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MF Global INDONOMICS

Index of Industrial Production

| Growth slumps to 1.8%; IIP estimate revised down to 5%, GDP estimate thus falls to 7%

- **IIP growth drops to a 2-year low, grows at 1.8%, below the consensus estimate of 3.5%.**
- **Sustainably elevated interest rates, inflation and the lack of government support continues to impact the investment cycle; capital goods recorded growth of 6.8% YoY.**
- **Consumer durables recorded strong growth of 10.6% MoM, reflecting festive demand, the strength is unlikely to continue.**
- **We lower our FY12E IIP estimate to 4.5%-5% from 7% expected earlier, resulting in GDP growth of 7% vs. 7.5% estimated earlier**

It's a broad-based slowdown: IIP growth for Sep '11 stood at 1.8%, below the consensus estimate of 3.5%. The growth rate in the previous month was at a revised 3.6% and 6.2% a year-ago; indicating that the base effect as well as the festive season could not provide any boost to the industrial output. The 3-month moving average of IIP growth slumped to 3.1% from 5.6% recorded till the previous month. IIP grew by 0.9% on a MoM basis. 15 out of 22 industries recorded positive growth (it was 11/22 in the last month). Aug '11 IIP growth is revised lower to 3.6% from 4%, led by a downward revision in manufacturing and mining output.

Basic goods (growth at 4.5%) performed relatively better due to strong growth in electricity generation, followed by consumer durables (at 3.5%) driven by festive demand, other sectors like capital goods, intermediate goods, and consumer non-durables performed poorly, recording growth of -6.8%, 1.5%, and -1.3%, respectively.

Mining under significant pressure; Electricity continues to cushion growth: Mining recorded a growth of -5.7% (vs. 4.3% last year) due to sharp de-growth in coal and natural gas mining, at -17.8% and -6.4%, respectively. Manufacturing grew by 2.1% (vs. 6.8% last year), and electricity at 9% (vs. 1.8% a year ago). Within the manufacturing sector, the highest contribution to growth was made by basic metals, food products, fabricated metal products, and automobiles. Key industries which contributed negatively are: chemicals, and electrical machinery.

Electricity generation supports basic goods; other use-based segments weak: Though, growth in basic goods outperformed the other segments, it is continuously trending lower. For the month under consideration, it has declined to 4.5% from the highs of 9.5% recorded two months ago. Growth in this segment is likely to decline sharply in the next month due to the high base effect. Electricity generation should also drop for the same reason as well as coal scarcity. As mentioned earlier, capital goods de-grew by -6.8%, led by sluggishness recorded in the cement machinery, sugar machinery, cable and rubber insulators, and relays, fuses and switchgears. Intermediate goods continue to reflect weakness by growing at 1.5%, led by poor textile production feeling the heat of poor export demand. Consumer goods growth rose to 3.5% vs. 2.3% in the last month, led by strong growth in consumer durables at 8.7%; consumer non-durables de-grew by -1.3%.

Other important items that recorded robust growth are: Fruit Pulp (90.6%), Paraxylene (64.0%), Stainless/alloy steel (63.3%), Woollen Carpets (61.9%), Linear low density polyethylene (58.9%), Tanned or Chrome Skins and Leathers (58.1%), Steel Castings (48.0%), Petroleum Coke (44.6%), Scooter and Mopeds (33.0%), Marble Tiles/Slabs (32.3%), Polythene Bags including Hdpe & Ldpe Bags (31.5%) and Telephone Instruments, including Mobile Phone And Accessories (31.1%).

We have sharply cut our IIP estimate to 4.5%-5% from 7% estimated earlier, resulting in a 50bps cut in the FY12 GDP estimate. IIP estimate has been reduced due to a sharp weakness being seen in the industrial production and PMI. Exports demand is seen weakening after holding on well in H1FY12, due to continued and heightened uncertainty in the European and US economies. As known, manufacturers are bearing the brunt of higher interest rates, inflation and lower demand. An added problem is the dull government machinery slowing the process of clearing projects and orders. It is due to this reason, we had argued that the RBI should pause, instead of their decision to hike the repo rate by 25bps in its October policy. RBI has indicated an end to the rate hike cycle, however, interest rates are expected to remain elevated until Q1FY13. Thus, the economic growth is expected to remain weak till FY13.

