



Index of Industrial Production May 2011: Growth below 6% for the second consecutive month

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The Index of Industrial Production (IIP) expanded by a sluggish 5.6% in May 2011 as against 8.5% in May 2010. The pace of IIP growth in May 2011 was lower than ICRA's expectations of a 7% growth and similar to the growth for April 2011, which was revised downwards to 5.7% from the initial estimate of 6.3%, largely led by a sharp revision in the growth of capital goods to 7.3% from 14.5%.

IIP growth in May 2011 was led by the 7.3% growth of basic goods; 5.9% growth of capital goods; 5.6% growth of consumer non-durables and 5.2% growth of consumer durables; and dampened by the marginal 1% expansion of intermediate goods. The pace of growth of basic goods has displayed a steady, albeit moderate, improvement since March 2011. In contrast, intermediate goods, consumer durables and consumer non-durables displayed lower growth in April-May 2011 than that recorded in Q4, 2010-11. This suggests a moderation in demand for finished products, thus reflecting the impact of pass through of elevated commodity prices into prices of manufactured goods and rising interest rates.

Capital goods displayed a growth of 5.9% in March 2011, relative to the 15.8% growth recorded in May 2010. The pace of growth of capital goods has moderated considerably since March 2011 (15.4%, 7.3% and 5.9% in March 2011, April 2011 and May 2011, respectively), which is a cause for concern. However, the downward revision in the growth of capital goods for April 2011 (to 7.3% from an initial 14.5%) highlights that issues related to data collection and reporting persist even in the new series of the IIP; accordingly, the growth of capital goods is likely to continue to display volatility.

In terms of the sectoral classification, IIP growth in May 2011 was led by the healthy 10.3% expansion of electricity generation and the 5.6% growth of the manufacturing sector. IIP growth was dampened by the sluggish 1.4% growth of mining & quarrying in May 2011; growth of this sector has remained below 2% since January 2011.

The pace of manufacturing growth declined mildly to 5.6% in May 2011 from 6.3% in April 2011, despite an easing of the base effect; growth had declined to 8.9% in May 2010 from 14.4% in April 2010. However, growth remained concentrated within a few sub-sectors; five sub-sectors, namely, basic metals; motor vehicles, trailers & semi-trailers; food products & beverages; other transport equipment; and fabricated metal products together accounted for 5.5% of the 5.6% growth of the manufacturing sector in May 2011. Additionally, the number of sub-sectors experiencing contraction increased to eight in May 2011 from six in April 2011, although the combined weight of the sectors undergoing a de-growth declined marginally in May 2011.

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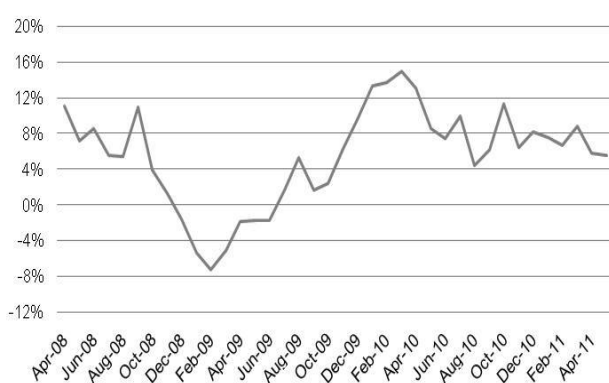
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Table 1: Trend in IIP Growth

	IIP	Sectoral			Use-Based Classification				
		Mining	Manuf acturing	Electrici ty	Basic	Capital	Interme diate	Durables	Non- Durables
Weight	100.00%	14.16%	75.53%	10.32%	45.68%	8.83%	15.69%	8.46%	21.35%
Month									
Apr-10	13.1%	9.2%	14.4%	6.5%	6.7%	35.5%	11.9%	23.3%	6.8%
May-10	8.5%	7.9%	8.9%	6.1%	6.1%	15.8%	11.7%	14.7%	1.9%
Apr-11	5.7%	1.3%	6.3%	6.4%	6.9%	7.3%	4.4%	3.7%	4.9%
May-11	5.6%	1.4%	5.6%	10.3%	7.3%	5.9%	1.0%	5.2%	5.6%
Apr-May FY11	10.8%	8.5%	11.7%	6.3%	6.4%	25.6%	11.8%	19.0%	4.3%
Apr-May FY12	5.7%	1.3%	6.0%	8.4%	7.1%	6.6%	2.7%	4.5%	5.2%

