

## India Macro Flash

### Dec PMI rises to 5 month high, Nov Infra Index rebounds smartly...But too early to call a trend reversal as other data mixed

- **Dec PMI rises to 54.2 from 51.0 in Nov** — After months of moderation, the Dec PMI rose by 3pts to 54.2. The unexpected year-end rebound in PMI mirrors trends seen in China and the US. The rise in output was led by both domestic and external factors. Current indicators as reflected in total output rose 5.3pts to 55.8 while the forward looking indicators i.e new orders rose 5.1pts to 57.9 while new export orders rose 3.6pts to 54.1. While this is clearly positive, given the deceleration seen in the autos and materials space, its too early to call a trend reversal in growth. Nonetheless, this bodes well for growth in the coming months.
- **Prices: Output Prices Rise but Input Prices Moderate** — Unlike the past, there was a divergence in prices. Input prices moderated marginally by 0.42pts to 62.7 while output prices rose further by 0.8pts to 56.2. While the base effect is impacting the primary product numbers (latest weekly reading at 0.1%), which in turn could result in a sub-8% headline WPI print, PMI data indicates that price pressures continue unabated and pricing power remains unchanged.
- **Nov Infrastructure Index Rises 6.8% YoY** — Following the dismal 0.3% growth seen last month, the recently-released index for eight core infrastructure industries rose 6.8%YoY in November. On a cumulative basis, growth during Apr-Nov FY12 moderated to 4.6% vs. 5.6% during the same period last year. Given that the infra index has a weightage of 38% in the index of industrial production, strong data bodes well for minimizing the high (-5.1%) contraction seen in the Oct IIP. However with other sectoral data remaining weak, the Nov IIP data due on Jan 12, could remain subdued in the 1% range.
- **Policy Implications** — In its Dec policy, the RBI has said "*from this point on, monetary policy actions are likely to reverse the cycle, responding to the risks to growth*". (See [RBI Leaves Rates Unchanged; Concerns on Growth Raises Odds of Early Easing; Announces Measures to Stem Rupee Weakness](#).) While our base case is that of the RBI easing rates by 100bps in 2012 and starting its easing cycle in 1Q, the key issue is whether we could see a move in the Jan 24 policy or later.
- **What to Watch?** At this stage given that the deceleration in growth has been faster than expected and weekly inflation data has been coming off, we place a 30% possibility of a rate cut in the Jan 24 meeting. Two key data points to watch for are the IIP and WPI numbers due on 12 Jan and 16 Jan. While the base effect is likely to result in the headline WPI number coming in at sub 8% in December from 9.1% in November, the key data point to watch is 'non-food manufactured product inflation' – the RBI's proxy for core inflation. This has been sticky over the 7.5% level, with the November reading inching higher to 8%.

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#### ALSO INSIDE:

- **Key Highlights:**
    - Dec PMI – p .2
    - Nov Infrastructure Index – p. 3
  - **Statistical Snapshot – p. 4**
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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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# Key Highlights (1): December PMI

## DEC PMI REBOUNDS TO 54.2

Following lackluster trends seen over the past few months, the PMI increased to **54.2 (+3.1pts)** in December

While this is clearly positive, given the deceleration seen in the autos and materials space, it's too early to call a trend reversal in growth. None-the less, this bodes well for growth in the coming months

## BOTH OUTPUT AND NEW ORDERS EDGE HIGHER

The strong rise was supported by increases in both output (+5.3pts to 55.8) and new orders (+5.1pts to 57.9)

The unexpected year-end rebound in PMI mirrors trends seen in China and the US, although the EuroZone PMI indicated decelerating economic activity.

## INPUT PRICES MODERATE EVEN AS OUTPUT PRICES TREND HIGHER

Reversing trends seen last month, input prices moderated slightly in December (-0.4pts to 62.7) while output prices saw a 0.8pt rise to 56.2.

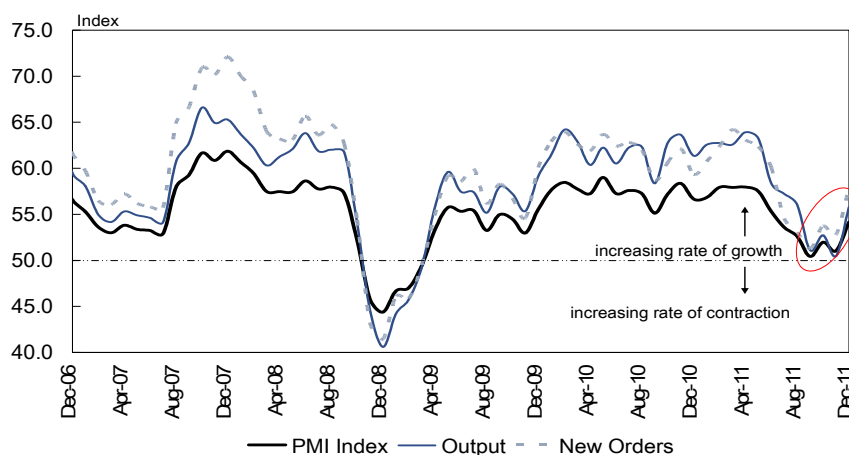
Trends in input and output prices do offer important clues to the outlook for inflation and pricing trends, which are key to monetary policy decisions.

