



Index of Industrial Production August 2011: Growth remains sluggish for the second consecutive month

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The Index of Industrial Production (IIP) expanded by 4.1% in August 2011, relative to the 4.5% growth recorded in August 2010. All the sub-indices, namely, basic goods, capital goods, intermediate goods and consumer goods displayed a sub-6% growth in August 2011, highlighting continuing weakness in both investment and consumption growth.

IIP growth in August 2011 was led by a 5.4% expansion of basic goods, relative to the 3.8% growth recorded in August 2010, benefiting from the growth recorded by cement (7.2%), steel (7.7%) and electricity (9.1%), which together account for around 42% of the basic goods sub-index. Consumer durables displayed a growth of 4.6%, sharply slower than the 8.1% growth recorded in August 2010. Consumer non-durables displayed a low 2.9% growth in August 2011, slightly higher than the 1.8% growth recorded in August 2010. The pace of growth slowed in August 2011 relative to August 2010 for both capital goods (to 3.9% from 4.7%) and intermediate goods (to 1.3% from 5.8%).

IIP growth improved marginally in August 2011 from the 3.8% growth recorded in July 2011. This was primarily led by an improved performance of capital goods and intermediate goods in August 2011 (albeit to a sluggish 3.9% and 1.3%, respectively) relative to the de-growth recorded in July 2011 (13.8% and 0.6%, respectively), aided by an easing of the adverse base effect. The pace of growth of basic and consumer goods declined in August 2011 relative to the previous month, which in conjunction with the lacklustre growth of intermediate goods highlights the moderation in domestic consumer demand.

In terms of the sectoral classification, IIP growth in August 2011 was led by a healthy 9.5% growth of electricity generation, a sharp improvement as compared to the 1.0% growth recorded in August 2010. The manufacturing sub-sector expanded by 4.5% in August 2011, similar to the 4.7% growth recorded in August 2010. While the pace of manufacturing growth in August 2011 was sluggish, it represents an improvement relative to the 3.2% growth in July 2011. Moreover, the combined weight of the sub-sectors of manufacturing that underwent a contraction declined to 23.2% in August 2011 from 26.9% in July 2011. IIP growth in August 2011 was dampened by a 3.4% de-growth of the mining & quarrying sub-sector as compared to the 5.9% expansion recorded in August 2010; mining activity was affected by the heavy monsoon rainfall in August 2011 as well as various regulatory issues that have affected the sector in the recent months.

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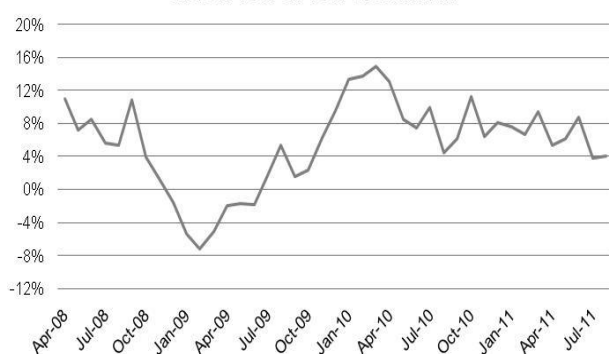
The Central Statistics Office (CSO) released revised data for the growth of the IIP and its sub-sectors for May 2011 and July 2011. Notably, the growth performance for the IIP index has been revised upwards for both May 2011 (to 6.1% from an initial estimate of 5.6%) and July 2011 (to 3.8% from an initial estimate of 3.3%), primarily on account of the manufacturing sector. While the initial estimate of IIP growth in August 2011 is slightly lower than our expectations of a 4.6% expansion, the recent trends suggest that the pace of IIP growth may be revised upwards subsequently by the CSO.