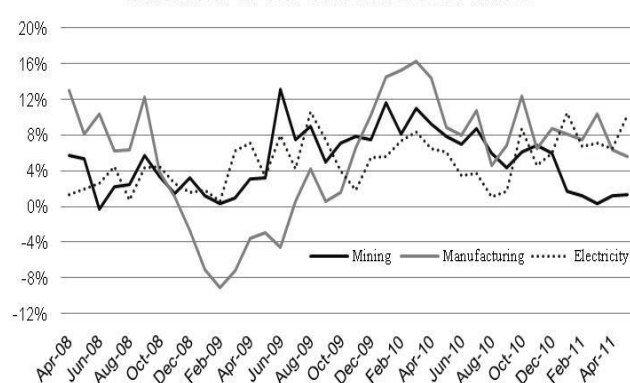
Source: Central Statistics Office (CSO)

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, recorded a growth of 5.6% in May 2011 as compared to the 8.9% growth in May 2010. The pace of growth slowed somewhat relative to the 6.3% growth displayed in April 2011. Of the 22 sub-sectors of the manufacturing sector, the number of sub-sectors displaying expansion declined to 14 in May 2011 from 16 in April 2011 (refer *Table 2*). Growth remained concentrated, with the five sub-sectors making the highest contribution to manufacturing growth accounting for 5.5% of the 5.6% growth in the manufacturing sector in May 2011.

Basic metals, with a weight of over 11% in the IIP Index, expanded by 13.4% in May 2011, similar to the 13.6% growth displayed in April 2011. This sub-sector has displayed a robust double-digit growth since December 2010. Growth in May 2011 benefited from the high growth of items such as 'sponge iron' and 'stainless/alloy steel' among others (refer *Annexure B*).

Motor vehicles, trailers & semi-trailers recorded a healthy growth of 23.1% in May 2011; growth has remained in a range of 22-24% since January 2011. Growth in May 2011 was boosted by a 32% growth of 'commercial vehicles'. The data released by the Society of Indian Automobile Manufacturers (SIAM) indicate that the growth of total automobile production slowed mildly to 18.5% in May 2011 from 20.3% in April 2011. While automobile exports grew by a robust 30% in both April and May 2011, growth of domestic sales slowed considerably to 13% in May 2011 from 23% in April 2011, suggesting that the overall growth of automobiles may dampen in the coming months.

Food products, with a weight of over 7% in the IIP Index, displayed a growth of 12.9% in May 2011, higher than the 9.9% growth in April 2011. Growth in May 2011 benefited from the significant growth recorded by 'molasses' (103%), 'sugar' (93%) and 'industrial alcohol' (50%), which form around 26% of the food products sub-index.

Other transport equipment expanded by nearly 20% in May 2011 in line with the growth recorded in March 2011 (19.6%) and April 2011 (18.1%). Growth in May 2011 was supported by the 38% growth in 'ship building & repairs'. The growth of fabricated metal products, except machinery & equipment, slowed to 13.9% in May 2011 from an average growth of 19% displayed over the previous three months.

Table 2: Contribution to the Growth of the Manufacturing Sector by Sub-Sectors

Sub-sector	Weight	Growth in May 2011	Contribution to Manufacturing Growth
Basic Metals	11.34	13.4%	2.0%
Motor Vehicles, Trailers & Semi-Trailers	4.06	23.1%	1.5%
Food Products & Beverages	7.28	12.9%	0.9%
Other Transport Equipment	1.82	19.9%	0.5%
Fabricated Metal Products, except Machinery & Equipment	3.08	13.9%	0.5%
Others Displaying Expansion	28.02	4.8%	1.6%
Others Displaying Contraction	19.92	-4.9%	-1.5%
Manufacturing	75.53	5.6%	5.6%

Source: CSO; ICRA Analysis

Of the 22 manufacturing sub-sectors, the number of sub-sectors experiencing contraction increased to eight in May 2011 (with a combined weight of 19.9%) from six in April 2011 (with a combined weight of 20.3%). Nonetheless, the combined weight of the sub-sectors recording a contraction declined marginally in May 2011 relative to April 2011 (refer Table 3).

The pace of contraction of textiles and machinery & equipment worsened in May 2011 to 6.6% (3.4% in April 2011) and 5.1% (0.5% in April 2011), respectively. The contraction in machinery & equipment was partly led by an adverse base effect, with 41% growth in May 2010.