Figure 1. Trends in the Manufacturing Purchases Managers Index (PMI) and Sub-Indices

	Wts	May-11	Jun-11	Jul-11	Aug-11	Sept-11	Oct-11	Nov-11	Dec-11
1. Output	25%	63.2	58.4	57.2	56.0	51.1	52.7	50.5	55.8
2. New Orders	30%	62.4	60.1	54.5	53.1	51.3	53.7	52.8	57.9
3. Employment	20%	48.8	48.7	51.9	49.5	47.9	48.2	48.6	50.4
4. Suppliers Delivery Times	15%	48.8	48.5	51.5	50.1	49.8	47.8	47.8	50.5
5. Stocks of Purchases	10%	55.3	52.1	52.7	52.8	51.4	52.2	50.5	53.5
<b>PMI Index</b>	<b>100%</b>	<b>57.5</b>	<b>55.3</b>	<b>53.6</b>	<b>52.6</b>	<b>50.4</b>	<b>52.0</b>	<b>51.0</b>	<b>54.2</b>
<b>Memo:</b>									
Input Prices		63.4	64.0	64.3	65.6	62.1	62.0	63.1	62.7
Output Prices		56.4	54.6	56.0	55.6	55.5	55.3	55.4	56.2
Work Backlogs		52.1	51.5	50.9	49.3	49.0	50.7	53.8	52.6
<b>Infrastructure Index</b>		<b>5.7</b>	<b>5.5</b>	<b>7.8</b>	<b>3.7</b>	<b>2.3</b>	<b>0.3</b>	<b>6.8</b>	

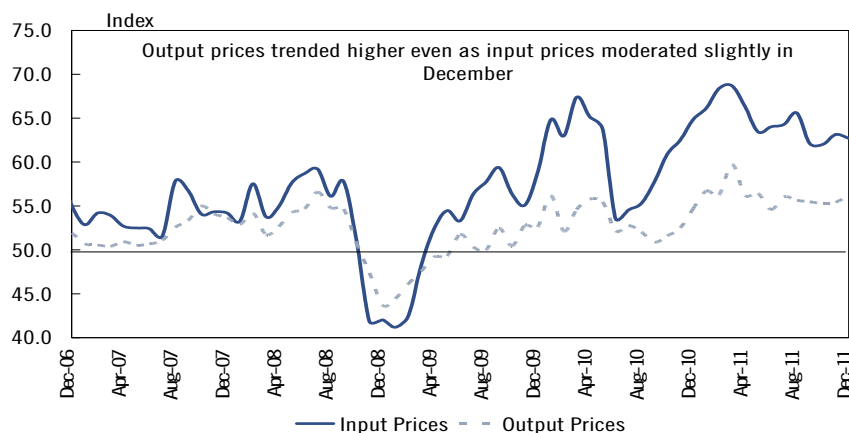
Source: Markit, Office of the Economic Advisor, CIRA

Figure 2. Trends in Domestic and External Demand



Source: Markit, CIRA

Figure 3. Trends in Input and Output Prices



Source: Markit, CIRA

## Key Highlights (2): Nov Infrastructure Index

### Nov Infrastructure Index Posts a Smart Recovery, up 6.8%YoY

Following the dismal 0.3% growth seen last month, the index for eight core infrastructure industries recovered to 6.8%YoY in November. On a cumulative basis, growth during Apr-Nov FY12 moderated to 4.6% vs. 5.6% during the same period last year.

**Key Highlights:** (1) After 3 consecutive months of contraction due to environmental/land related clearance hurdles, coal production moved back into positive territory, up 4.9%YoY (2) Electricity production rose to an all-time high, up 14.1%YoY (3) Looking at the construction indicators, steel production edged higher to 5.1%YoY (from 3.8% last month) while cement production rose 16.6%, supported partially by a negative base (4) Natural gas production continued to post a contraction for the 12<sup>th</sup> consecutive month, down 10.1%YoY possibly due to lower output from Reliance's KG Gas basin; while the contraction in crude petroleum also widened in Nov (-5.6%). However, petroleum refinery production recovered to double-digits (+11.2%) from the one-off contraction seen last month.