Table 1: Trend in IIP Growth

	IIP	Sectoral			Use-Based Classification				
		Mining	Manufacturing	Electricity	Basic	Capital	Intermediate	Durables	Non-Durables
Weight	100.00%	14.16%	75.53%	10.32%	45.68%	8.83%	15.69%	8.46%	21.35%
Month									
July-10	9.9%	8.7%	10.8%	3.7%	4.4%	40.7%	8.5%	14.8%	-0.9%
Aug-10	4.5%	5.9%	4.7%	1.0%	3.8%	4.7%	5.8%	8.1%	1.8%
July-11	3.8%	1.5%	3.2%	13.1%	9.5%	-13.8%	-0.6%	9.0%	6.5%
Aug-11	4.1%	-3.4%	4.5%	9.5%	5.4%	3.9%	1.3%	4.6%	2.9%
Apr-Aug FY11	8.6%	7.7%	9.3%	4.1%	4.9%	18.9%	9.2%	16.3%	3.4%
Apr-Aug FY12	5.6%	0.1%	6.0%	9.5%	7.4%	7.2%	1.0%	4.3%	5.2%

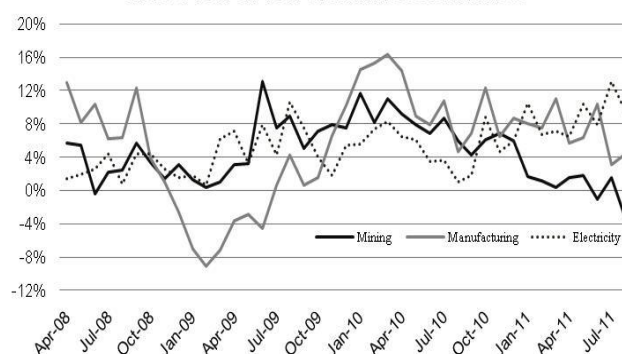
Source: Central Statistics Office (CSO)

Chart 1: Year-on-Year Growth in IIP



Source: CSO

Chart 2: Year-on-Year Growth in Sectoral Indices



Source: CSO

Sectoral Growth

Manufacturing: The manufacturing sector, which accounts for over 75% of the IIP Index, expanded by 4.5% in August 2011, similar to the 4.7% growth recorded in August 2010. Additionally, the pace of growth of the manufacturing sector in July 2011 has been revised upwards to 3.2% from the initial estimate of 2.3%.

Overall, the pace of growth remained uneven across the 22 sub-sectors of the manufacturing sector in August 2011. The number of sub-sectors of the manufacturing sector displaying contraction increased to 10 in August 2011 from seven in July 2011 (refer *Table 2*); however, the combined weight of the sub-sectors undergoing contraction declined (to 23.2% in August 2011 from 26.9% in July 2011) and the pace of de-growth eased (to 3.6% in August 2011 from 12.8% in July 2011). Moreover, the pace of growth of the five sub-sectors making the highest contribution to manufacturing growth declined to 10% in August 2011 from 25% in June 2011 and 15% in July 2011.

Table 2: Sub-Sectors Displaying Contraction

Sector	July 2011	Aug 2011
Number of Sub-Sectors	7	10
Weight in the IIP Index	26.9	23.2
Combined Growth	-12.8%	-3.6%
Contribution to Growth	-4.7%	-1.2%

Source: CSO; ICRA Analysis

Textiles and wearing apparel, dressing & dyeing of fur displayed a contraction in August 2011 for the fifth consecutive month and the third consecutive month, respectively. The pace of de-growth of textiles worsened to 3.8% in August 2011 from 1.2% in July 2011. Contrastingly, the pace of de-growth of wearing apparel, dressing & dyeing of fur eased marginally in August 2011 (0.4%) relative to July 2011 (0.8%).

Machinery & equipment has undergone a contraction in four of the previous five months. This sub-sector displayed a marginal de-growth of 0.7% in August 2011, partly reflecting a contraction of 39% in 'sealed compressors'. Nevertheless, other items within this sub-sector such as 'heat exchangers' and 'tractors' displayed healthy growth in August 2011 (refer *Annexure B*).

