



## Index of Industrial Production October 2011: De-Growth of 5.1% led by broad-based slowdown in output

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The Index of Industrial Production (IIP) recorded a de-growth of 5.1% in October 2011, relative to the 11.3% growth in October 2010, extending the slowdown in industrial growth witnessed in the recent months (9.5% in June 2011, 3.7% in July 2011, 3.6% in August 2011 and 2.0% in September 2011). The 5.1% contraction in industrial output in October 2011 was sharply lower than the consensus estimates and marks the worst growth performance since March 2009.

The inferior growth performance of the IIP in October 2011 was led by a contraction in all the use-based sub-indices. In particular, capital goods output contracted by 25.5% in October 2011, relative to a sharp 21.1% growth in October 2010 in year-on-year (y-o-y) terms. Notwithstanding persistent volatility in the growth of capital goods in sequential months, a de-growth of 0.3% in capital goods output in April-October 2011 (relative to a healthy 17.2% expansion during the same period in 2010) highlights the weakening investment growth. Moreover, basic goods, intermediate goods and consumer goods displayed a de-growth of 0.1%, 4.7% and 0.8%, respectively, in October 2011, providing evidence of a slowing consumption demand.

The 5.1% de-growth of the IIP index in October 2011, as compared to a robust 11.3% in October 2010, was partly led by an adverse base effect. Moreover, other factors such as the Telangana agitation and a considerable number of holidays (on account of various festivals that took place in October in 2011 as opposed to November in 2010) had an impact on production levels. Additionally, there were instances of strikes in certain coal-mining regions in October 2011, which adversely affected the production of coal, generation of electricity and thereby the manufacturing output in those regions.

In terms of the sectoral classification, IIP growth in October 2011 was led by a 5.6% growth of electricity generation, which displayed a moderation for the third consecutive month (13.1% in July 2011, 9.5% in August 2011 and 9.0% in September 2011). While hydroelectricity generation was supported by the late withdrawal of the monsoon rainfall, thermal generation benefitted to an extent from imports of coal.

IIP growth in October 2011 was dampened by the de-growth of the manufacturing and mining & quarrying sectors. The manufacturing sector recorded a contraction of 6.0% in October 2011, relative to the healthy 12.4% expansion in October 2010. The growth performance of several of the 22 sub-sectors of the manufacturing sector weakened in October 2011. The number of sub-sectors displaying contraction rose to 9 in October 2011 from 6 in September 2011. Additionally, 17 of the 22 sub-sectors reported a decline in growth in October 2011 relative to the previous month and 17 sub-sectors displayed growth below 3% in October 2011.

**Website**

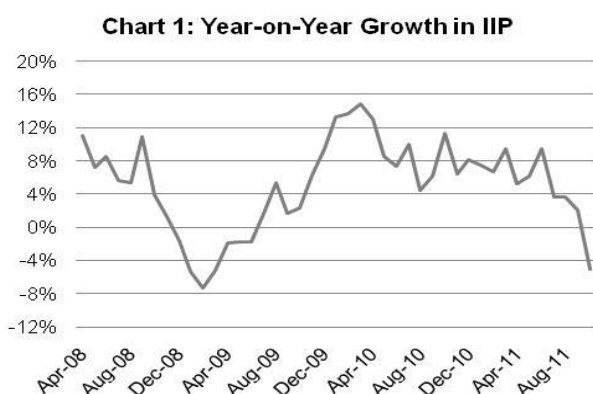
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The mining & quarrying sector recorded a contraction of 7.2% in October 2011, relative to the 6.1% expansion in October 2010, led by several regulatory issues; bans on mining imposed in certain areas by the Supreme Court; heavy rainfall and strikes in some mining regions.

