

12 October 2011

## Economy – Industrial production

### Growth worries deepen

Contraction of mining coupled with subdued business sentiments and high interest costs are weighing down on industrial production. The continuance of stubborn inflation, however, may prevent the RBI from softening the monetary stance for now.

- Low IIP growth.** The index of industrial production (IIP) grew 4.1% in Aug '11, below market (4.7%) and our (6.5%) expectations. During Apr-Aug '11, IIP grew 5.6% vs. 8.7% in Apr-Aug '10. IIP growth for Jul '11 was revised upward to 3.8% from 3.3% earlier.
- Mining sees worst drop in a decade.** The mining sector contracted 3.4% in Aug '11, the biggest fall since Jul '01. This is because of a major shutdown in mining in several states.
- Low manufacturing growth.** The manufacturing sector grew 4.5% in Aug '11, the second-lowest growth in the last 22 months. Industry groups 'Office, accounting & computing machinery' (-26.8%) and 'Tobacco products' (-20.5%) were major drags on the manufacturing sector. Electricity maintained healthy growth in recent months.
- Major slump in basic and consumer goods.** Production of basic goods slowed down to 5.4% in Aug '11, the lowest in 11 months. In addition, both consumer durables (+4.6%) and non-durables (+2.8%) saw a major slowdown in production in Aug '11.
- Capital goods remain volatile.** After falling by 13.8% in Jul '11, capital goods production grew 3.9% in Aug '11. Intermediate goods production grew 1.3% in Aug '11 vs. 5.9% in Aug '10.
- Industry assessment.** Sharp slowdown in the production of basic goods, which has 46% weight in the IIP, kept IIP growth low in Aug '11 despite the low base of last year. The 3M/3M seasonally adjusted annualized data shows that IIP has been contracting for the last three months. Closure of mining in many key states has also contributed to the low IIP growth. Manufacturers are refraining from capex due to economic uncertainties and high interest cost. Consumer demand has also been subdued due to consistently high inflation. The festive season may lead to some buoyancy in industrial production during the next two months.
- Policy outlook.** Despite the major slowdown in IIP growth and a high G-Sec yield, we expect the RBI to go for another rate hike of 25 bps on 25-Oct '11 as inflation remains near double digits. This may be the last hike in the on-going tightening cycle of the RBI. Moreover, if the debt crisis deepens in the Eurozone, RBI may have to soften its stance within the next six months.

IIP: 4.1% (Aug'11)  
Inflation: 9.8% (Aug'11)

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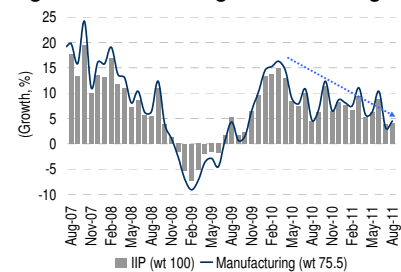
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Fig 1 – IIP growth remains low

(%)	FY11	Aug-11	FY12YTD
Industrial production	8.2	4.1	5.6
Mining & quarrying	5.2	-3.4	0.1
Manufacturing	9.0	4.5	6.0
Electricity	5.6	9.5	9.5

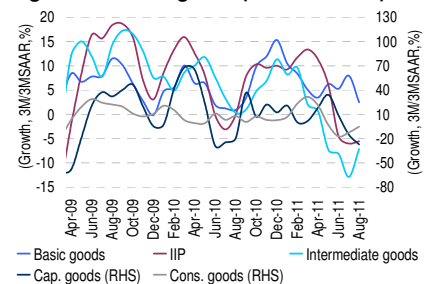
Source: Government of India

Fig 2 – Manufacturing remains a drag



Source: Government of India, Anand Rathi Research

Fig 3 – Growth figures (3M/3M SAAR)



Source: Government of India, Anand Rathi Research

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**Fig 4 – Major slump in basic and consumer goods production**