Growth of electrical machinery & apparatus, with a weight of less than 2% in the IIP index, has displayed considerable volatility in the recent months. Following a sharp 90% expansion in June 2011, this sub-sector contracted by 43% in July 2011; subsequently, the pace of contraction eased to 5.5% in August 2011, led by an easing of the base effect.

The extent of de-growth of tobacco products worsened to 20.5% in August 2011 from 10% in July 2011. Medical, precision & optical instruments, watches & clocks underwent a contraction for the third month in a row.

Table 3: Sub-sectors Displaying Contraction in Aug 2011

Sector	Weight	Growth in Aug 2011	Comment
Textiles	6.2	-3.8%	Contracted in July 2011
Machinery & Equipment, N.E.C.	3.8	-0.7%	
Wearing Apparel; Dressing & Dyeing of Fur	2.8	-0.4%	
Electrical Machinery & Apparatus N.E.C.	2.0	-5.5%	
Tobacco Products	1.6	-20.5%	
Medical, Precision & Optical Instruments, Watches & Clocks	0.6	-7.9%	Expanded in July 2011
Furniture; Manufacturing N.E.C.	3.0	-1.4%	
Rubber & Plastic Products	2.0	-0.8%	
Wood & Products of Wood	1.1	-0.8%	
Office, Accounting & Computing Machinery	0.3	-26.8%	
Total of Above	23.2	-3.6%	

Source: CSO; ICRA Analysis

Four sub-sectors that displayed expansion in July 2011 underwent contraction in August 2011 (refer *Table 3*). While furniture manufacturing N.E.C, rubber & plastic products and wood & products of wood displayed a marginal contraction in August 2011, office, accounting & computing machinery displayed a sharp de-growth of 26.8% in August 2011, following an average 27% growth recorded in April-July 2011.

Additionally, chemicals & chemical products that displayed contraction in June 2011 (-0.1%) and July 2011 (-3.5%), witnessed a slow pace of expansion in August 2011 (1.4%). Data released by CSO indicates that 'vitamins' and 'di ammonium phosphate' displayed a high growth of 38% and 64%, respectively, whereas 'viscose staple fibre' contracted by 41% in August 2011 (refer *Annexure B*).

Table 4: Contribution to the Growth of the Manufacturing Sector by Sub-Sectors

Sub-sector	Weight	Growth in Aug 2011	Contribution to Manufacturing Growth
Basic Metals	11.34	11.2%	1.7%
Radio, TV & Communication Equipment & Apparatus	0.99	12.5%	0.9%
Motor Vehicles, Trailers & Semi-Trailers	4.06	8.1%	0.6%
Food Products & Beverages	7.28	8.3%	0.5%
Coke, Refined Petroleum Products & Nuclear Fuel	6.72	8.6%	0.5%
Others Displaying Expansion	21.94	5.6%	1.4%
Others Displaying Contraction	23.20	-3.6%	-1.2%
Manufacturing	75.53	4.5%	4.5%

Source: CSO; ICRA Analysis

Growth of basic metals, with a weight of over 11% in the IIP Index, declined to 11.2% in August 2011 from 17.6% in July 2011. Nevertheless, growth of basic metals benefited from the high growth of items such as 'steel castings', 'aluminium' and 'stainless/alloy steel' among others (refer *Annexure B*) in August 2011.

Radio, TV & communication equipment & apparatus displayed a healthy double-digit growth for the second month in a row, expanding by 11.9% in July 2011 and 12.5% in August 2011, following a de-growth in April, May and June 2011. However, data released by the CSO indicates that 'colour TV picture tubes' contracted sharply in August 2011 (refer *Annexure B*).