Electrical machinery & apparatus contracted by 6.1% in May 2011 after displaying an expansion in the previous two months. This sub-sector has displayed substantial volatility since April 2010, with the pace of growth in y-o-y terms ranging from a contraction of 39% in February 2011 to an expansion of 60% in July 2010.

The sub-sector wood & products of wood & cork except furniture; articles of straw & plating materials underwent contraction for the ninth consecutive month, with de-growth of 6.6% in May 2011. Rubber & plastic products displayed a de-growth for the third consecutive month, with a contraction of 3.8% in May 2011. Wearing apparel; dressing and dyeing of fur and tobacco products displayed marginal de-growth in May 2011.

Electricity: The pace of growth of electricity generation improved to 10.3% in May 2011 from 6.4% in April 2011, providing a boost to the overall pace of IIP growth. According to the data released by the Central Electricity Authority (CEA), the pace of growth of hydroelectric and thermal generation recorded an improvement in May 2011 as compared to the previous month.

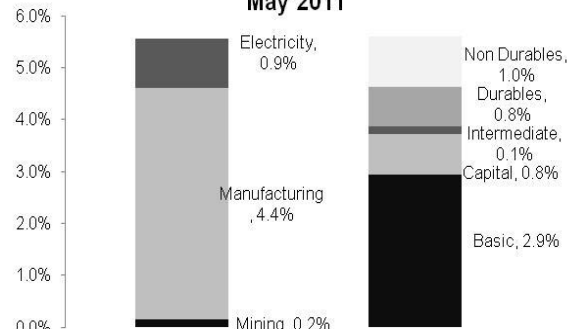
Going forward, the availability of adequate coal and gas to support a high plant load factor of thermal plants and the extent of rainfall in the catchment areas of reservoirs for hydel plants would determine the pace of growth of electricity generation.

Table 3: Sub-sectors Displaying Contraction in May 2011

Sector	Weight	Growth in May 2011
Textiles	6.16	-6.6%
Wood & Products of Wood & Cork Except Furniture; Articles of Straw & Plating Materials	1.05	-6.6%
Electrical Machinery & Apparatus N.E.C.	1.98	-6.1%
Luggage, Handbags, Saddlery, Harness & Footwear; Tanning & Dressing Of Leather Products	0.58	-5.2%
Machinery & Equipment N.E.C.	3.76	-5.1%
Rubber & Plastics Products	2.02	-3.8%
Wearing Apparel; Dressing & Dyeing Of Fur	2.78	-0.6%
Tobacco Products	1.57	-0.1%
Total of Above	19.92	-4.9%

Source: CSO; ICRA Analysis

Chart 3: Contribution to IIP Growth in May 2011



Source: CSO; ICRA Analysis

Mining & Quarrying: The mining & quarrying sub-index expanded by a low 1.4% in May 2011, as compared to the 7.9% growth recorded in May 2010. The growth of this sub-index has averaged at 1.2% in the period from January to May of 2011 as compared to a healthy growth of 9.6% in the corresponding period in the previous year. The growth outlook for mining & quarrying would be critically influenced by various policy decisions of the Central and State Governments, including designation of areas as “Go” and “No Go” for mining.

Use-based Classification

Basic Goods: Basic goods expanded by 7.3% in May 2011, relative to the 6.1% expansion in May 2010. The pace of growth of basic goods has displayed a steady improvement to 7.3% in May 2011 from 5.6% in February 2011, 6.3% in March 2011 and 6.9% in April 2011.

Growth of basic goods was boosted by high growth in some items such as ‘sponge iron’, ‘stainless/alloy steel’ and ‘aviation turbine fuel’. (refer *Table 4*).

Table 4: Components of Basic Goods displaying Significant Expansion in May 2011

Component	Growth in May 2011
Molasses	102.9%
Stainless/ Alloy Steel	49.0%
Galvanised Plain/Corrugated Sheets	37.7%
Sponge Iron	33.6%
Aviation Turbine Fuel	33.4%
Steel Castings	30.3%

Source: CSO

Capital Goods: The capital goods sub-sector, which has a weight of over 9% in the IIP Index, expanded by 5.9% in March 2011, relative to the 15.8% growth recorded in May 2010. In a discouraging trend, the pace of growth of capital goods has declined since March 2011 (15.4%, 7.3% and 5.9% in March 2011, April 2011 and May 2011, respectively) despite the waning of the adverse base effect (48.6%, 35.5% and 15.8% in March 2010, April 2010 and May 2010, respectively).

