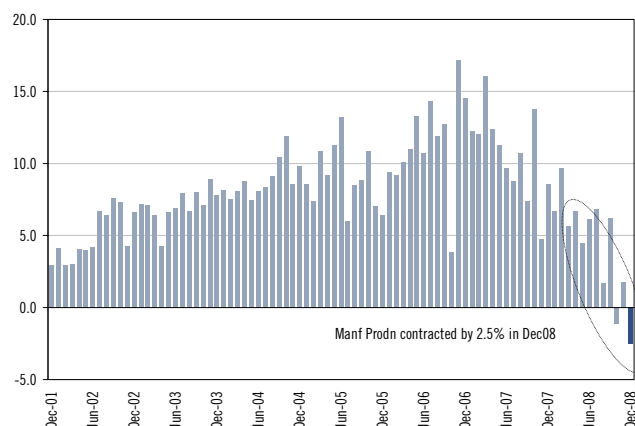
Figure 3. Sectoral Trends (%)

% YoY	Apr-Dec						
	Aug08	Sep08	Oct08	Nov08	Dec08	Dec07	FY08 FY09
CV sales	-3.3	0.1	-34.8	-47.6	-57.8	2.8	5.1 -13.2
Two-wheelers sales	17.2	17.2	-10.2	-8.8	-9.7	-3.9	-4.7 6.3
Car Sales	5.1	16.0	7.8	-0.7	5.2	6.6	11.3 10.3
Cement Dispatches	3.8	9.5	4.1	11.2	12.1	4.8	7.8 7.5
Diesel consumption	9.5	18.0	6.1	8.8	1.8	11.0	10.1 9.8
Infrastructure index	2.7	4.8	3.1	1.8	2.3	3.2	6.0 3.4
Overall IP	1.7	6.0	-0.3	1.7	-0.2	8.0	9.0 3.2

Manufacturing – Many Sub-Sectors in the Red

- A key concern was weak growth in manufacturing which contracted by 2.5% in Dec08 vs. 8.6% in Dec07. On a cumulative basis, growth during Apr-DecFY09 was 3.3%yoy vs. 9.6% during the same period last year.
- On a sectoral basis, just 7 of the 17 industry groups posted positive growth in August, with food products, textiles, wood & leather products, and transport equipment all in the red (see p. 4 for detailed breakdown)

Figure 4. Trends in Manufacturing Production (% YoY)



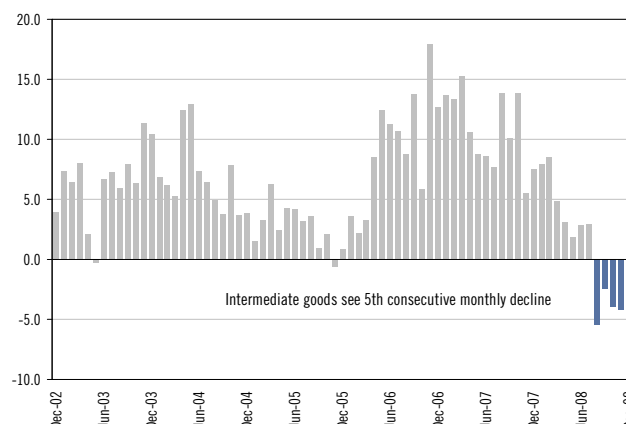
Source: CSO; SIAM; CEIC; CMA

Charting Trends in Industrial Production

Intermediate Goods – Down for the 5th Month

- Intermediate goods posted a fifth consecutive monthly decline, with growth down 8.5% in Dec08 (from +7.6% in Dec07). Cumulatively, growth contracted by 1.6% during Apr-Dec08 vs. positive growth of 9.6% last year
- Primary components of intermediate goods include cotton yarns, filaments, pipes, auto ancillaries, LPG and natural gas, and polyester fibers, paints and varnishes.

