



Index of Industrial Production November 2009: Strong Growth Exceeding Expectations

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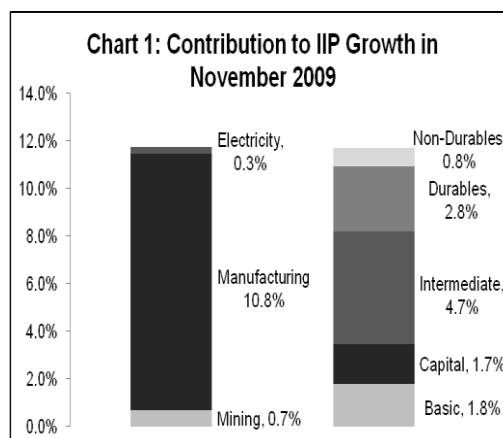
The Index of Industrial Production (IIP) expanded by 11.7% in year-on-year (y-o-y) terms in November 2009, recording the highest growth rate since October 2007. The healthy growth performance in November has lifted the growth in April-November 2009 to 7.6%, which is substantially higher than the growth of 4.1% displayed in the same period in 2008. Moreover, the IIP has recorded growth in excess of 9% in four consecutive months, which suggests a sustained revival of industrial growth.

IIP growth in November 2009 was boosted by the 12.7% and 10% growth of the manufacturing and mining & quarrying sub-sectors, respectively, while electricity displayed a low growth of 3.3%. The robust growth recorded by the IIP index, particularly the manufacturing sub-sector, point towards healthy consumer demand, restocking of inventories and renewed investment growth. In addition to domestic consumer demand, manufacturing growth has been supported by the recent upturn in exports, which resumed expansion in year-on-year (y-o-y) terms in November 2009. However, the favourable growth rates displayed in November also reflect a benign base effect, with low growth of the IIP index and the three sub-sectors in November 2008.

In terms of the use-based classification, growth was led by the 19.4% growth of intermediate goods and 37.3% growth of consumer durables, reflecting buoyant consumer demand and restocking of inventories. The growth of consumer durables increased from the high 20-25% growth in the months of July to October 2009 to a sharp 37.3% growth in November 2009, emphasising the role of consumption in the recovery of the Indian industrial growth. In an encouraging trend, capital goods displayed a healthy growth of 12.2% in November 2009 and growth has been robust in the four consecutive months between August 2009 and November 2009, suggesting a recovery of investment growth, albeit led by higher infrastructure spending by the Central and State Governments. Notwithstanding the healthy growth performance since August 2009, the average growth of capital goods in the period from April to November 2009 remains lower than that in the corresponding period in 2008.

Growth of basic goods improved to 6% in November 2009 from a revised growth of 4.6% in the preceding month. The growth of consumer non-durables decelerated to 3.1% in November 2009, given an unfavourable base effect, from 8.6% in October 2009. However, the value of the consumer non-durables sub-index rose sharply in November 2009 relative to the preceding month, in line with the trend in previous years. Nevertheless, growth of consumer non-durables in the period from April to November 2009 at 1.5% remains sharply lower than the 7.2% growth in the corresponding period in 2008.

	Weight	November		April-Nov	
		2008	2009	2008	2009
IIP	100.0%	2.5%	11.7%	4.1%	7.6%
Mining	10.5%	0.7%	10.0%	3.4%	8.4%
Manufacturing	79.4%	2.7%	12.7%	4.3%	7.7%
Electricity	10.2%	2.6%	3.3%	2.8%	6.1%
Use-Based Classification					
Basic	35.6%	2.2%	6.0%	3.6%	6.1%
Capital	9.3%	0.5%	12.2%	8.6%	6.4%
Intermediate	26.5%	-3.9%	19.4%	-0.7%	11.6%
Durables	5.4%	0.3%	37.3%	5.2%	21.7%
Non-Durables	23.3%	12.4%	3.1%	7.2%	1.5%



Source: Central Statistical Organisation (CSO)

Sectoral Growth

Manufacturing expanded by 12.7% in November 2009 on the back of a favourable base effect, having grown at a low pace of 2.7% in November 2008. Manufacturing displayed double-digit growth for four consecutive months between August and November 2009; and the average growth of 7.7% in the period from April to November 2009 is a substantial improvement from the average growth of 4.3% in the corresponding period in the previous year.