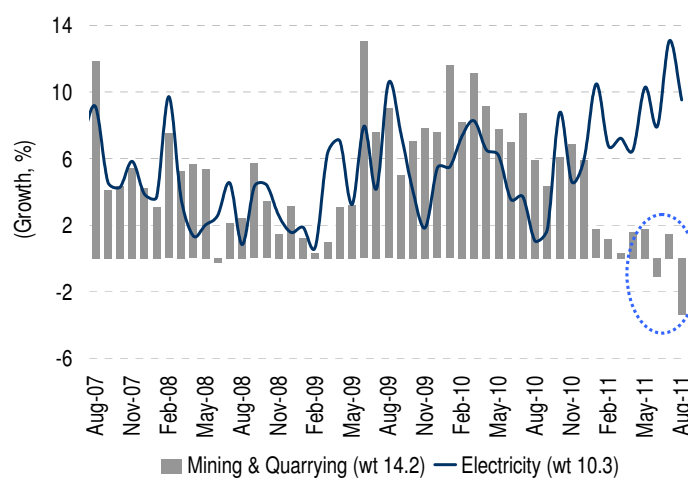
(%)	Weight	FY10	FY11	FY12YTD	Aug-11
Industrial production	100.0	5.3	8.2	5.6	4.1
Mining & quarrying	14.2	7.9	5.2	0.1	-3.4
Manufacturing	75.5	4.8	9.0	6.0	4.5
Electricity	10.3	6.1	5.6	9.5	9.5
Basic goods	45.7	4.8	6.0	7.4	5.4
Capital goods	8.8	1.0	14.8	7.2	3.9
Intermediate goods	15.7	6.0	7.4	1.0	1.3
Consumer goods	29.8	7.7	8.6	4.8	3.7
Consumer durables	8.5	17.0	14.2	4.3	4.6
Consumer non-durables	21.3	1.4	4.3	5.2	2.8

Source: Government of India, Anand Rathi Research

**Fig 5 – Sectoral performance of manufacturing sector**

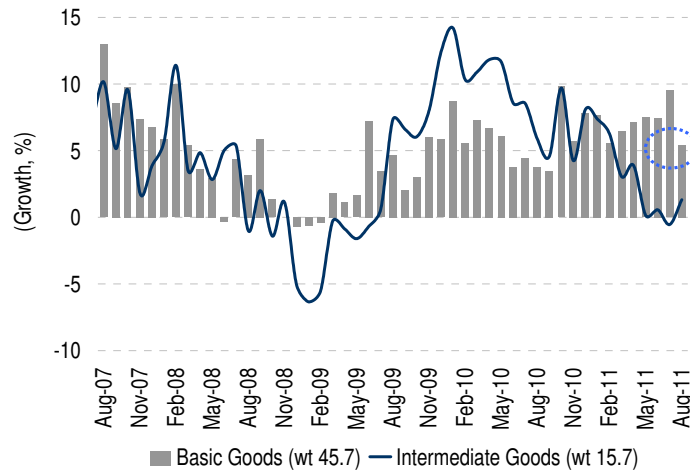
(%)	Weight	FY10	FY11	FY12YTD	Aug-11
Food products and beverages	7.3	-1.4	7.0	14.6	8.3
Tobacco products	1.6	-0.6	2.0	-4.1	-20.5
Textiles	6.2	6.1	6.7	-2.5	-3.8
Wearing apparel, dressing and dyeing of fur	2.8	1.9	3.7	-1.1	-0.4
Leather products (luggage, handbags, footwear etc.)	0.6	1.3	8.1	6.8	7.4
Wood & products of wood & cork expt furniture	1.1	3.1	-2.2	-4.5	-0.8
Paper and paper products	1.0	2.6	8.6	5.7	0.0
Publishing, printing & reproduction of recorded media	1.1	-6.0	11.2	9.1	6.4
Coke, refined petroleum products & nuclear fuel	6.7	-1.3	-0.2	5.1	8.6
Chemicals and chemical products	10.1	5.0	2.0	1.9	1.4
Rubber and plastics products	2.0	17.4	10.6	-1.0	-0.8
Other non-metallic mineral products	4.3	7.8	4.1	3.1	5.8
Basic metals	11.3	2.1	8.8	14.8	11.2
Fabricated metal products, except machinery & equipment	3.1	10.2	15.3	14.0	11.6
Machinery and equipment	3.8	15.8	29.4	-1.8	-0.7
Office, accounting & computing machinery	0.3	3.8	-5.3	12.5	-26.8
Electrical machinery & apparatus	2.0	-13.5	2.8	1.4	-5.5
Radio, TV and communication equipment & apparatus	1.0	11.3	12.7	1.1	12.5
Medical, precision & optical instruments, watches & clocks	0.6	-15.8	6.8	-5.1	-7.9
Motor vehicles, trailers & semi-trailers	4.1	29.8	30.2	15.5	8.1
Other transport equipment	1.8	27.7	23.2	17.4	12.1
Furniture: manufacturing	3.0	7.1	-7.5	1.1	-1.4