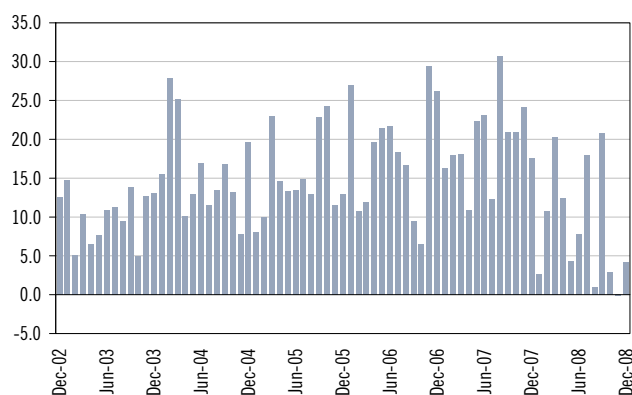
Figure 5. Trends in Intermediate Goods (%YoY)



Capital Goods – Trends Remain Erratic

- Growth in capital goods continues to remain erratic, rising 4.2%yoy in Dec08 after a 0.1% contraction the previous month. However, trends remained significantly lower than the double-digit growth seen last year
- Looking ahead, slowing order inflows, a comparatively higher cost of debt, and poor availability of credit will likely take its toll on this sector. This would also reflect in a slowdown in headline investment growth

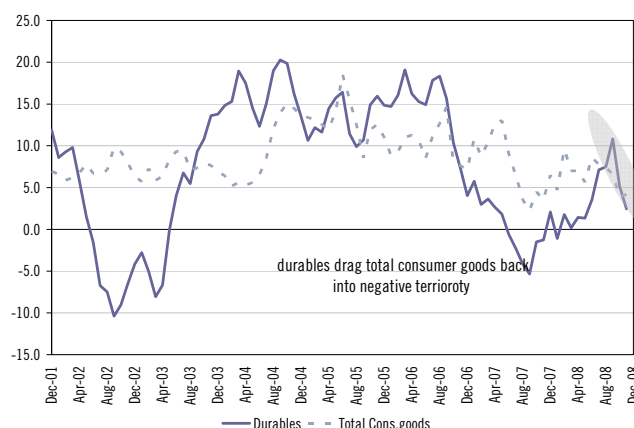
Figure 6. Trends in Capital Goods (% YoY)



Consumer Goods – A Bit of a Surprise

- A key surprise in today's data was the contraction in consumer goods (-2.7%YoY in Dec08), led largely by consumer durables (-12.8%yoy). This is the steepest decline in durables since Mar03.
- Given the fiscal stimulus, latent rural demand, and pay commission recommendations, we had expected growth in consumer goods to moderate and not slump

Figure 7. Trends in Consumer Goods



Source: CSO

Appendix 1 : Manufactured Products – Detailed Breakdown

Manufacturing activity contracted by 2.5% vs. 8.6% growth seen in Dec07. On a cumulative basis, growth during Apr-Dec FY09 slowed to 3.3% vs. 9.6% during the same period last year.

On a sectoral basis, just 7 of the 17 industry groups posted positive growth in Dec. These included beverages and tobacco (+9%), metal products and parts (+7.6%), and non-metallic minerals (+6.7). However, food products, textiles, wood & leather products, and transport equipment remained in the red.

Figure 8. Detailed Breakdown of Manufacturing Components

	Wts	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Dec-07	Apr-DecFY09	Apr-DecFY08
Manufacturing	79.4	6.9	1.7	6.2	-1.1	1.8	-2.5	8.6	3.3	9.6
Food Products	9.1	5.7	8.9	5.2	-2.9	3.8	-8.7	-0.7	-1.8	5.5
Beverages, Tobacco & Related	2.4	28.6	5.7	11.7	7.5	14.5	9.0	17.4	16.7	11.1
Cotton Textiles	5.5	-4.8	-5.4	-9.3	-9.6	-0.1	-6.1	2.4	-1.5	4.6
Wool, Silk, Manmade fibres	2.3	-9.2	-14.9	1.4	-4.8	-11.4	2.6	-2.1	-2.0	2.8
Jute, Vegetable, and Fibre Textiles	0.6	-0.5	-6.7	-0.4	-3.3	5.1	-66.4	0.2	-11.3	12.9
Manf of Textile Prod	2.5	0.0	2.9	-1.9	-4.6	6.0	2.5	3.4	4.7	3.1
Wood, Wood Products	2.7	-9.1	-8.1	-9.7	-14.4	8.7	-20.0	31.1	-7.5	66.7
Paper, Prod, Printing, Pub.	2.7	3.6	1.3	8.3	5.4	0.2	-1.9	3.7	3.4	1.6
Leather and Leather Products	1.1	-4.9	-7.0	-8.6	-18.1	-13.1	-11.4	-0.8	-6.5	9.6
Basic Chemicals ,Chemical Products	14.0	4.0	-0.7	-3.6	-5.5	-2.1	-7.2	22.1	2.8	10.5
Rubber, Plastic, Petro, Coal Products	5.7	-1.9	-8.4	-3.4	5.1	30.7	-4.6	6.1	-2.8	10.0
Non-Metallic Mineral Products	4.4	3.1	-0.1	-0.6	-3.3	2.3	6.7	-1.9	0.9	6.6
Basic Metal and Alloy Industries	7.5	9.2	8.0	5.6	4.0	5.6	3.8	4.4	6.0	14.2
Metal Products and Parts	2.8	5.2	-12.3	12.8	1.2	-8.7	7.6	-22.7	1.3	-7.0
Machinery and Equipment	9.6	16.0	4.5	16.1	0.3	5.5	-4.1	12.0	7.0	11.7
Transport Equipment and Parts	4.0	18.7	11.2	16.8	-6.1	-8.9	-17.9	5.6	4.1	2.9
Other	2.6	13.9	-5.7	10.5	11.0	-16.9	21.7	30.9	1.5	20.5
Mining	10.5	2.8	2.8	5.8	3.2	0.3	1.0	5.0	3.0	5.2
Electricity	10.2	4.5	0.8	4.4	4.4	2.6	1.6	3.8	2.7	6.6
General	100	6.4	1.7	6.0	-0.3	1.7	-2.0	8.0	3.2	9.0