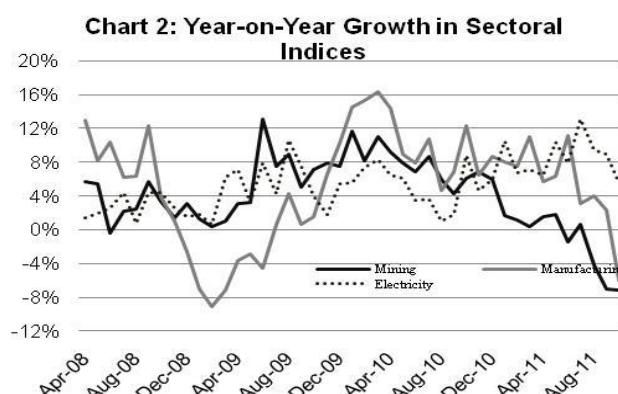
Table 1: Trend in IIP Growth

	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									
Sept-10	6.1%	4.3%	6.9%	1.8%	3.5%	7.2%	4.6%	14.2%	5.8%
Oct-10	11.3%	6.1%	12.4%	8.8%	9.8%	21.1%	9.7%	14.2%	5.0%
Sept-11	2.0%	-7.0%	2.4%	9.0%	4.0%	-6.5%	1.3%	9.2%	-0.2%
Oct-11	-5.1%	-7.2%	-6.0%	5.6%	-0.1%	-25.5%	-4.7%	-0.3%	-1.3%
Apr-Oct FY11	8.6%	7.0%	9.4%	4.5%	5.5%	17.2%	8.6%	15.7%	3.9%
Apr-Oct FY12	3.5%	-2.2%	3.7%	8.8%	5.9%	-0.3%	0.5%	4.5%	2.9%

Source: Central Statistics Office (CSO), ICRA Analysis



Source: CSO; ICRA Analysis



Source: CSO; ICRA Analysis

## Sectoral Growth

**Manufacturing:** The manufacturing sector, which accounts for over 75% of the IIP Index, displayed a substantial de-growth of 6% in y-o-y terms in October 2011 as compared to a healthy 12.4% expansion in October 2010. Moreover, the performance of the manufacturing sector weakened further as compared to the sluggish growth recorded in August 2011 (4.0%) and September 2011 (2.4%). The manufacturing sector displayed a low growth of 3.7% in April-October 2011, substantially slower than the 9.4% growth recorded during the same period in FY11.

Overall, the performance of several of the 22 sub-sectors of the manufacturing sector deteriorated in October 2011. The number of sub-sectors of the manufacturing sector displaying contraction rose to 9 in October 2011 from 6 in September 2011 (refer Table 2). The combined weight of the sub-sectors undergoing contraction increased considerably (to 38.1% in October 2011 from 27.0% in September 2011) and the pace of de-growth worsened (to 17.7% in October 2011 from 9.2% in September 2011). Moreover, the pace of growth of the five sub-sectors making the highest contribution to manufacturing growth halved to 7% in October 2011 from 14% in September 2011. Additionally, only five of the 22 sub-sectors reported an improved growth in October 2011 relative to the previous month, while only five sub-sectors (with a combined weight of 12.2% in the IIP index) displayed growth in excess of 3% in October 2011.

Table 2: Sub-Sectors Displaying Contraction

Sector	Sept 2011	Oct 2011
Number of Sub-Sectors	6	9
Weight in the IIP Index	27.0%	38.1%
Combined Growth	-9.2%	-17.7%
Contribution to Growth	-3.5%	-9.0%

Source: CSO; ICRA Analysis

Chemicals & chemical products contracted for the fifth consecutive month in October 2011; the pace of de-growth worsened marginally to 6.7% in October 2011 from 6.2% in September 2011.

Textiles displayed a contraction for the seventh consecutive month in October 2011. The pace of de-growth of textiles worsened considerably to 11% in October 2011 from 0.4%-5% recorded in the period from April 2011 to September 2011. Additionally, wearing apparel, dressing & dyeing of fur underwent a de-growth of 5.7% in October 2011 as compared to an expansion of 0.3% in September 2011. The performance of these two sub-sectors in October 2011 partly reflected an adverse base effect, following a double-digit growth in October 2010 (11.8% growth of textiles and 15.4% growth of wearing apparel, dressing & dyeing of fur).