Growth of motor vehicles, trailers & semi-trailers declined for the third consecutive month to 8.1% in August 2011 from 23.1% in May 2011. Additionally, other transport equipment expanded by 12.1% in August 2011, the lowest pace of growth since January 2011. The data released by the Society of Indian Automobile Manufacturers (SIAM) indicate that the growth of total automobile production has slowed to 13% in July and August 2011 from 16-20% in Q1 2011-12. Additionally, SIAM data indicates that domestic sales of passenger vehicles contracted by 9% in July 2011 and 6% in August 2011 before reviving somewhat to 1%

in September 2011, emphasising the sluggish domestic consumer demand. However, domestic sales of commercial vehicles remained robust at 22-23% in July and August 2011.

Food products, with a weight of over 7% in the IIP Index, displayed a growth of 8.3% in August 2011. Notably, the pace of growth of this sub-sector for July 2011 was revised upwards to 21.7% from the earlier estimate of 14.4%. Growth in August 2011 benefited from the significant growth recorded by 'fruit pulp' (359%), 'sugar' (50%) and 'industrial alcohol' (37%).

Coke, refined petroleum products & nuclear fuel, with a weight of 6.72% in the IIP index, expanded by 8.6% in August 2011 as compared to a low growth of 2.8% in July 2011. The improved growth performance in August 2011 is likely to be led by the 287.4% growth in 'petroleum coke' and 38.9% growth in 'furnace oil'. The combined weight of these two items is 0.55%, relative to the 6.72% weight of coke, refined petroleum products & nuclear fuel in the IIP index.

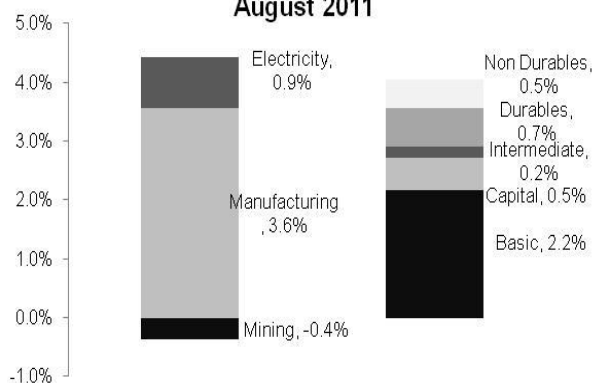
Mining & Quarrying: The mining & quarrying sub-index recorded a de-growth of 3.4% in August 2011, (relative to a 5.9% expansion in August 2010), with mining activity dampened by the heavy monsoon rainfall over large parts of the country. The poor performance of this sub-sector was led by the contraction in output of coal and natural gas, which displayed a de-growth of 15.3% and 5.3%, respectively, in August 2011 in y-o-y terms, according to data on the Eight Core Industries released by CSO.

The average growth of this sub-index for the months of April-August 2011 has been negligible at 0.1%, as compared to a healthy 7.7% growth in April-August 2010, related to various regulatory and environmental issues that have dampened mining activity, low output of natural gas from the Krishna-Godavari basin as well as the restrictions placed by the Supreme Court on mining of iron ore in Karnataka. The low growth of the mining & quarrying sub-sector in recent months has dampened the pace of growth of the IIP by way of first order impact and second order impact through forward linkages with other sectors such as thermal electricity generation.

Electricity: As compared to a marginal 1% growth in August 2010, electricity generation expanded by a healthy 9.5% in August 2011. According to the data released by the Central Electricity Authority (CEA), the growth was led by the high growth of hydro electricity generation, which benefited from the favourable monsoon performance in 2011.

The pace of expansion of electricity generation in August 2011 (9.5%) declined relative to the 13.1% growth recorded in July 2011, primarily on account of a decline in the growth of thermal electricity generation, reflecting the lower availability of domestic coal and natural gas in month-on-month (m-o-m) terms.