Source: Government of India

**Fig 6 – Mining production contracted the most in almost a decade**

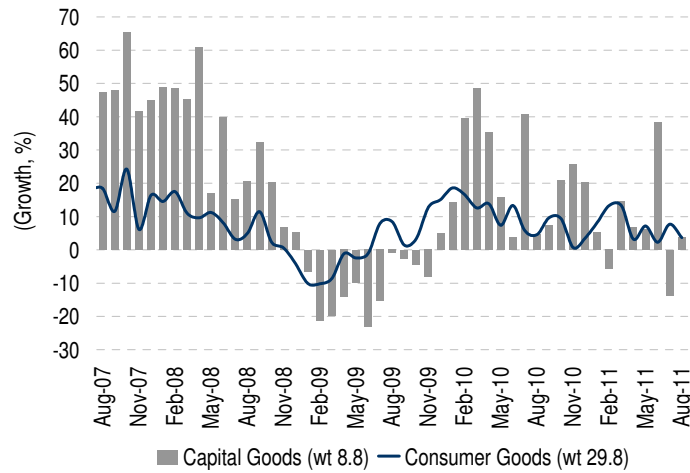
Source: Government of India

**Fig 7 – Sharp deceleration in basic goods production**



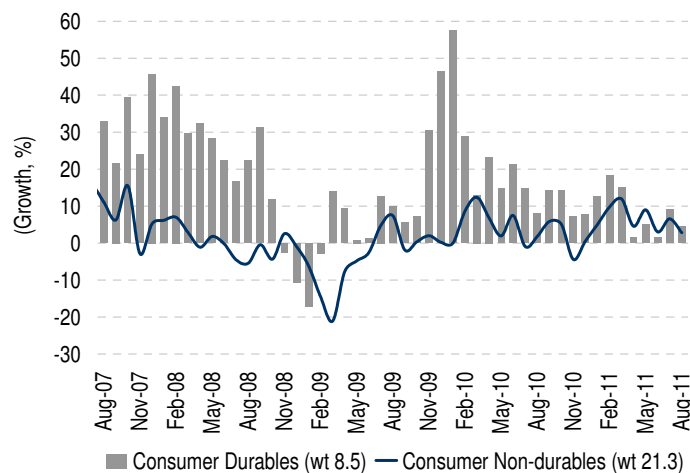
Source: Government of India

**Fig 8 – Volatility in capital goods production remains high**



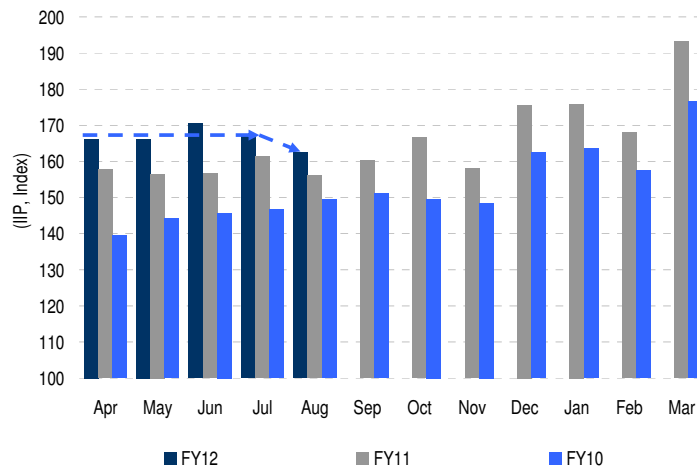
Source: Government of India

**Fig 9 – Consumer durables production slows down in Aug '11**



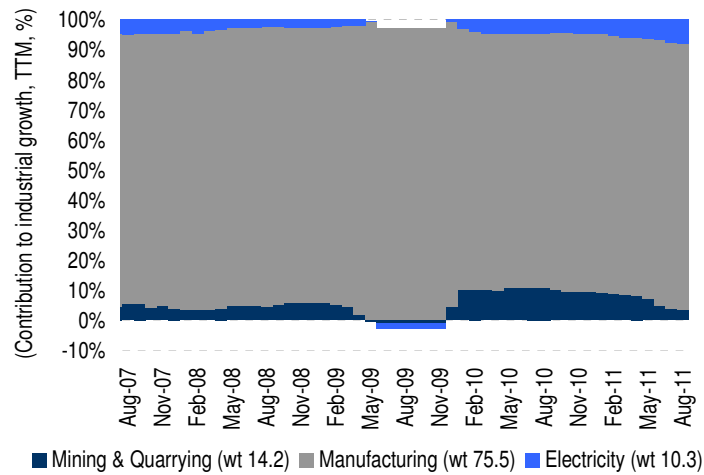
Source: Government of India

**Fig 10 – IIP index declines (mom)**



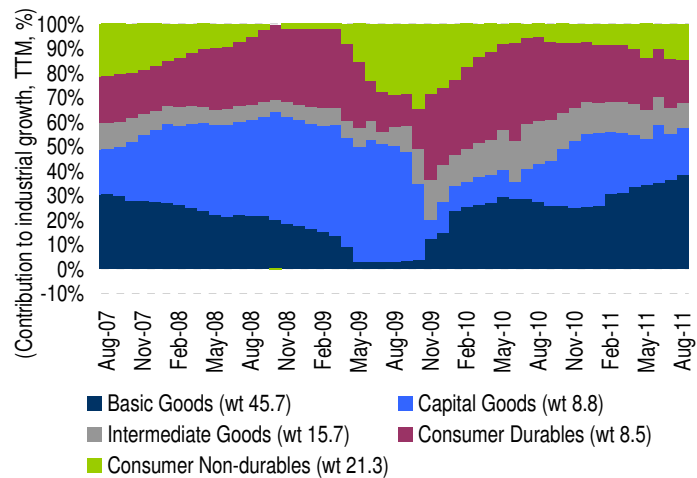
Source: Government of India