Machinery & equipment underwent a contraction for the fourth consecutive month. The extent of de-growth worsened considerably to 12.1% in October 2011, as compared to the 0.7%-2.6% de-growth recorded in the period from July 2011 to September 2011. This too partly reflects an adverse base effect, with a sharp 36% growth in October 2010. While some items such as 'cement machinery' and 'plastic machinery' displayed a considerable de-growth in October 2011, other items such as 'heat exchangers' and 'machine tools' displayed a considerable expansion (refer *Annexure B*).

Electrical machinery & apparatus contracted by a sharp 58.8% in October 2011 as compared to a de-growth of 27.9% in September 2011. This partly reflects an adverse base effect, with a healthy 15.9% growth in October 2010. The contraction in October 2011 partly reflects a de-growth in 'cables, rubber insulated' and 'insulated cables/wires, all kinds'. Nevertheless, other items within this sub-sector such as 'conductor, aluminium' displayed a healthy growth in October 2011 (refer *Annexure B*).

Table 3: Sub-sectors Displaying Contraction in October 2011

Sector	Weight	Growth in Oct 2011	Comment
Chemicals & Chemical Products	10.1	-6.7%	Contracted in Sept 2011
Textiles	6.2	-11.0%	
Machinery & Equipment, N.E.C.	3.8	-12.1%	
Electrical Machinery & Apparatus N.E.C.	2.0	-58.8%	
Rubber & Plastics Products	2.0	-11.4%	
Coke, Refined Petroleum Products & Nuclear Fuel	6.7	-3.5%	Expanded in Sept 2011
Motor Vehicles, Trailers & Semi-Trailers	4.1	-7.1%	
Wearing Apparel; Dressing & Dyeing of Fur	2.8	-5.7%	
Luggage, Handbags, Saddlery, Harness & Footwear; Tanning & Dressing of Leather Products	0.6	-2.1%	
Total of Above	38.1%	-17.7%	

Source: CSO; ICRA Analysis

(refer *Annexure B*).

Rubber & plastic products underwent a contraction of 11.4% in October 2011 relative to a robust 18.1% growth in October 2010. The performance of this sub-sector worsened considerably in October 2011 relative to August 2011 and September 2011 (de-growth of 1.6% and 1.9%, respectively).

Four sub-sectors that underwent an expansion in September 2011 recorded a contraction in October 2011 (refer *Table 3*). Coke, refined petroleum products & nuclear fuel recorded a de-growth of 3.5% in October 2011, relative to the contraction of 7.9% in October 2010. This took place despite the sharp 69.7% growth displayed by 'petroleum coke' in October 2011 (refer *Annexure B*). Motor vehicles, trailers & semi-trailers underwent a contraction of 7.1% in October 2011. This partly reflects an adverse base effect, following the robust 27.2% growth in October 2010. Moreover, data released by the Society of Indian Automobile Manufacturers (SIAM) indicates that passenger vehicles underwent a contraction of 24% in October 2011 in y-o-y terms, led by the 55% decline in the output of Maruti Suzuki India Limited, which is related to the strike at its plant in Manesar in October 2011.

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

Sub-sector	Weight	Growth in Oct 2011	Contribution to Manufacturing Growth
Radio, TV & Communication Equipment & Apparatus	0.99	15.3%	1.1%
Food Products & Beverages	7.28	14.7%	0.8%
Basic Metals	11.34	2.9%	0.5%
Fabricated Metal Products, except Machinery & Equipment	3.08	6.2%	0.2%
Other Non Metallic Mineral Products	4.31	2.7%	0.1%
Others Displaying Expansion	10.39	2.9%	0.3%
Others Displaying Contraction	38.13	17.7%	-9.0%
Manufacturing	75.53	-6.0%	-6.0%

Source: CSO; ICRA Analysis

Radio, TV & communication equipment & apparatus, with a weight of around 1% in the IIP index, displayed a healthy growth of 15.3% in October 2011, albeit slower than the robust 25% expansion in September 2011.