Chart 3: Contribution to IIP Growth in August 2011



Source: CSO; ICRA Analysis

Use-based Classification

Capital Goods: The capital goods sub-sector, which has a weight of over 9% in the IIP Index, displayed a growth of 3.9% in August 2011 as compared to a contraction of 13.8% in July 2011. This improvement in the pace of growth of capital goods in sequential terms was partly led by an easing of the adverse base effect; growth of the capital goods sub-index had declined to 4.7% in August 2011 from 40.7% in July 2011. Moreover, the capital goods sub-index expanded by 5.2% in August 2011 relative to July 2011 in m-o-m terms.

Table 5: Components of Capital Goods Displaying Significant Expansion in Aug 2011

Component	Growth in Aug 2011
Heat Exchangers	32.6%
Tractors	32.4%
Air Break Switches / Circuit Breakers	32.2%

Source: CSO

The growth performance of capital goods benefited from the healthy growth rate recorded by a number of items including 'tractors', 'heat exchangers, and 'air break switches/circuit breakers' (refer *Table 5*); these three items have a combined weight of 0.6% in the IIP Index. The continued high growth of tractors is related to the improved prospects of the rural economy following the healthy monsoon rainfall in 2011, which in conjunction with the trend of rising minimum support prices of various crops is likely to result in rising income levels in the farm sector.

Intermediate Goods: Intermediate goods output expanded by 1.3% in August 2011, an improvement compared to the 0.6% contraction recorded in July 2011, partly led by an easing of the adverse base effect; growth of the intermediate goods sub-index had declined to 5.8% in August 2011 from 8.5% in July 2011. While some items such as 'viscose staple fibre' and 'sealed compressors' recorded a sharp contraction in August 2011 (refer *Table 6*), other items such as 'petroleum coke' and 'furnace oil' witnessed a considerable expansion in the same month (refer *Table 7*).

Component	Growth in Aug 2011
Colour TV Picture Tubes	-59.8%
Viscose Staple Fibre	-40.9%
Sealed Compressors	-38.7%
Twine, Jute (Sutli)	-36.0%

Source: CSO

Component	Growth in Aug 2011
Petroleum Coke	287.4%
Furnace Oil	38.9%
Industrial Alcohol (Rectified/Denatured Spirit)	36.6%

Source: CSO

Basic Goods: The pace of growth of basic goods eased to 5.4% in August 2011 from 9.5% in July 2011. This was led by a moderation in the growth of cement (to 7.2% in August 2011 from 10.8% in July 2011); steel (to 7.7% in August 2011 from 13.8% in July 2011) and electricity (to 9.5% in August 2011 from 13.1% in July 2011); these three items account for over 42% of the basic goods sub-index.

Table 8: Components of Basic Goods Displaying Significant Expansion in Aug 2011

Component	Growth in Aug 2011
Di Ammonium Phosphate	64.1%
Stainless/ alloy steel	54.9%
Steel Castings	37.7%
Aluminium	37.6%

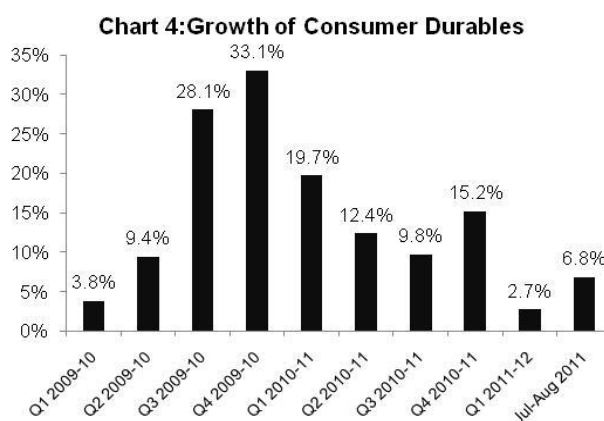
Source: CSO

Growth of basic goods in August 2011 was boosted by the sharp expansion witnessed by items such as 'steel castings', 'stainless/alloy steel' and 'aluminium' (refer *Table 8*).