Table 5: Components of Capital Goods displaying Significant Expansion in May 2011

Component	Growth in May 2011
Computers	42.6%
Textile Machinery	41.3%
Ship Building & Repairs	38.1%
Commercial Vehicles	32.1%

Source: CSO

The growth of capital goods in May 2011 received a boost from the 32.1% growth recorded by ‘commercial vehicles’, with a weight of nearly 2% in the IIP Index. Additionally, items such as ‘computers’, ‘textile machinery’ and ‘ship building & repairs’ (refer *Table 5*), displayed a substantial expansion in May 2011; these items have a combined weight of a little over 0.5% in the IIP Index.

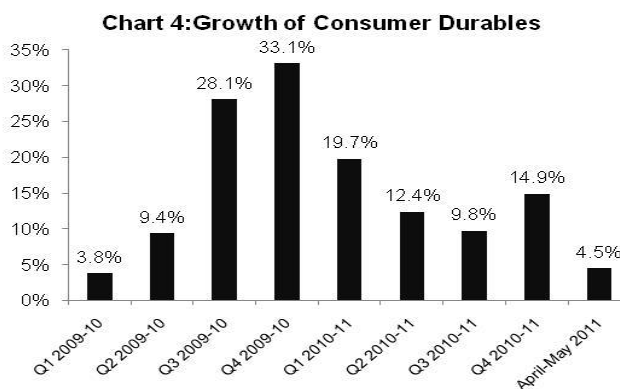
Consumer Durables: Consumer durables displayed a growth of 5.2% in May 2011, as compared to a growth of 15% in May 2010.

The growth of consumer durables improved to 5.2% in May 2011 from 3.7% in April 2011. However, the pace of growth of consumer goods in April-May 2011 (4.5%) was inferior to the 15% growth recorded in Q4, 2010-11, in spite of an easing of the adverse base effect; the growth of consumer durables had slowed to 19% in April-May 2010 from 33% in Q4 2009-10. This is likely to reflect the impact of persistently elevated inflation and rising interest rates on demand for consumer durables.

Table 6: Components of Consumer Durables displaying Significant Expansion in May 2011

Component	Growth in May 2011
Woollen Carpets	58.0%

Source: CSO



Source: CSO

Consumer Non-Durables: The growth of consumer non-durables improved somewhat to 5.6% in May 2011 from 4.9% in April 2011. However, this improvement was aided by the base effect, with a low growth of 1.9% in May 2010 as compared to 6.8% in April 2010. Moreover, the pace of growth of consumer non-durables eased considerably to 5.2% in April-May 2011 from that recorded in Q4 2010-11 (8.2%).

Table 7: Components of Consumer Non-Durables displaying Significant Expansion in May 2011

Component	Growth in May 2011
Sugar	92.8%
Vitamins	48.2%

Source: CSO

Growth in May 2011 benefits from the sharp growth of some items such as 'sugar', 'vitamins' (please refer Table 7).

Intermediate Goods: Intermediate goods output expanded by a sluggish 1% in May 2011, as compared to the 11.7% growth recorded in May 2010. Intermediate goods output contracted marginally in May 2011 relative to the level of the index in April 2011, in contrast to the trend of 3.2%-7.8% expansion in month-on-month (m-o-m) terms in the month of May in the previous years.

Table 8: Components of Intermediate Goods displaying Significant Expansion in May 2011

Component	Growth in May 2011
Printed Circuit Board/Plate	63.7%
Industrial Alcohol	49.9%
Lubricating Oil	33.3%

Source: CSO

The pace of growth of intermediate goods declined to 1% in May 2011 from 5.2% in Q4 2010-11 and 4.4% in April 2011. The slowdown in the growth of intermediate goods in April-May 2011 relative to the growth recorded in Q4, 2010-11 mirrors the trends displayed by consumer goods, suggesting a moderation in demand for finished products and the likelihood of continued weakness in manufacturing growth in the coming months.