YOY GROWTH RATE (BASE: 2004-05)

	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11	APR-11	MAY-11	JUN-11	JUL-11	AUG-10	SEP-11
IIP (YOY GROWTH RATE)	6.2	11.4	6.4	8.1	7.5	6.7	9.4	5.3	6.2	9.5	3.8	3.6	1.8
MINING (WT. 14.16)	4.3	6.1	6.9	5.9	1.7	1.1	0.3	1.6	1.8	-1.4	1.5	-4.1	-5.7
MANUFACTURING (WT. 75.52)	6.8	12.4	6.5	8.7	8.1	7.5	11.0	5.7	6.3	11.2	3.1	4.1	2.1
ELECTRICITY (WT. 10.31)	1.8	8.8	4.6	5.9	10.5	6.8	7.2	6.5	10.3	7.9	13.1	9.5	9.0
USE-BASED													
BASIC GOODS (WT. 45.68)	3.5	9.8	5.7	7.8	7.7	5.6	6.5	7.2	7.5	7.8	9.5	5.2	4.5
CAPITAL GOODS (WT. 8.83)	7.2	21.0	25.7	20.2	5.4	-5.7	14.5	6.6	6.2	38.7	-13.8	4.1	-6.8
INTERMEDIATE GOODS (WT. 15.69)	4.6	9.7	4.3	8.1	7.4	6.3	3.1	3.9	0.1	1.6	-0.5	5.9	1.5
CONSUMER GOODS (WT. 29.8)	9.6	9.4	0.7	3.6	8.3	13.4	13.3	3.2	7.2	3.1	7.7	2.3	3.5

Source: CSO

INDUSTRY-WISE BREAK-UP OF THE MANUFACTURING SECTOR (BASE: 2004-05)

YOY GROWTH RATE	WTS	APR-11	MAY-11	JUN-11	JUL-11	AUG-11	SEP-11
FOOD PRODUCTS AND BEVERAGES	7.3	9.5	12.9	6.7	14.4	8.3	8.6
TOBACCO PRODUCTS	1.6	-9.2	-0.1	9.6	-9.0	-20.5	12.8
TEXTILES	6.2	-5.9	-6.6	-4.3	-5.6	-3.8	-1.9
WEARING APPAREL; DRESSING AND DYEING OF FUR	2.8	2.7	-0.6	-5.5	-2.8	-0.4	-8.1
LUGGAGE, HANDBAGS, SADDLERY, HARNESS & FOOTWEAR; TANNING AND DRESSING OF LEATHER PRODUCTS	0.6	7.4	-5.2	15.7	9.3	7.4	10.0
WOOD AND PRODUCTS OF WOOD & CORK EXCEPT FURNITURE; ARTICLES OF STRAW & PLATING MATERIALS	1.1	-13.5	-6.6	-0.3	2.5	-0.8	2.4
PAPER AND PAPER PRODUCTS	1.0	13.8	4.3	6.2	6.0	0.0	5.1
PUBLISHING, PRINTING & REPRODUCTION OF RECORDED MEDIA	1.1	12.6	9.5	11.1	6.9	6.4	8.4
COKE, REFINED PETROLEUM PRODUCTS & NUCLEAR FUEL	6.7	6.8	7.1	4.2	2.6	8.6	2.8
CHEMICALS AND CHEMICAL PRODUCTS	10.1	5.0	4.0	-1.0	-1.3	1.4	-6.0
RUBBER AND PLASTICS PRODUCTS	2.0	-4.7	-3.8	-0.3	3.3	-0.8	-1.8
OTHER NON-METALLIC MINERAL PRODUCTS	4.3	-1.7	0.0	3.2	8.5	5.8	0.4
BASIC METALS	11.3	13.8	13.4	17.7	18.9	11.2	10.4
FABRICATED METAL PRODUCTS, EXCEPT MACHINERY & EQUIPMENT	3.1	22.3	13.9	-0.1	11.4	11.6	11.8
MACHINERY AND EQUIPMENT N.E.C.	3.8	10.7	-5.1	2.2	-3.1	-0.7	-3.8
OFFICE, ACCOUNTING & COMPUTING MACHINERY	0.3	96.5	36.4	19.1	38.3	-26.8	16.6
ELECTRICAL MACHINERY & APPARATUS N.E.C.	2.0	2.9	-6.1	88.9	-46.0	-5.5	-27.7
RADIO, TV AND COMMUNICATION EQUIPMENT & APPARATUS	1.0	3.0	0.7	-10.1	11.7	12.5	25.0
MEDICAL, PRECISION & OPTICAL INSTRUMENTS, WATCHES AND CLOCKS	0.6	9.5	42.9	-10.3	-12.5	-7.9	11.8
MOTOR VEHICLES, TRAILERS & SEMI-TRAILERS	4.1	22.9	23.1	14.5	10.3	8.1	5.7
OTHER TRANSPORT EQUIPMENT	1.8	19.1	19.9	18.6	17.5	12.1	19.0
FURNITURE; MANUFACTURING N.E.C.	3.0	-15.0	9.1	10.3	6.9	-1.4	-8.2

Source: CSO

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