Food products, with a weight of over 7% in the IIP Index, displayed a healthy growth of 14.7% in October 2011, an improvement relative to the 7.8% growth in September 2011. Growth in October 2011 benefited from the sharp growth recorded by items such as 'fruit pulp', 'cashew kernels' and 'rice' (refer *Annexure B*).

Growth of basic metals, with a weight of over 11% in the IIP Index, slowed sharply to 2.9% in October 2011, from the 10-20% growth recorded in April-September 2011. Nevertheless, growth of basic metals benefited from the high growth of items such as 'steel castings', and 'aluminium tubes/pipes' (refer *Annexure B*) in October 2011.

Growth of fabricated metal products (except machinery & equipment), with a weight of over 3% in the IIP index, too slowed considerably to 6.2% in October 2011 from around 12-19% in April-September 2011. Growth of this sub-index benefited from the high growth of items such as 'boilers' (refer *Annexure B*) in October 2011.

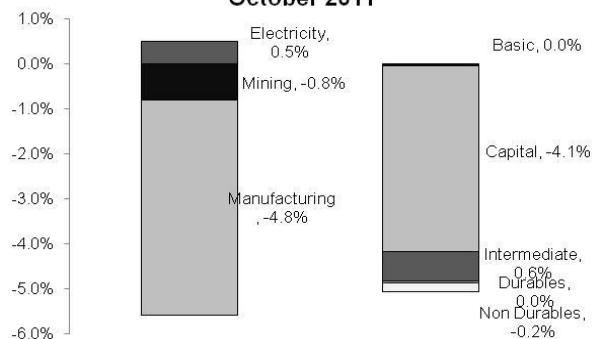
Growth of other non-metallic mineral products, with a weight of over 4% in the IIP Index, expanded by 2.7% in October 2011, which is an improvement as compared to the 1.5% growth in September 2011.

**Mining & Quarrying:** Relative to a 6.1% expansion in October 2010, the mining & quarrying sector recorded a contraction of 7.2% in October 2011, which was similar to the 7.0% contraction in September 2011. Mining activity was hampered in September-October 2011 by the late withdrawal of the monsoon rainfall. Additionally, there were instances of strikes in certain coal-mining regions in October 2011, which had an adverse impact on production levels; generation of electricity and, therefore, the manufacturing output in those regions.

**Electricity:** Electricity generation grew by 5.6% in October 2011 as compared to 8.8% in October 2010. October 2011 witnessed the slowest rate of expansion of this sub-sector since November 2010.

The pace of growth of electricity generation declined considerably to 5.6% in October 2011 as compared to 9% in September 2011. According to the data released by the Central Electricity Authority (CEA), the pace of growth of hydro electricity generation declined to 11.6% in October 2011 from 24.4% in September 2011. The pace of growth of thermal electricity generation declined to 3.6% in October 2011 from 4.6% in September 2011, thus dampening the overall growth of electricity generation.

**Chart 3: Contribution to IIP Growth in October 2011**

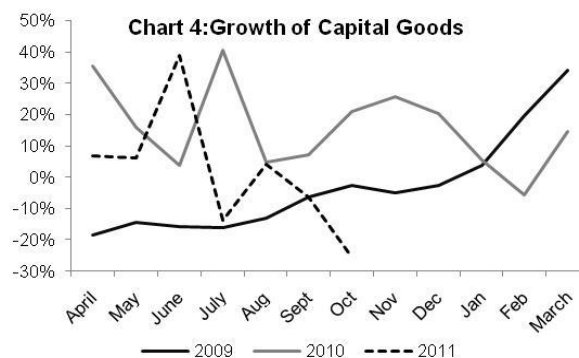


Source: CSO; ICRA Analysis

Data released by CEA indicate that thermal electricity generation has displayed a rise of around 6% in April-October 2011 relative to the same months in 2010, even as data released by the CSO suggests that domestic coal output has contracted by around 5.5% in April-October 2011. To an extent, thermal electricity generation has been supported by coal imports; provisional data released by the Government of India suggest that coal imports have risen by around 61% in April-November 2011.