While Natural Gas, Fertilizers and Crude Petroleum posted a contraction in Nov11, buoyancy in Electricity, Cement coupled with an upturn in Coal Mining after 3 consecutive months of decline helped support Infra growth at 6.8%YoY

On a cumulative basis, infra growth stood at 4.6% during Apr-Nov FY12 from 5.6% last year

Figure 4. Infrastructure Index – Snapshot (%YoY)

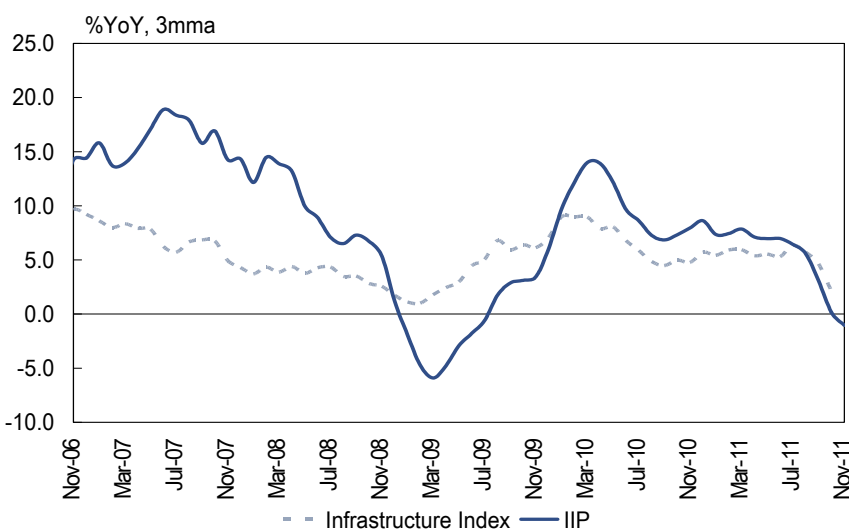
Sector	Weight (%)	Nov-11	Nov-10	Apr-NovFY12	Apr-NovFY11
Electricity	10.3	14.1	3.5	9.3	4.6
Coal	4.4	4.9	0.7	-4.0	0.4
Finished Steel	6.7	5.1	7.6	8.2	8.2
Crude Petroleum	5.2	-5.6	17.0	2.9	11.5
Petroleum Refineries	5.9	11.2	-3.5	4.5	0.8
Cement	2.4	16.6	-4.3	4.3	5.3
Natural Gas	1.7	-10.1	5.5	-8.5	19.9
Fertilizers	1.3	-2.4	0.0	-0.1	-1.7
<b>Infrastructure Index</b>	<b>37.9</b>	<b>6.8</b>	<b>3.7</b>	<b>4.6</b>	<b>5.6</b>

Source: Office of the Economic Advisor, CIRA

The infrastructure index has a weight of 38% in the index of industrial production (IIP).

The strong infra data bodes well for minimizing the high (-5.1%) contraction seen in the Oct IIP. However with other sectoral data remaining weak, the Nov IIP data due on Jan 12, could remain subdued in the 1% range.

Figure 5. Trends in the IIP and Infrastructure Index (%YoY, 3mma)



Source: Office of the Economic Advisor, CSO, CIRA

# Statistical Snapshot

Figure 6. India – Macroeconomic Summary, FY00-13E (%)