In m-o-m terms, the basic goods sub-index declined by 2.9% in August 2011 relative to July 2011 as compared to an average 1.1% expansion in m-o-m terms in August in the previous four months.

Consumer Durables: The growth of consumer durables declined to 4.6% in August 2011 from 9.0% in July 2011 despite an easing of the base effect; growth of this sub-index declined to 8.1% in August 2010 from 14.8% in July 2010.

Additionally, the consumer durables index declined by 9.6% in August 2011 after having expanded by 8.3% in July 2011 in m-o-m terms, which suggests that the healthy y-o-y growth of 9.0% recorded in July 2011 was led by a restocking of inventories. Consumer durables have displayed a low average growth of 4.3% in April-August 2011 as compared to the same months in 2010, reflecting the impact of the persistently elevated inflation and rising interest rates on consumer demand.



Source: CSO

Consumer Non-Durables: The growth of consumer non-durables eased substantially to a sluggish 2.9% in August 2011 from 6.5% in July 2011. Moreover, the consumer durables index declined by 6.5% in August 2011 in m-o-m terms.

Nevertheless, growth of consumer non-durables benefited from a sharp expansion in items such as 'fruit pulp', 'vitamins' and 'sugar' (refer *Table 9*);

Table 9: Components of Consumer Non-Durables Displaying Significant Expansion in Aug 2011

Component	Growth in Aug 2011
Fruit Pulp	359.4%
Sugar	50.2%
Vitamins	38.0%

Source: CSO

these three items account for nearly 2% of the IIP index.

Outlook

The growth of capital goods sub-sector is likely to remain sluggish from October to December 2011 due to an adverse base effect (with growth in excess of 20% in October-December 2010). While the low growth of intermediate goods in August 2011 points towards a weak demand for finished products in the coming months, ICRA expects the growth of consumer durables to benefit to an extent in the near term on the back of a restocking of inventories prior to the festive season. Additionally, the anticipated favourable agricultural performance and *kharif* output in 2011 may boost the rural incomes, thereby boosting demand for consumer goods to some extent. The recent depreciation of the Indian Rupee relative to the currencies of several traditional trading partners as well as the decision by the Reserve Bank of India to extend interest subvention of 2% on rupee export credit for certain labour-intensive sectors (with effect from 1 April 2011 to 31 March 2012) may help maintain the relative competitiveness of Indian exports. Nevertheless, the uncertain global economic outlook is likely to result in a further moderation in the pace of growth of Indian merchandise exports.

The mining & quarrying sub-sector may continue to display de-growth in the coming months, on account of lower natural gas output from the Krishna-Godavari basin, the restrictions placed by the Supreme Court on mining of iron ore in Karnataka and the lacklustre performance of the coal sector related to various regulatory and environmental issues. Accordingly, the growth of thermal electricity may remain sluggish in the coming months, although hydro electricity generation is expected to display favourable growth, following the healthy monsoon performance. Overall, IIP growth in September 2011 is likely to remain moderate, relative to the 6.1% growth witnessed in September 2010.

Annexure A:

Chart 5: Year-on-Year Growth in Mining

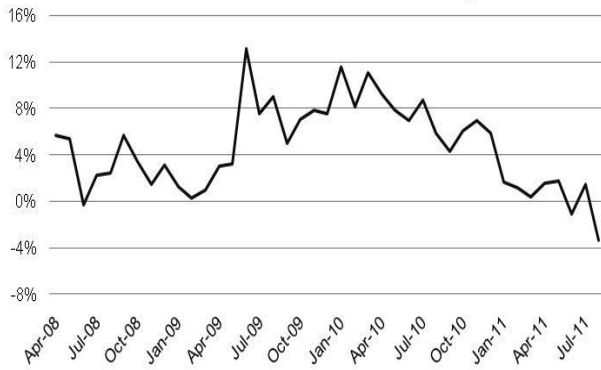


Chart 6: Year-on-Year Growth in Manufacturing

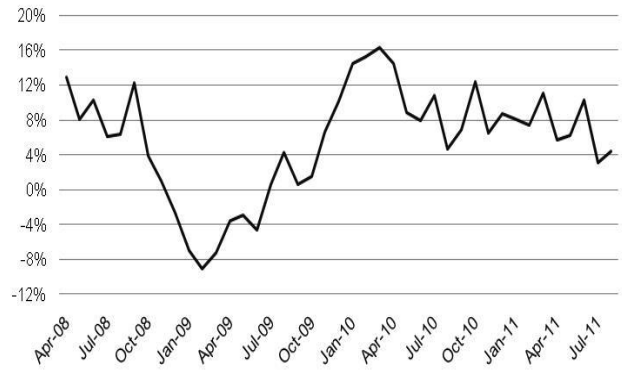


Chart 7: Year-on-Year Growth in Electricity

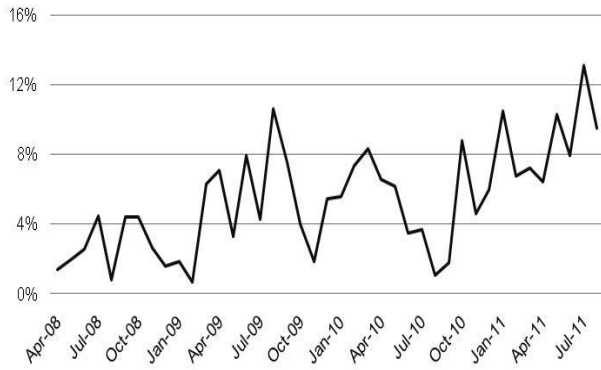


Chart 8: Year-on-Year Growth in Basic Goods

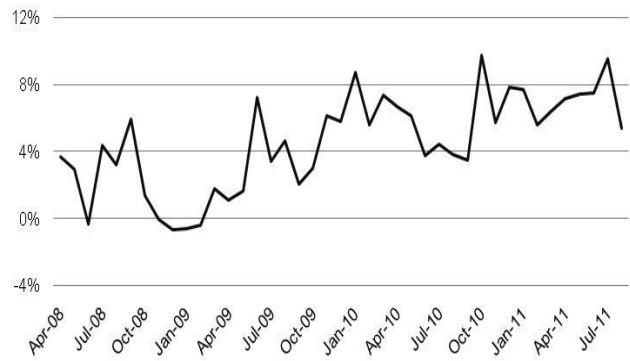


Chart 9: Year-on-Year Growth in Capital Goods

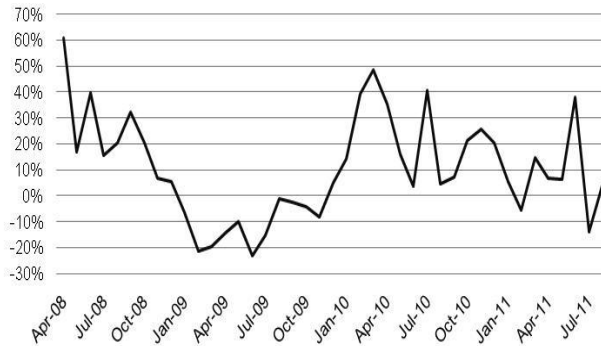


Chart 10: Year-on-Year Growth in Intermediate Goods

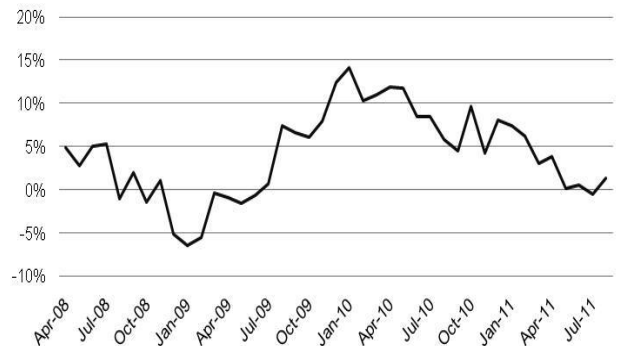


Chart 11: Year-on-Year Growth in Durables

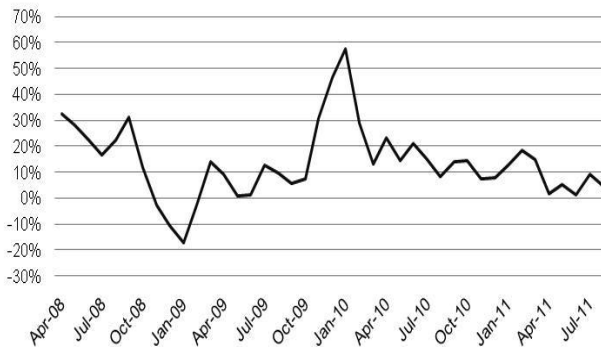
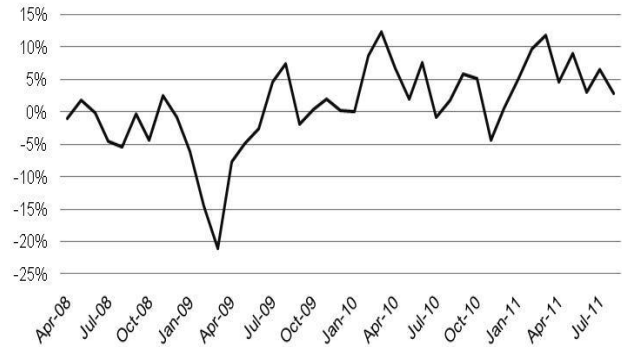


Chart 12: Year-on-Year Growth in Non-Durables



Source: CSO

Annexure B:

Items	Weight	Growth In Aug 2011 (%)	Manufacturing Sub-Sector	Use-Based Classification
Colour TV Picture Tubes	0.16	-59.8%	Radio, TV, Communication Equipment & Apparatus	Intermediate Goods
Viscose Staple Fibre	0.03	-40.9%	Chemicals & Chemical Products	Intermediate Goods
Sealed Compressors	0.13	-38.7%	Machinery & Equipment N.E.C.	Intermediate Goods