### Use-based Classification

**Capital Goods:** The capital goods sub-index, which has a weight of over 9% in the IIP Index, displayed a sharp de-growth of 25.5% in October 2011 relative to a robust 21.1% growth in October 2010. The performance of this sub-index has displayed considerable volatility since 2010 (refer *Chart 4*), which has to a large extent reflected the base effect. Nevertheless, the capital goods sub-index has displayed a poor performance so far in FY12, with a contraction of 0.3% in April-October 2011, as compared to a healthy 17.2% expansion during the same period in 2010.



Source: CSO; ICRA Analysis

Moreover, the capital goods sub-index contracted by a substantial 20.4% in October 2011 relative to September 2011 in month-on-month (m-o-m terms). This is substantially inferior to the de-growth of 0.1-11.5% in m-o-m terms in the month of October 2011 since 2005.

Table 5: Components of Capital Goods Displaying Significant Contraction in Oct 2011

Component	Growth in Oct 2011
Cable, Rubber Insulated	-82.9%
Cement Machinery	-74.6%
Insulated Cables/ Wires	-38.2%
X-ray Equipment	-35.8%
Plastic Machinery including Moulding Machinery	-32.3%

Source: CSO; ICRA Analysis

Table 6: Components of Capital Goods Displaying Significant Expansion in Oct 2011

Component	Growth in Oct 2011
Conductor, Aluminium	46.6%
Boilers	45.8%
Heat Exchangers	35.5%
Machine Tools	31.4%

Source: CSO; ICRA Analysis

While the substantial de-growth displayed by some items of capital goods such as 'cement machinery' and 'X-ray equipment' in October 2011 may reflect lumpiness in order execution, the sharp contraction in output of various types of wires and cables is puzzling (refer *Table 5*). Additionally, some items of capital goods such as 'boilers' and 'machine tools' displayed a considerable growth in October 2011 (refer *Table 6*).

**Intermediate Goods:** Intermediate goods output contracted by 4.7% in October 2011, substantially slower than the 9.7% growth recorded in October 2010. Growth of intermediate goods was low in October 2011 despite a considerable expansion in items such as 'petroleum coke' and 'aluminium tubes/pipes' (refer *Table 7*).

Table 7: Components of Intermediate Goods Displaying Significant Expansion in Oct 2011

Component	Growth in Oct 2011
Petroleum Coke	69.7%
Aluminium Tubes/Pipes	30.8%

Source: CSO; ICRA Analysis

The intermediate goods sub-index displayed a lacklustre growth of 0.5% in April-October 2011, which is considerably slower than the 8.6% growth recorded in April-October 2010.

**Consumer Non-Durables:** This sub-index displayed a de-growth of 1.3% in October 2011 as compared to a 5.0% expansion in October 2010. However, some items of consumer non-durables such as 'fruit pulp', and 'cashew kernels', 'rice, and 'leather garments' (refer *Table 8*), which together account for less than 2% of the IIP index, displayed a sharp expansion in y-o-y terms.

Table 8: Components of Consumer Non-Durables Displaying Significant Expansion in Oct 2011

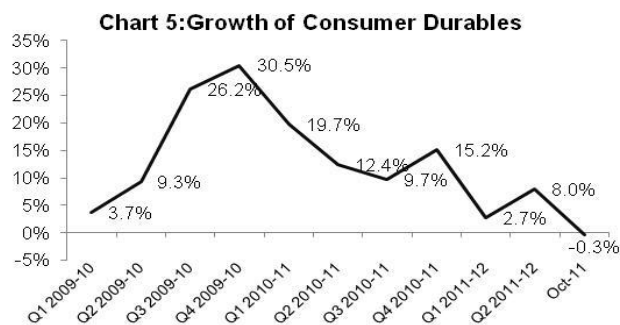
Component	Growth in Oct 2011
Fruit Pulp	254.2%
Cashew Kernels	91.9%
Rice	54.4%
Leather Garments	33.6%

Source: CSO; ICRA Analysis

Revised data indicate a marginal de-growth of 0.2% in September 2011 as compared to the initial estimate of a 1.3% contraction.