Outlook

According to the data released by the Central Electricity Authority (CEA), the growth of electricity generation is expected to decline, albeit to a healthy 7.2% in June 2011, with a moderation in growth of thermal electricity generation. Capital goods may display a pick-up in growth in June 2011, considering a benign base effect with a low 3.7% growth in June 2010. Quick estimates released by the Ministry of Commerce & Industry, Government of India indicate that exports displayed a robust growth of 46% in June 2011, which would boost the growth of manufacturing output. However, signs of moderation in domestic consumer demand have emerged on the back of persistently elevated inflation and rising interest rates. Accordingly, consumer goods are expected to continue to display moderate growth akin to that seen in April and May 2011. The growth of the mining & quarrying sector is expected to remain low in the immediate term, and policy decisions would have a substantial bearing on the trajectory of growth over the course of the year. Overall, in ICRA's view, IIP growth in June 2011 is unlikely to significantly exceed the levels recorded in May 2011.

Annexure A:

Chart 5: Year-on-Year Growth in Mining

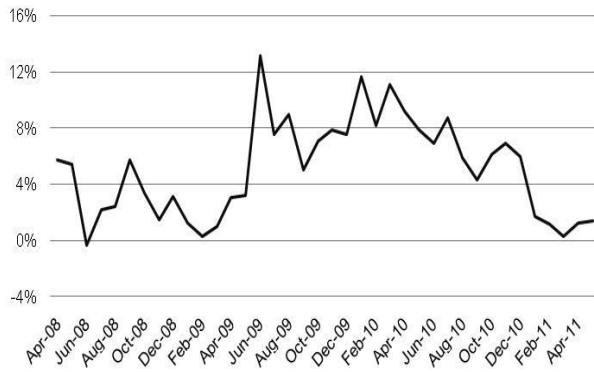


Chart 6: Year-on-Year Growth in Manufacturing

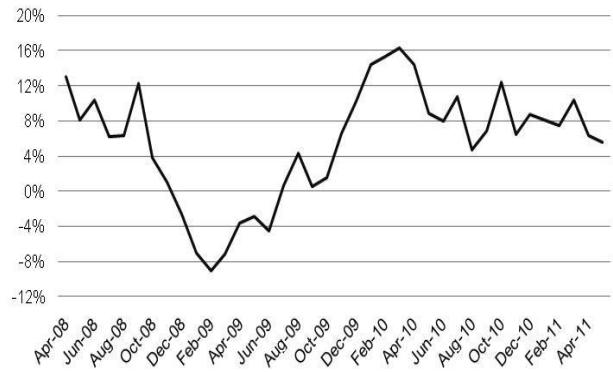


Chart 7: Year-on-Year Growth in Electricity

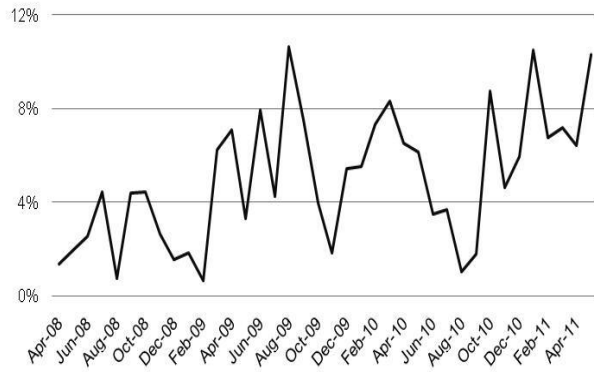


Chart 8: Year-on-Year Growth in Basic Goods

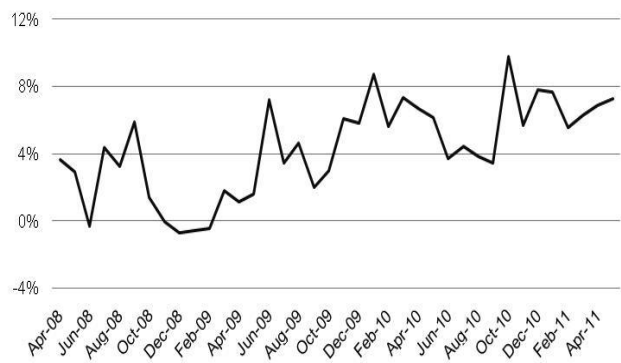


Chart 9: Year-on-Year Growth in Capital Goods