Source: CSO

Appendix 2: Components of Use-Based Classification

Figure 9. Use Based Classification: Top 15 Components by Weight

Component	Wt(%)	Component	Wt(%)
1. Basic goods	35.6	4. Capital goods	9.3
Mineral index	10.5	Diesel engines (IPP)	0.8
Electricity	10.2	Well/off shore platforms	0.7
Cement all kinds	2	Industrial machinery	0.5
Nitrogenous fertilizers	1.8	Complete tractors	0.5
Bars and rods	1.8	Laboratory and scientific instruments	0.4
Carbon steel	1.1	Protection system/switch board/switch gear etc.	0.4
Structurals (light, medium & heavy)	1	Computer system and its peripherals	0.4
High speed diesel	0.7	Process control instruments	0.3
Caustic soda	0.5	Ship building and repair	0.3
Soda ash	0.4	Agricultural implements	0.3
Aluminium ingots	0.4	Power & dist. transformers (IPP)	0.3
Pig iron	0.3	Broad gauge passenger carriage	0.3
Phosphatic fertilizers	0.3	Textile machinery	0.3
Sponge iron	0.2	Telecommunication cables	0.3
Plates	0.2	Insulated cables/wires all kinds	0.2
2. Intermediate goods	26.5	5. Consumer durables	5.4
Cotton yarn (including SSI)	4.5	Telephone instruments	0.6
Filament yarn	1.8	Scooter and mopeds	0.6
Plywood commercial	1.7	T.V. receivers	0.5
PVC pipes & tubes	1.5	Passenger cars	0.4
Particle board	1	Giant tyres	0.4
Glazed tiles/ceramic tiles	0.9	Wrist watches	0.4
Auto ancillary & parts	0.7	Motor cycles	0.4
Polyester fibre	0.7	Bicycles all kinds	0.4
Shoe uppers	0.6	Alarm time pieces	0.3
Paints, enamels & varnishes (IPP)	0.5	Electric fans all kinds (IPP)	0.2
Viscose staple fibre	0.5	Washing/ laundry machines etc.	0.2
Corrugated boxes/cartons (all kinds)	0.5	Metallic utensils excl. pressure cooker	0.2
Ball & roller bearings	0.5	Refrigerators (domestic)	0.1
Newsprint bleached	0.5	A.C.single phase house service meters	0.1
Bottles/bottle glass wares	0.4	Two wheeler tyres	0.1
3. Consumer non-durables	23.3		
Cotton hosiery cloth	2.5		
Sugar	2.2		
Wheat flour/maida	2.1		
Paper & paper board (IPP)	1.4		
100% Non-cotton cloth	1.2		
Vitamin a	1.1		
Milk powder of all kinds	1		
Cotton cloth (excluding hosiery)	1		
Cigarettes	0.8		
Tea	0.8		
Vitamin c	0.6		
Ampicillin	0.6		
Mustard oil / rape seed oil	0.5		
Indian made foreign liquor	0.5		
Writing instruments	0.4		
		TOTAL USE BASED INDEX (1:5)	100

Source: CSO

Appendix A-1

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