**Consumer Durables:** This sub-index contracted by 0.3% in October 2011, as compared to the healthy 14.2% growth in October 2010. Moreover, the pace of growth declined sharply as compared to the 8% growth in Q2FY12, indicating a weakening demand for consumer durables.

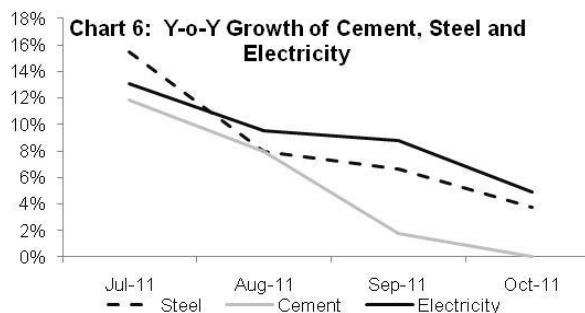
However, some items of consumer durables such as 'woollen carpets' and 'marble tiles/slabs' displayed a sharp expansion in October 2011 (refer *Annexure B*).



Source: CSO; ICRA Analysis

**Basic Goods:** Basic goods output contracted by 0.1% in October 2011, substantially inferior to the 9.8% growth recorded in October 2010.

The pace of growth of basic goods has weakened steadily from 10.0% in July 2011 to 5.2% in August 2011, and further to 4.0% in September 2011 followed by the de-growth of 0.1% in October 2011. This was primarily led by a moderation in the growth of cement, steel and electricity (refer *Chart 6*); these three items account for over 42% of the basic goods sub-index.



Source: CSO; ICRA Analysis

### Outlook

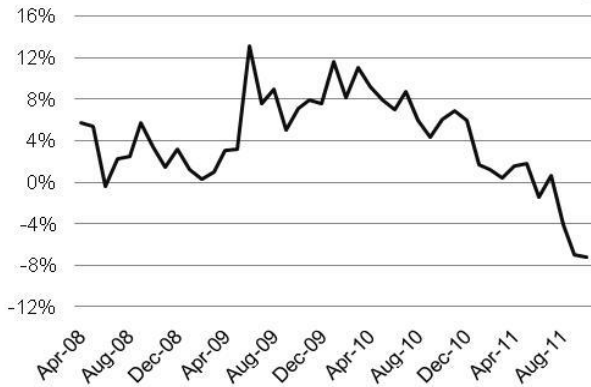
Over the recent months, investment and consumption growth have displayed undeniable signs of a slowdown. However, to a limited extent, some of the factors that contributed towards the poor industrial performance in October 2011 were temporary, such as the impact of the Telangana agitation, strikes in key coal mining areas and less number of working days related to the festive season. Some data sources suggest an improved industrial growth scenario in November 2011 as compared to October 2011. For instance, data released by SIAM indicate that automobile production rose by a sharp 28% in November 2011, following the contraction of 1.8% in October 2011 in y-o-y terms. Provisional data released by the Government of India suggest that merchandise exports improved to US\$22.3 billion in November 2011 from US\$19.9 billion in October 2011, which may provide a limited boost to industrial growth in November 2011. Nevertheless, capital goods may continue to display a de-growth in the near term, as the base effect remains adverse with growth in excess of 20% in November-December 2010.

The mining & quarrying sector may continue to display de-growth in November 2011 on account of the regulatory and environmental issues as well as the continuation of bans imposed on mining in certain areas pursuant to judgements of the Supreme Court. Electricity generation is expected to remain moderate in November 2011, supporting the overall IIP growth.