**Fig 11 – Sectoral contribution to IIP growth**



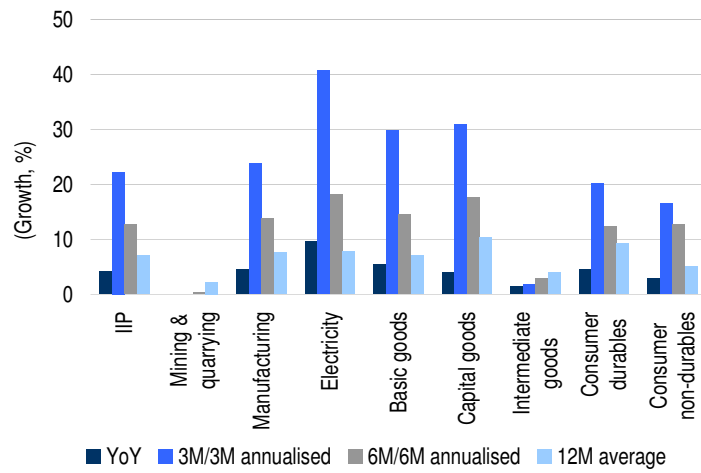
Source: Government of India

**Fig 12 – Sectoral contribution to IIP growth**



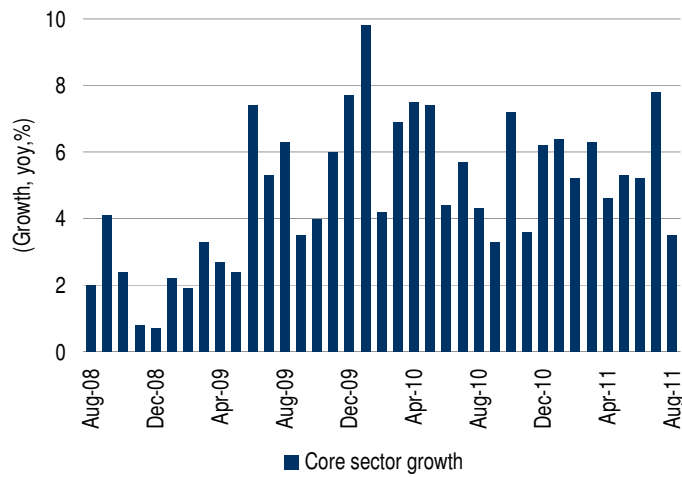
Source: Government of India

**Fig 13 – Post Apr '11, IIP growth dipped**



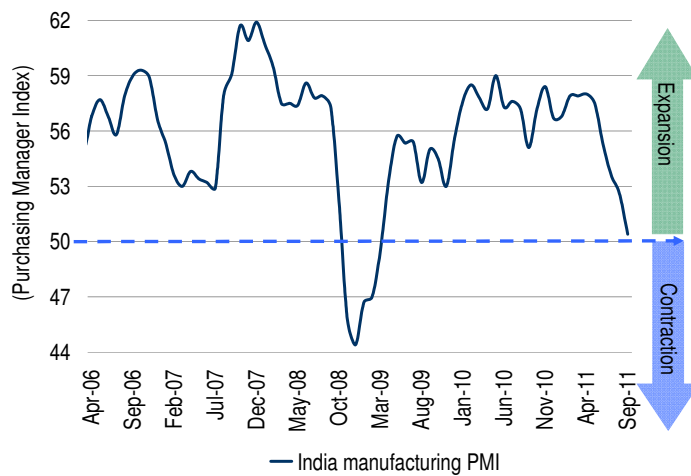
Source: Government of India, Anand Rathi Research

**Fig 14 – Core sector growth softened too in Aug '11**



Source: Government of India, Anand Rathi Research

**Fig 15 – Manufacturing PMI near the contraction point**



Source: Bloomberg, Anand Rathi Research

## Appendix 1

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