ICRA Rating Feature

Index of Industrial Production October 2009: Growth in Line with Expectations

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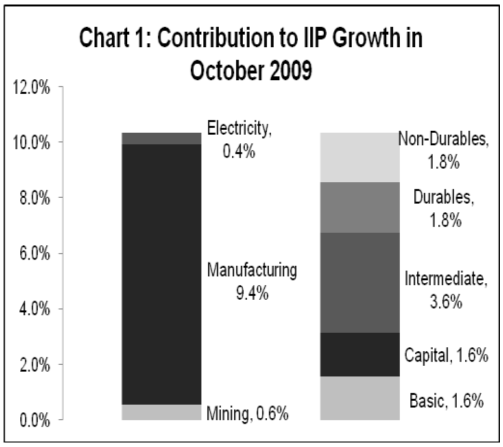
The Index of Industrial Production (IIP) expanded by 10.3% in year-on-year (y-o-y) terms in October 2009, broadly in line with expectations. Growth was led by an expansion of 11.1% in manufacturing, and aided by 8.2% and 4.7% growth in mining & quarrying and electricity, respectively. IIP growth recorded for the month is higher than the revised growth of 9.6% in September 2009, pointing towards continued demand ahead of the festive season buoyed by the release of the Pay Commission related arrears, and some restocking of inventories.

The healthy growth rates recorded by the IIP index and the manufacturing sub-sector for October 2009 are also reflective of a favourable base effect, as the slowdown in growth had begun in October 2008. The overall IIP index had witnessed marginal growth of 0.1% in October 2008 while the manufacturing sub-sector had displayed a contraction of 0.6% during the month. Additionally, while the number of sub-categories within the manufacturing sector that experienced contraction decreased to one in October 2009 from six in September 2009, as many as nine sub categories had displayed contraction in October 2008. Regardless of the favourable base effect in months such as August and October 2009, the upturn in IIP growth has been sustained over several months, and the 7.1% growth witnessed in the current fiscal year is higher than the growth of 4.3% displayed in the period from April to October 2008.

In terms of the use-based classification, consumer durables, capital goods and intermediate goods displayed double-digit growth rates in October 2009. Growth for consumer non-durables increased to 8.1%, which is the highest growth rate recorded by the sub-sector since December 2008. Consumer durables and intermediate goods continued to display healthy growth rates in October 2009, at 21% and 14%, respectively. While growth of basic goods decelerated for the second consecutive month in y-o-y terms in October 2009, the level of the sub-index expanded relative to September 2009. Growth of capital goods in the period from April to October in this fiscal year remains substantially lower than that in the same months in 2008. However, strong growth of capital goods for three consecutive months between August 2009 and October 2009 lends support to the view that the industrial recovery is broadening beyond a consumption-driven upturn, albeit partially driven by higher infrastructure spending under various capital expenditure programmes of the Central and State Governments.

Table 1: Trend in IIP Growth					
		October		April-Oct.	
	Weight	2008	2009	2008	2009
IIP	100.0%	0.1%	10.3%	4.3%	7.1%
Mining	10.5%	3.2%	8.2%	3.8%	8.0%
Manufacturing	79.4%	-0.6%	11.1%	4.5%	7.1%
Electricity	10.2%	4.4%	4.7%	2.9%	6.5%
Use Based Classification					
Basic	35.6%	3.2%	5.0%	3.8%	6.4%
Capital	9.3%	4.2%	12.2%	9.8%	5.7%
Intermediate	26.5%	4.2%	14.3%	-0.2%	10.3%
Durables	5.4%	-1.6%	21.0%	5.9%	19.2%
Non-Durables	23.3%	-0.6%	8.1%	6.5%	1.3%



Source: Central Statistical Organisation (CSO)

Sectoral Growth

Manufacturing displayed double-digit growth for the third consecutive month in October 2009, and the average growth for the current fiscal year at 7.1% is considerably higher than the average growth of 4.5% for the corresponding period in the previous fiscal year. However, the growth rate of 11.1% recorded by the manufacturing sector in the month of October 2009 comes on the back of a contraction of 0.6% in the month of October 2008. Additionally, manufacturing growth remained dismal until June 2009 and the base effect is favourable in the coming months.

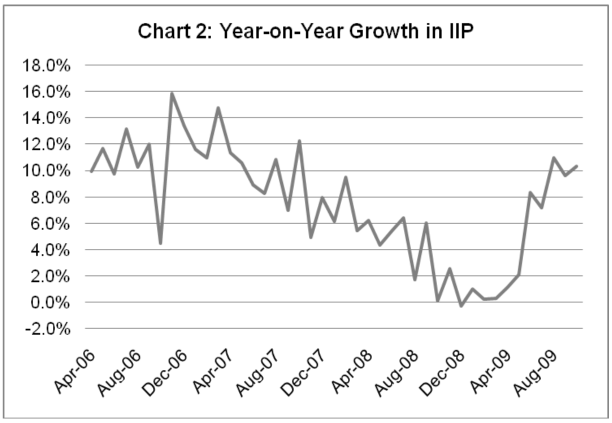
The number of sub-categories undergoing contraction decreased to one in October 2009 from six in September 2009. However, nine categories had displayed contraction in October 2008. Industries such as machinery & equipment, transport equipment, basic chemicals, rubber, plastic, petroleum & coal products, and textile products displayed high growth in October 2009 relative to October 2008. Amongst these, only rubber, plastic, petroleum & coal products and machinery & equipment had displayed expansion in the same month in the previous year.