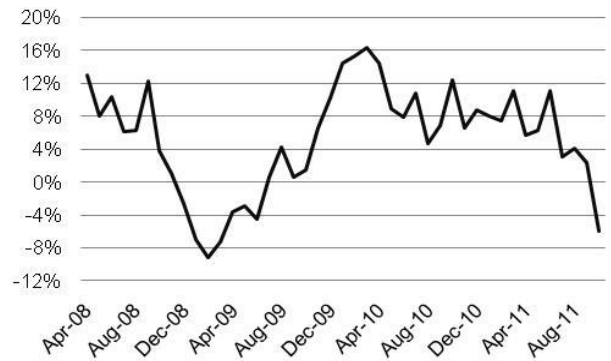
Overall, the industrial growth performance is likely to remain sluggish in November 2011, although the pace of growth may improve as compared to the de-growth witnessed in October 2011.

**Annexure A:**

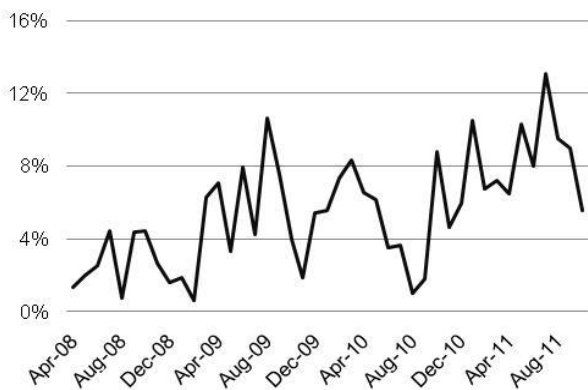
**Chart 7: Year-on-Year Growth in Mining**



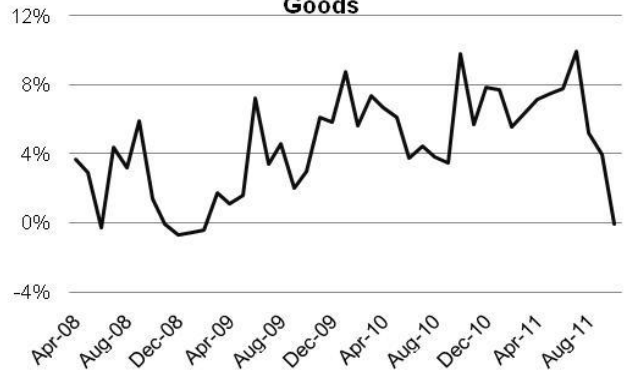
**Chart 8: Year-on-Year Growth in Manufacturing**



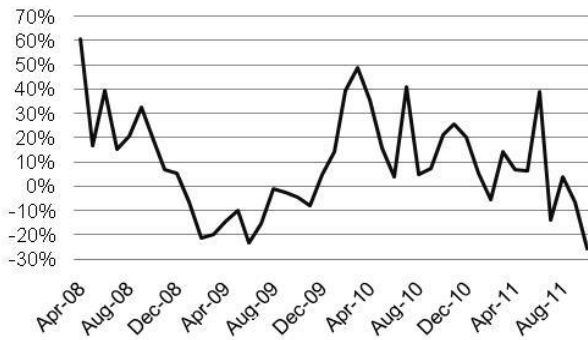
**Chart 9: Year-on-Year Growth in Electricity**



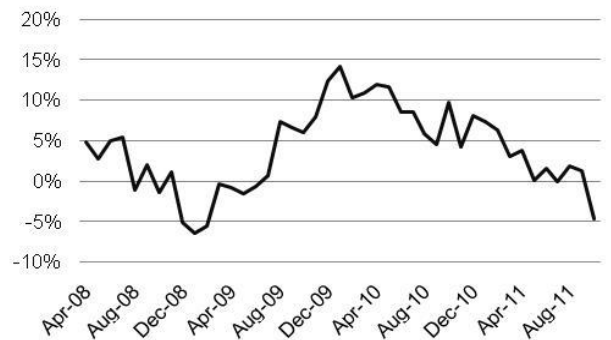
**Chart 10: Year-on-Year Growth in Basic Goods**