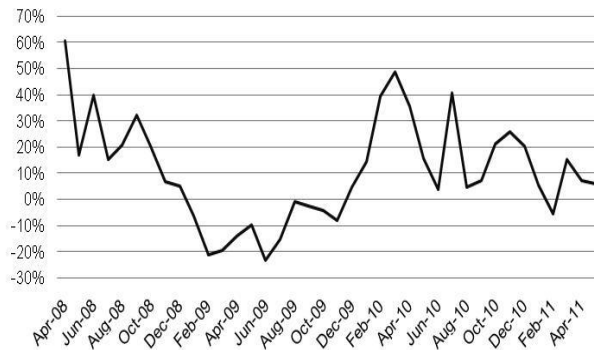


Chart 10: Year-on-Year Growth in Intermediate Goods

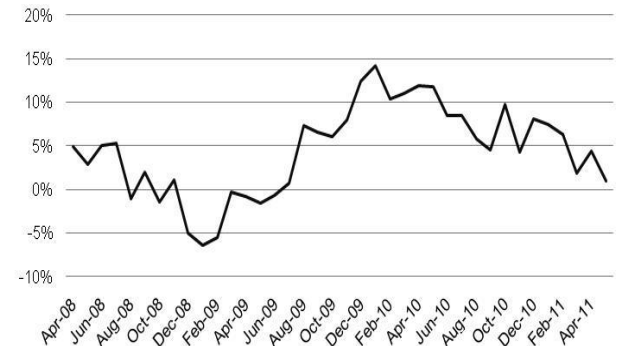


Chart 11: Year-on-Year Growth in Durables

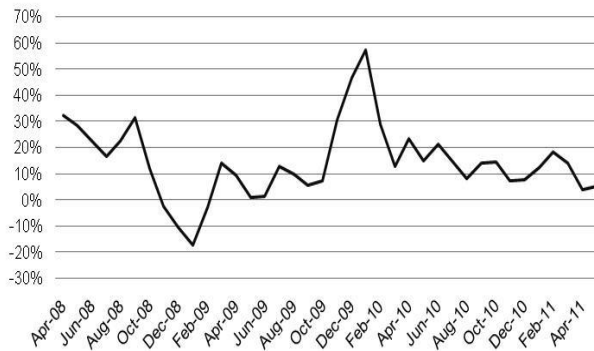
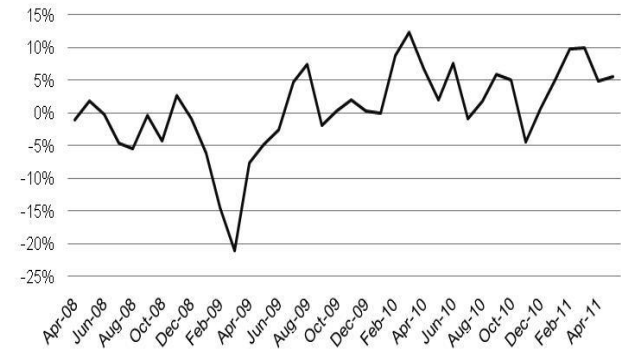


Chart 12: Year-on-Year Growth in Non-Durables



Source: CSO

Annexure B:

Items	Weight	Growth In May 2011 (%)	Manufacturing Sub-Sector	Use-Based Classification
Molasses	1.08	102.9%	Food Products & Beverages	Basic Goods
Fuel, Aviation Turbine	2.71	33.4%	Coke, Refined Petroleum Products & Nuclear Fuel	
Sponge Iron	9.95	33.6%	Basic Metals	
Stainless/ Alloy Steel	6.40	49.0%	Basic Metals	
GP/GC Sheets	2.45	37.7%	Basic Metals	
Steel Castings	2.15	30.3%	Basic Metals	
Computers	2.33	42.6%	Office, Accounting & Computing Machinery	Capital Goods
Textile Machinery	1.74	41.3%	Machinery & Equipment N.E.C.	
Ship Building & Repairs	1.05	38.1%	Other Transport Equipment	
Commercial Vehicles	19.34	32.1%	Motor Vehicles, Trailers & Semi-Trailers	
Industrial Alcohol(Rectified/Denatured Spirit)	2.65	49.9%	Food Products And Beverages	Intermediate Goods
Oil, Lubricating	2.05	33.3%	Coke, Refined Petroleum Products & Nuclear Fuel	
Printed Circuit Board/Plate	1.72	63.7%	Radio, TV And Communication Equipment & Apparatus	
Woollen Carpets	2.58	58.0%	Textiles	Consumer Durables
Sugar (Including Sugar Cubes)	15.25	92.8%	Food Products & Beverages	Consumer Non-Durables
Vitamins	3.01	48.2%	Chemicals & Chemical Products	

Source: CSO

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