

## IIP growth eased a bit vs. Dec but still clocked strong 16.7% yoy

IIP grew at stellar 16.7%, a little below consensus. IP increased 9.6% during Apr-Jan vs 3.3% previous year. This growth was driven by Manufacturing, Consumer nondurables and base effect (1.0% in Jan'09). Dec IIP numbers were revised up to 17.6% from 16.8% announced earlier.

### Manufacturing strong on both yoy and monthly basis:

- Manufacturing output, with higher weightage in IIP, rose by a strong 17.9% yoy. Within manufacturing, as many as 14 out of 17 industry groups showed positive growth. But weakness in food products continued due to bad monsoon. Transport equipment and parts (+57.6% yoy), machinery and equipment (+45.9%), metal products and parts (+38.6%), Rubber, Plastic (+25.4%) showed major growth (see table in next page) *indicating that construction, infrastructure and auto sectors are driving growth currently.*
- Mining grew at 14.6% in Jan compared to 10.7% in Dec. Electricity increased at 5.6% in Jan vs. 5.4% in Dec. On m/m, both Electricity and mining grew at 2.3% and 3.6%.

### Capital Goods improved significantly and Consumer Goods weakened:

- The consumer goods slowed down to 4.2% in Jan from 13.2% in Dec as consumer nondurables grew at -3.1% even though consumer durables remained strong at 31.6%. *Consumer durables growth was supported by booming car and white goods sales helped by low financing cost and improving outlook. Also expectation of increased cost after budget drove car sales in Jan-Feb.*
- Intermediate goods remained robust at 21.3% yoy indicating that overall industrial activity will likely remain elevated.
- Capital goods zoomed to 56.2% yoy on low base, highest since the monthly series began nearly 3 decades ago. On month over month basis, it actually went down by 1.2%. *But overall it seems that growth is now moving from consumer sectors to capital goods sector.*

### Bottom Line:

- There is no denying the fact that IIP growth was partially helped by low base and policy stimulus. But obviously the positive momentum has gained traction with growth becoming more broad based. We can expect to see such higher double digit growth for some more months on low base.
- A higher than expected IIP numbers indicates higher contribution of industry to GDP and this will offset any decline in agricultural growth.
- High capital goods growth points to stronger fixed capital formation or a sharper recovery in capex cycle. Going forward this should translate into higher credit growth.
- A V-shaped recovery in production may lead to a build-up of underlying price pressure. As inflation moves up much higher than RBI's comfort zone, RBI will start tightening faster.

### *Economy Update*

## IIP growth in Jan

### The year over year growth of IIP

#### India Industrial production (Sectoral Growth)

%ooya	Wgt	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	FYTD	
															FY09	FY10
Overall IP	100.0	1.0	0.2	0.3	1.2	2.1	8.3	7.2	10.6	9.3	10.2	11.8	17.6	16.7	3.3	9.6
Manufacturing	79.36	1.0	0.2	-0.3	0.4	1.8	8.0	7.4	10.6	9.7	10.9	12.9	19.3	17.9	3.4	10.0
Mining	10.47	0.7	-0.2	1.9	3.4	3.4	14.2	8.7	11.0	7.4	9.1	10.4	10.7	14.6	2.9	9.3
Electricity	10.17	1.8	0.7	6.3	7.1	3.3	8.0	4.2	10.6	7.5	4.0	1.8	5.4	5.6	2.6	5.7
<b>India Industrial production (Used-based)</b>																
Basic	35.5	-0.7	-0.1	1.9	4.5	3.8	10.7	4.7	7.7	5.3	4.0	5.7	7.7	10.7	3.0	6.5
Intermediate	26.5	-7.2	-3.0	1.9	7.9	6.6	7.9	9.8	14.4	11.0	15.5	19.1	22.7	21.3	-2.2	13.5
Capital	9.3	15.9	11.8	-6.3	-5.9	-3.6	13.4	1.7	9.2	13.5	10.2	11.8	39.1	56.2	8.9	15.7
Consumer	28.7	3.6	-1.3	1.3	-4.6	-1.1	4.4	9.7	10.9	9.7	12.1	11.9	13.2	4.2	5.8	6.9

### The month over month growth of IIP

#### India Industrial production (Sectoral Growth)

% m/m	Wgt	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Manufacturing	79.36	0.1	-2.4	9.9	-12.5	4.3	5.0	-0.1	0.3	4.2	-5.6	4.6	12.4	-1.0
Mining	10.47	0.0	-2.6	14.5	-15.7	3.7	-1.1	-3.3	1.5	-1.8	9.3	1.3	7.5	3.6
Electricity	10.17	2.2	-6.7	13.4	-3.2	1.7	-1.3	0.4	4.1	-3.8	2.0	-8.3	6.7	2.3
<b>India Industrial production (Used-based)</b>														
Basic	35.5	-0.4	-3.2	11.0	-7.9	3.4	2.0	-2.1	1.8	-2.7	2.9	-2.1	6.0	2.4
Intermediate	26.5	0.0	1.7	13.1	-2.6	3.5	0.6	3.5	-1.0	-3.1	0.4	1.7	3.8	-1.2
Capital	9.3	-12.0	1.2	27.6	-42.1	14.3	30.2	-13.1	6.7	31.3	-24.5	9.3	41.6	-1.2
Consumer	28.7	6.5	-6.9	1.5	-8.3	2.0	-0.2	4.1	-1.3	2.4	-3.3	7.4	10.3	-2.0