Sub-categories within the manufacturing sub-sector that displayed high growth in November included transport equipment, machinery & equipment, metal products & parts, basic chemicals, rubber, plastic, petroleum & coal products, wood & wood products, furniture & fixtures and other manufacturing industries, with several of them having consistently displayed high growth in the recent months. The number of sub-categories undergoing contraction increased to three in November 2009, with a combined weight of 4.11% in the IIP index, from two in October 2009, with a corresponding weight of 2.97% in the IIP index.

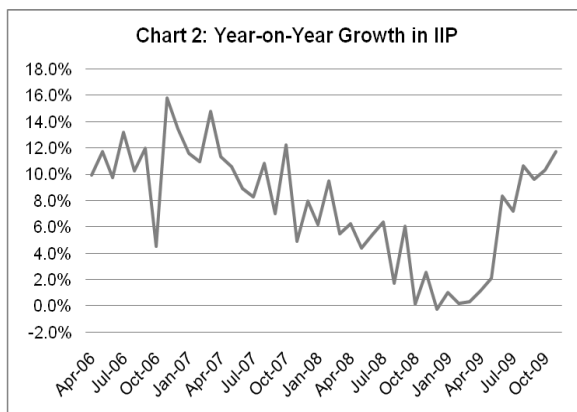
In addition to strong domestic consumer demand and consumer confidence, the recent growth in exports is likely to be a key growth driver underlying the robust performance of the manufacturing sub-sector in November 2009. Export growth returned to positive territory, with 18.2% growth in year-on-year (y-o-y) terms in November 2009 after several months of sustained contraction. Further, the level of monthly exports increased marginally to US\$ 13.2 billion in November 2009 before displaying substantial improvement to US\$ 14.6 billion in December 2009¹, which may have been spurred by increased demand on account of the holiday season in December for several of India's major trading partners. Nevertheless, the level of exports in US dollar terms remains substantially lower than the peak of US\$ 19 billion witnessed in July 2009. With the sustained appreciation of the Indian rupee relative to the US dollar and the British pound since late October 2009, concerns remain regarding the relative competitiveness of Indian exports and whether export demand will sustain in the medium term once fiscal stimulus packages are phased out by India's trading partners.

Electricity generation expanded by 3.3% in November 2009, reflecting higher thermal generation and a decline in hydro generation as compared to November 2008². In line with the trend in the previous years, the electricity sub-index declined in November 2009 relative to the preceding month.

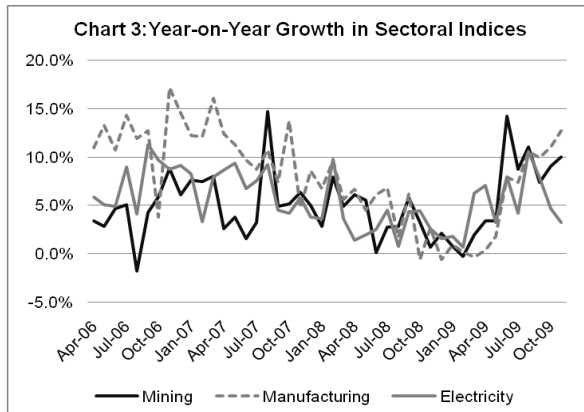
Mining growth increased to 10% in November 2009, as compared to a revised growth of 9% in October 2009, with an increase in the level of the sub-index in month-on-month (m-o-m) terms in November. Mining growth for the months of April to November 2009 at 8.4% is higher than the 3.4% growth in the corresponding period in the previous year, as is the case with the other sub-sectors.

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 November 2009 was dominated by the 19.4% growth of intermediate goods and steep 37.3% growth of consumer durables, aided by a favourable base effect, with contraction of 3.9% and marginal growth of 0.3% for these two sub-indices, respectively, in November 2008. Additionally, all of the five use-based categories displayed expansion for the sixth consecutive month.

Intermediate goods displayed double-digit growth for the fourth consecutive month in November 2009 and growth in the fiscal year is high at 11.6% as compared to the contraction of 0.7% in the period from April to November 2008. Growth increased to 19.4% in November 2009 from robust growth of 15.2% in October 2009, which was revised upwards from an initial estimate of 14.3%. The level of the sub-index also expanded in November 2009 relative to October 2009. Restocking of inventories is likely to have provided substantial impetus to the growth of intermediate goods.