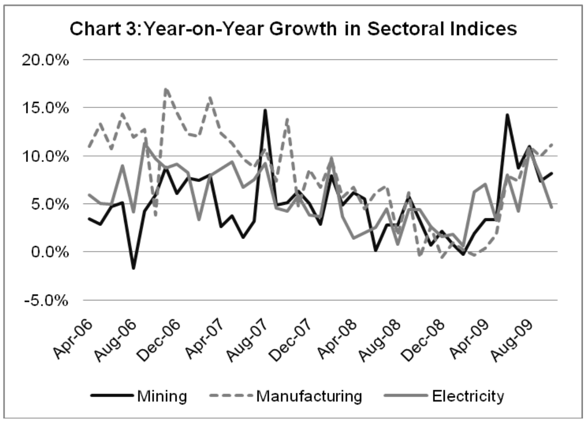
Data regarding monthly exports provided a disheartening trend: after displaying an m-o-m growth for four consecutive months between May and August 2009, the level of exports declined in September and October 2009 in US dollar terms.[1] In addition, the appreciation of the Indian rupee relative to the US dollar and the British pound has heightened concerns regarding the relative competitiveness of and demand for Indian exports, particularly in view of the eventual phasing out of fiscal stimulus packages by India's trading partners.

Electricity generation expanded by 4.7% in October 2009, largely reflecting higher thermal generation. Thermal generation expanded in October 2009 relative to the preceding month, while hydroelectric generation was lower than that in September 2009[2].

Mining growth remained robust at 8.2% in October 2009 – an increase from the revised growth of 7.4% in September 2009. The level of the sub-index was sharply higher in October as compared to the preceding month despite the heavy rains over parts of India in October 2009. Mining growth in April to October 2009 at 8% is considerably higher than the 3.8% growth in the months of April to October in 2008. However, growth may not sustain at the same pace in the coming months.

[1] Provisional data released by the Ministry of Commerce and Industry, Government of India (GoI)
[2] As per the data available on the website of the Central Electricity Authority





Source: CSO

Use-based Classification

In terms of the use-based classification, IIP growth in October 2009 was broad-based and all the five use-based categories displayed expansion for the fifth consecutive month.

Capital goods displayed a healthy growth of 12.2% in October, although it was lower than the 13.3% growth witnessed in September 2009. Growth of capital goods at 5.7% during April-October 2009 still lags behind the 9.8% growth witnessed during the same period in 2008. Nevertheless, the healthy growth displayed by capital goods for three consecutive months between August and October 2009, is encouraging. This upswing in growth of capital goods lends support to the view that the industrial recovery is broadening beyond a consumption-driven upturn, albeit partially driven by higher infrastructure spending under various capital expenditure programmes of the Central and State Governments.

Consumer durables continued the trend of steep growth witnessed in recent months: with 21% growth in October 2009, growth has now been in excess of 20% for four consecutive months and in excess of 10% since the beginning of the fiscal year. While the high growth in October 2009 comes on the back of a contraction of 1.6% in consumer durables in October 2008, it was nevertheless robust. The performance of this category points towards continued consumer demand related to the festive season, which is likely to have been buoyed by the release of the second instalment of Pay Commission related arrears to Central Government employees. Additionally, a portion of the growth is likely to be reflective of restocking of inventories, momentum from which may continue in the short term. Growth for the fiscal year so far is robust at 19.2% as compared to the modest growth of 5.9% between April and October 2008. However, the inherent factors driving consumer demand are likely to weaken over the near to medium term, as the positive impact of the Pay Commission related benefits wanes and the excise cuts that were instituted as part of the fiscal stimulus packages of the Government of India are eventually phasing out. Nevertheless, growth of this sub-sector is likely to remain high on account of a favourable base effect in the coming months.

Growth displayed by consumer non-durables increased sharply to 8.1% in October from a revised growth of 4.4% in September 2009, although the level of the sub-index contracted in m-o-m terms for the third consecutive month in October 2009. Average growth for the months of April to October 2009 remains low at 1.3% as compared to the growth of 6.5% in the corresponding period in 2008. In ICRA's view, the overall agricultural production and the level of rural incomes are expected to have a bearing on the demand for non-durables in the coming months.

Intermediate goods continued to display robust growth in October 2009, although the expansion of 14.3% recorded during the month, was relative to the contraction of 4.4% in the same month in the preceding year. Growth in the fiscal year is high at 10.3% as compared to the contraction of 0.2% in the period from April to October 2008.

Growth of basic goods in y-o-y terms slowed for the second consecutive month to 5% in October 2009 from 6.5% in September and 9.6% in August. Nevertheless, the level of the basic goods sub-index expanded in m-o-m terms in October 2009 relative to the preceding month. Growth between April and October 2009 at 6.4% is substantially higher as compared to the 3.8% growth recorded in the corresponding period in 2008.

Outlook

Manufacturing growth in November 2009 is expected to benefit from the residual impact of the release of the second instalment of Pay Commission related arrears to Central Government employees, particularly for consumer durables. Basic and intermediate goods are expected to benefit from restocking of inventories. The pace of mining growth is likely to diminish somewhat while data released by the Central Electricity Authority suggests that electricity generation slowed further to 1.8% in y-o-y terms in November 2009. While the overall IIP growth is expected to decelerate somewhat relative to the growth displayed in October 2009, taking into account the base effect, growth is expected to remain healthy at above 8% in November 2009.

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