### Sectoral growth rates (% , y-o-y) within Manufacturing

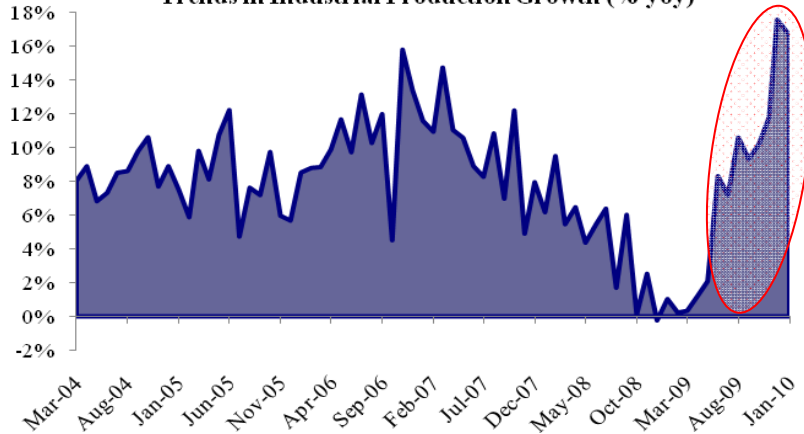
- 14 out of 17 industry groups showed positive growth.
- What lags?: 'Jute, Veg Fibre Textiles' declined the most by 91% yoy, followed by 'Food products' and 'Leather products'.

	Wt.	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Manufacturing	79.4	0.4	1.8	8.0	7.4	10.6	9.7	10.9	12.9	19.3	17.9
Food Products	9.1	-34.4	-14.7	-2.3	2.2	-9.6	-10.2	2.4	8.9	-6.9	-4.0
Beverages, Tobacco & Related	2.4	-4.5	-10.3	-4.1	2.5	1.1	-3.8	0.5	-2.6	0.5	7.5
Cotton Textiles	5.5	0.8	-4.1	-1.1	-0.4	5.0	1.7	10.7	7.6	2.6	7.4
Wool, Silk, Manmade Fibres	2.3	12.6	-7.6	1.9	30.4	15.7	6.5	12.9	8.4	3.8	7.1
Jute, Veg Fibre Textiles	0.6	2.8	-20.0	-31.1	-23.9	-10.2	-15.3	-15.5	-11.4	24.5	-91.0
Manf of Textile Prod	2.5	2.5	9.8	11.7	3.8	16.4	0.8	16.3	4.3	10.2	11.6
Wood, Wood Products	2.7	31.4	15.3	26.3	1.6	-3.6	2.9	18.9	19.9	10.4	14.2
Paper, Paper Prod, Printing, Pub	2.7	-2.3	-0.6	13.2	0.5	1.9	-2.2	0.7	7.2	4.0	10.0
Leather and Fur Products	1.1	-12.4	-9.6	10.0	15.2	1.2	1.0	2.4	-4.5	-0.1	-2.2
Basic Chemical, Chemical Prods	14.0	0.8	4.6	4.7	5.2	14.7	20.1	18.7	17.0	29.0	5.9
Rubber, Plastic, Petro, Coal prod	5.7	6.1	16.4	6.4	12.7	21.5	10.1	14.5	19.1	21.5	25.4
Non-Metallic mineral Prod	4.4	10.2	6.1	7.1	8.3	7.4	2.9	1.1	7.4	8.2	16.6
Basic Metal and Alloy Ind	7.5	5.1	5.4	9.8	3.7	8.5	5.5	2.4	4.1	5.8	10.1
Metal products and Parts	2.8	-4.8	-5.7	-8.5	10.1	3.4	-7.6	8.8	28.4	11.7	38.6
Machinery and Equipments	9.6	9.0	2.7	11.9	11.2	14.2	16.5	18.3	12.9	44.6	45.9
Transport Equipment Parts	4.0	6.3	2.3	10.3	10.9	13.8	8.9	18.9	38.3	82.2	57.6
Other	2.6	-5.1	27.3	32.4	0.8	10.6	24.5	0.9	18.0	-9.4	9.2

**IIP – in Charts**

**Jan IIP was another stellar number at 16.7%**

**Trends in Industrial Production Growth (% yoy)**

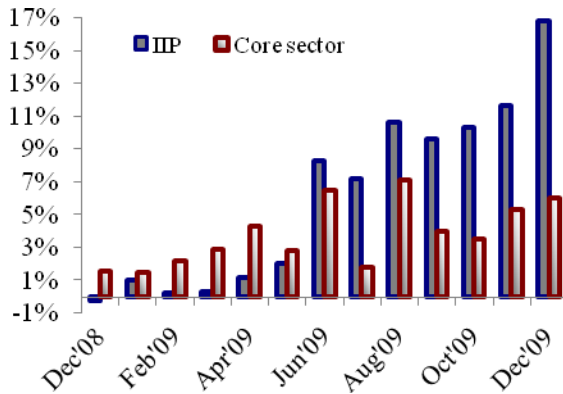


- Industrial production managed to meet consensus estimate.
- Jan IIP was partially helped by low base.
- On month over month basis IIP actually declined by 0.5%.
- Dec IIP was revised up to 17.6% from 16.8% announced earlier.

