

India: Industrial production slumps further in September

Contributing Economists

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- Industrial production growth recorded 1.9% y-o-y in September, lower than expected (Consensus: 3.6%; Nomura: 3.3%), due to weak growth in manufacturing output.
- Even though economic activity has weakened sharply, we expect inflation to remain the primary concern for the Reserve Bank of India. This leads us to believe that the RBI will keep the policy rates unchanged at its next meeting in December.

Industrial production growth recorded 1.9% y-o-y in September, lower than expected (Consensus: 3.6%; Nomura: 3.3%). This followed 3.6% growth in August, revised down from 4.0% (Figure 1). The moderation is largely due to a 6.8% y-o-y contraction in capital goods in September while production of non-durable consumer goods also contracted by 1.3% (Figure 1). Consumer durable goods were the only component that showed strong growth. On the supply side, manufacturing output growth further moderated in September while mining output contracted for the second straight month.

September figures suggest lower growth in capital formation in Q3 as capital goods output growth fell to 6% y-o-y from 16.8% in Q2 (Figure 2), which should put downward pressure on overall GDP growth in Q3.

Looking ahead, we believe the consumer durable goods output, the last pillar supporting industrial production, is also likely to weaken in the near term as intermediate goods output slowed and personal loans for consumer durables weakened. Export growth, another strong demand driver of industrial production, also slowed sharply in October and is likely to remain weak in the coming months, owing to weaker global demand.

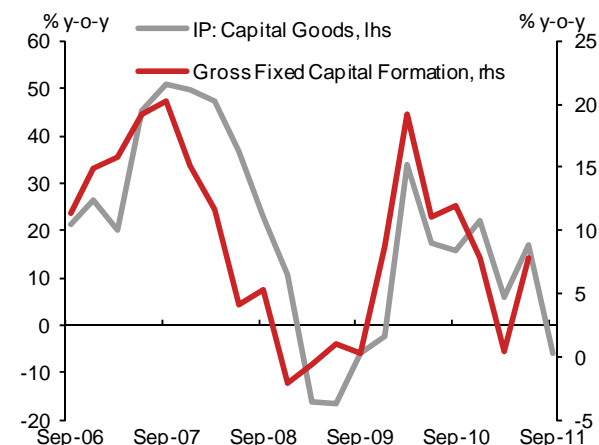
From a policy perspective, even though economic activity is likely to weaken further in the coming months, we believe inflation remains a primary concern for the Reserve Bank of India (RBI) as it should remain elevated until November (data to be released in December). Hence we expect the RBI to stay on hold at its December meeting.

Fig. 1: Industrial production growth

% y-o-y	Weight (%)	May 2011	Jun 2011	Jul 2011	Aug 2011	Sep 2011
Industrial output	100	6.2	9.5	3.8	3.6	1.9
Use based classification						
Basic Goods	45.7	7.5	7.8	9.5	5.2	4.5
Capital Goods	8.8	6.2	38.7	(13.8)	4.1	(6.8)
Intermediate Goods	15.7	0.1	1.6	(0.5)	1.9	1.5
Consumer Goods	29.8	7.2	3.1	7.7	2.3	3.5
Durables	8.5	5.1	1.6	9.0	5.5	8.7
Nondurables	21.3	9.0	4.4	6.6	(0.6)	(1.3)
IP ex-Capital Goods	91.2	6.2	5.0	7.2	3.5	3.6
Sectoral classification						
Mining	14.2	1.8	(1.4)	1.5	(4.1)	(5.7)
Manufacturing	75.5	6.3	11.2	3.1	4.1	2.1
Electricity	10.3	10.3	7.9	13.1	9.5	9.0

Source: CEIC and Nomura Global Economics

Fig. 2: Capital goods production and gross fixed capital formation



Source: CEIC and Nomura Global Economics

Disclosure Appendix A-1

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