Year to 31 March	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>National Income Indicators*</b>														
Nominal GDP (Rs bn)	20,279	21,840	23,676	25,500	28,617	32,422	36,925	42,937	49,864	55,826	65,503	78,756	91,357	104,604
Nominal GDP (US\$ bn)	467	478	493	528	624	721	834	950	1,240	1,214	1,382	1727.9	1,862	2,036
Per Capita GDP (US\$)	467	469	474	500	582	662	754	847	1,090	1,052	1,180	1,453	1,543	1,662
Real GDP growth (%)	6.0	4.4	5.8	3.8	8.5	7.6	9.5	9.6	9.3	6.8	8.0	8.5	7.1	7.0
Agriculture growth (%)	0.5	-0.2	6.3	-7.2	10.0	1.6	5.1	4.2	5.8	-0.1	0.4	6.6	4.0	3.0
Industry growth (%)	4.6	6.4	2.7	7.1	7.4	9.4	9.7	12.2	9.7	4.4	8.0	7.9	5.1	5.3
Services growth (%)	9.5	5.7	7.2	7.5	8.5	9.4	11.0	10.1	10.3	10.1	10.1	9.4	8.9	8.8
<b>By Demand * (%YoY)</b>														
Consumption	7.2	3.0	5.3	2.3	5.4	1.9	8.6	7.6	9.3	8.2	8.7	8.0	6.5	7.1
<i>Pvt Consm</i>	6.1	3.4	6.0	2.9	5.9	1.7	8.5	8.3	9.3	7.7	7.3	8.6	6.6	6.8
<i>Public Consm</i>	13.2	0.9	2.3	-0.4	2.6	3.4	8.9	3.7	9.5	10.7	16.4	4.8	6.0	8.5
Gross Fixed Capital Formn	11.2	0.0	7.4	6.8	13.6	20.7	16.2	13.8	16.2	1.5	7.3	8.6	4.0	4.0
<b>Cons; Invst, Savings ** (%GDP)</b>														
Consumption	79.4	78.5	78.9	77.2	75.0	70.2	69.2	67.8	66.8	69.4	69.7	68.7	68.0	67.0
Capital Formation	25.3	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.2	35.4	35.8	34.8	35.5	36.0
Gross Domestic Savings	24.2	23.2	22.9	25.7	29.1	32.4	33.5	34.6	36.9	32.2	33.7	34.0	33.5	33.0
<b>Real Indicators (%YoY)</b>														
Cement despatches (domestic)	15.2	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	4.8	8.0	9.0
Commercial vehicle sales	22.0	-11.9	-4.5	28.0	36.2	22.4	10.1	33.3	4.2	-21.4	39.2	27.0	7.0	10.0
Car sales	45.3	-5.3	3.2	7.8	27.2	17.8	7.7	20.7	12.1	0.3	25.7	29.3	4.3	17.0
Two-wheelers	9.4	0.7	15.3	17.0	11.3	15.7	13.6	11.5	-7.8	2.7	25.9	25.8	16.0	14.0
Diesel consumption	5.6	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	6.0	6.0
Mobile Tele density	0.2	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.9	67.9	74.9	81.6
<b>Monetary Indicators (% YoY)</b>														
Money supply	14.6	16.8	14.1	14.7	16.8	12.0	21.4	21.3	21.1	19.3	16.7	16.0	17.0	17.0
Inflation – WPI (Avg)	3.3	7.1	3.6	3.4	5.5	6.5	4.4	6.5	4.8	8.0	3.6	8.6	9.0	7.5
CPI (Avg)	3.4	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	13.0	9.5	9.0	7.0
Bank credit growth	18.2	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.7	21.4	18.0	18.0
Deposit growth	13.9	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	18.0	17.0	15.8	17.0	17.0
<b>Fiscal Indicators (% GDP)</b>														
Centre's fiscal deficit)	-5.2	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.4	-5.1	-5.8***	-5.5
State fiscal deficit	-4.5	-4.0	-4.1	-3.9	-4.2	-3.3	-2.4	-1.8	-1.5	-2.4	-3.3	-3.0	-2.5	-2.5
Combined deficit (Centre+State)	-9.0	-9.1	-9.5	-9.1	-8.1	-7.2	-6.5	-5.4	-4.1	-8.5	-9.5	-8.1	-8.3	-8.0
Off Balance Sheet Items	-	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	NA	NA	NA
Combined liabilities ( dom+ext)	73.8	77.1	82.0	85.5	85.4	85.2	83.0	79.3	76.1	76.7	74.0	69.4	67.2	66.8
<b>External Sector (% YoY)</b>														
Exports (US\$bn)	37.5	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	288.0	331.2
% YoY	9.5	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	15.0	15.0
Imports (US\$bn)	55.4	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	457.3	521.3
%YoY	16.5	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	20.0	14.0
Trade deficit (US\$bn)	-17.8	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-169.2	-190.0
Invisibles (US\$bn)	13.7	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	105.0	116.5
Current Account Deficit (US\$bn)	-4.1	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-64.2	-73.6
% to GDP	-0.9	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-3.5	-3.6
Capital Account (US\$bn)	9.5	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	62.0	62.1	72.6
% GDP	2.0	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.7	3.6	3.3	3.6
Forex Assets (excl gold) (US\$bn)	35.1	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	271.6	270.6
Months of imports	7.6	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	7.1	6.2
External Debt (US\$bn)	98.3	101.3	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	261.0	306.4	326.6	341.6
Short Term Debt	3.9	3.6	2.7	4.7	4.4	17.7	19.5	28.1	45.7	43.3	52.3	65.0	71.5	81.5
<b>Exchange Rate</b>														
US\$/INR - annual avg	43.4	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	49.1	51.4
% depreciation	2.8	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	7.6	4.7
US\$/INR - year end	43.6	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	44.6	52.5	50.0
% depreciation	2.8	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-0.7	17.7	-4.8

\*Using spliced data \*\* At current prices. \*\*\*Assuming oil at US\$105/bbl and full payment of under-recoveries to oil companies

Source: CSO, RBI, Ministry of Finance and CIRA Estimates

## Appendix A-1

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