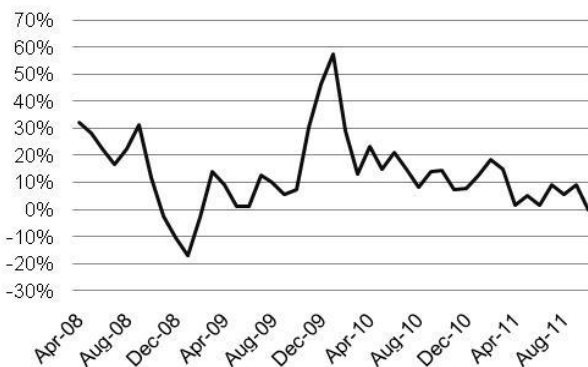
**Chart 11: Year-on-Year Growth in Capital Goods**



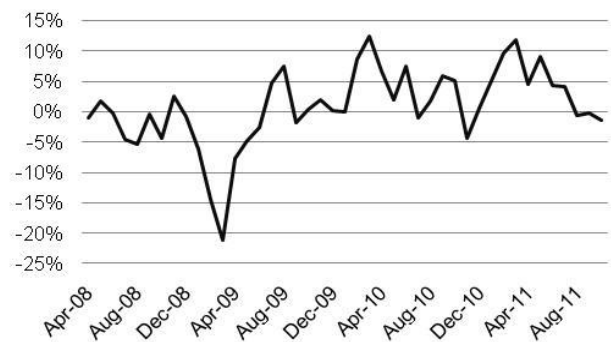
**Chart 12: Year-on-Year Growth in Intermediate Goods**



**Chart 13: Year-on-Year Growth in Durables**



**Chart 14: Year-on-Year Growth in Non-Durables**



**Source: CSO; ICRA Analysis**

**Annexure B:**

Items	Weight	Growth In Oct 2011 (%)	Manufacturing Sub-Sector	Use-Based Classification
Cable, Rubber Insulated Insulated Cables/ Wires all kind	0.12	-82.9%	Electrical Machinery & Apparatus N.E.C.	Capital
	0.11	-38.2%	Electrical Machinery & Apparatus N.E.C.	Capital
Cement Machinery	0.12	-74.6%	Machinery & Equipment N.E.C	Capital
Plastic Machinery including Moulding Machinery	0.26	-32.3%	Machinery & Equipment N.E.C	Capital
X-ray equipment	0.10	-35.8%	Medical, Precision & Optical Instruments, Watches And Clocks	Capital
Conductor, Aluminium	0.20	46.6%	Electrical Machinery & Apparatus N.E.C.	Capital
Boilers	0.40	45.8%	Fabricated Metal Products, Except Machinery & Equipment	Capital
Heat Exchangers	0.10	35.5%	Machinery & Equipment N.E.C	Capital
Machine Tools	0.12	31.4%	Machinery & Equipment N.E.C	Capital
Fruit Pulp	0.13	254.2%	Food Products & Beverages	CND
Cashew Kernels	0.28	91.9%	Food Products & Beverages	CND
Rice	0.66	54.4%	Food Products & Beverages	CND
Leather Garments	0.75	33.6%	Wearing Apparel; Dressing & Dyeing of Fur	CND
Marble Tiles/Slabs	0.12	47.2%	Other Non-Metallic Mineral Products	CD
Woollen Carpets	0.26	30.7%	Textiles	CD
Steel Castings	0.21	41.7%	Basic Metals	Basic
Petroleum Coke	0.16	69.7%	Coke, Refined Petroleum Products & Nuclear Fuel	Intermediate
Aluminium Tubes/Pipes	0.36	30.8%	Basic Metals	Intermediate

**Source: CSO; ICRA Analysis**

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