Twine, Jute (Sutli)	0.15	-36.0%	Textiles	Intermediate Goods
Petroleum Coke	0.16	287.4%	Coke, Refined Petroleum Products & Nuclear Fuel	Intermediate Goods
Furnace Oil	0.39	38.9%	Coke, Refined Petroleum Products & Nuclear Fuel	Intermediate Goods
Industrial Alcohol (Rectified/Denatured Spirit)	0.26	36.6%	Food Products & Beverages	Intermediate Goods
Heat Exchangers	0.10	32.6%	Machinery & Equipment N.E.C.	Capital Goods
Tractors	0.38	32.4%	Machinery & Equipment N.E.C.	Capital Goods
Air Break Switches / Circuit Breakers	0.14	32.2%	Machinery & Equipment N.E.C.	Capital Goods
Di Ammonium Phosphate	0.32	64.1%	Chemicals & Chemical Products	Basic Goods
Stainless/ Alloy Steel	0.64	54.9%	Basic Metals	Basic Goods
Steel Castings	0.21	37.7%	Basic Metals	Basic Goods
Aluminium	0.26	37.6%	Basic Metals	Basic Goods
Fruit Pulp	0.13	359.4%	Food Products & Beverages	Consumer Non-Durables
Sugar	1.52	50.2%	Food Products & Beverages	Consumer Non-Durables
Vitamins	0.30	38.0%	Chemicals & Chemical Products	Consumer Non-Durables

Source: CSO

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