Growth of consumer durables, which had been in excess of 20% over the preceding four months, increased sharply to 37.3% in November 2009, albeit relative to the growth of 0.3% in November 2008. The y-o-y growth performance of November 2009 represents the second highest growth rate recorded by consumer durables since April 1994. The steep growth recorded by consumer durables in November 2009 drove the average growth for the period from April to November 2009 to 21.7%, as compared to the low growth of 5.2% in the corresponding period in the previous year, emphasising the continued thrust of consumption in the recovery of Indian industrial growth. However, in m-o-m terms, the consumer durables sub-index contracted for two consecutive months in October and November 2009. In addition to continued domestic consumer demand, led by the release of the second instalment of the Pay Commission related arrears to the Central Government employees, the robust growth of consumer durables in y-o-y terms is likely to have been driven by restocking of inventories. While the base effect remains favourable, particularly in December, the growth of consumer durables is likely to moderate somewhat going forward. This is largely on account of the expected weakening of consumer demand in the coming months, on account of the eventual reversal of excise cuts and waning of the impact of the Pay Commission related benefits. The excise cuts that were instituted as part of the fiscal stimulus packages of the Government of India are expected to be reversed at the time of the tabling of the Union Budget for 2010-11, in view of the pressing need to boost indirect tax collections and to align tax rates with the proposed rates of the Goods and Services Tax. Moreover, the impact of the Pay Commission related benefits to Central Government employees is likely to wane going forward. However, State Governments have revised pay scales and are releasing arrears related to the Pay Commission in a phased manner to their employees, which is expected to provide some buoyancy to consumer demand over an extended period of time.

Capital goods expanded by 12.2% in November, relative to the low growth of 0.5% in November 2008. Growth of capital goods remained in excess of 10% for three consecutive months, although the average growth in April-November 2009 at 6.4% was lower than the 8.6% growth in April-November 2008. Nevertheless, the recent uptrend in growth of capital goods is encouraging and suggests the beginning of a recovery of investment growth, led by higher infrastructure spending by the Central and State Governments.

Basic goods expanded by 6% in November 2009, higher than the 4.6% growth witnessed in October 2009. Growth between April and November 2009 at 6.1% is considerably higher than the 3.6% growth in the corresponding period in 2008.

Growth of consumer non-durables slowed to 3.1% in November 2009 from 8.6% growth in October 2009. However, this slowdown of growth was led by an unfavourable base effect, with high growth of 12.4% in November 2008, although the level of the sub-index expanded sharply in m-o-m terms in November 2009, in line with the trend in previous years. Regardless, the average growth for April to November 2009 is dismal at 1.5% as compared to 7.2% growth in the corresponding period in 2008.

Outlook

The growth in the manufacturing sub-sector is expected to be robust in December 2009, reflecting continued consumer demand; higher exports, as suggested by initial estimates for December 2009; and a favourable base effect, with a contraction of 0.6% in December 2008. Consumer durables are expected to continue to reflect healthy consumer demand as well as a favourable base effect, although the pace of growth may moderate relative to the sharp growth in November 2009. Additionally, the growth in intermediate goods too may moderate somewhat while capital goods are expected to display healthy growth in December 2009. The pace of mining growth is likely to decelerate somewhat in December 2009 relative to the preceding month. Data released by the Central Electricity Authority suggests that electricity generation expanded by 6.4% in y-o-y terms in December 2009.

Taking into account the favourable base effect, with the IIP having contracted by 0.2% in December 2008, IIP growth is expected to be around 11% in December 2009, marginally lower than the growth displayed in November 2009.

Given the base effect, the IIP growth is expected to remain strong in the coming months as well. Although fiscal measures have supported growth to a large extent in recent months, their beneficial impact is expected to decline as the excise cuts are likely to be rolled back shortly and the impact of the Pay Commission related benefits on higher consumption is expected to wane going forward. However, continued infrastructure spending by the Central and State Governments is likely to emerge as a key driver of growth in the medium term. Additionally, private investment demand is expected to pick up in coming months, notwithstanding the imminent monetary tightening given the sustained healthy growth of the IIP since June 2009 and rising food and core inflation. The extent and pace of resurgence of private investment activity is likely to play a central role in shaping the trajectory of industrial growth.

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