**Core sector growth in Jan was high at 9.4%**

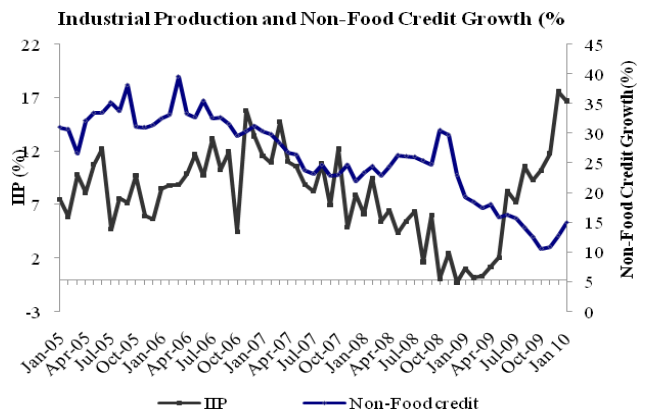
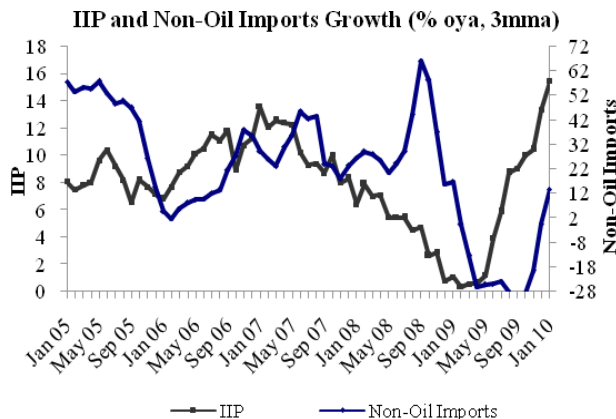
**Core Sector Growth at 9.4% in Jan'09**

- The Index of six core-infrastructure industries having a combined weight of 26.7% in IIP logged 9.4% growth in Jan. Cement and Steel showed significant growth. Crude and refined oil improved.



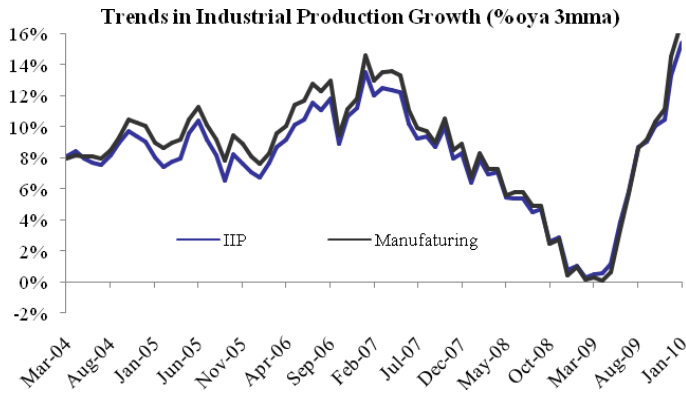
%yoy	Overall	Electricity	Coal	Steel	Crude	Refined Crude	Cement
Dec'08	1.6	0.7	9.4	-3.2	-0.3	3.0	11.6
Jan'09	1.5	1.4	6.3	1.2	-8.1	-1.3	8.3
Feb'09	2.2	0.3	6.0	3.6	-6.2	0.5	8.3
Mar'09	2.9	5.9	5.2	-2.6	-2.3	3.3	10.1
Apr'09	4.3	6.0	13.2	1.6	-3.1	-4.3	11.7
May'09	2.8	3.3	10.2	1.4	-4.3	-4.3	11.6
Jun'09	6.5	7.0	14.7	5.3	4.0	-3.7	12.8
July'09	1.8	3.3	9.7	1.2	-0.4	-14.4	10.6
Aug'09	7.1	9.8	12.9	3.1	-2.6	3.0	17.6
Sept'09	4.0	7.5	6.5	-0.4	-0.5	3.4	6.5
Oct'09	3.5	4.7	5.0	1.1	-2.2	7.2	5.3
Nov'09	5.3	-1.8	3.3	11.7	-1.6	4.9	9.0
Dec'09	6.0	5.4	2.5	9.6	1.1	0.9	11.0
Jan'10	9.4	5.6	6.0	16.2	9.7	3.8	12.4

**Export has turned around; Incremental credit also improves indicating more domestic activities**

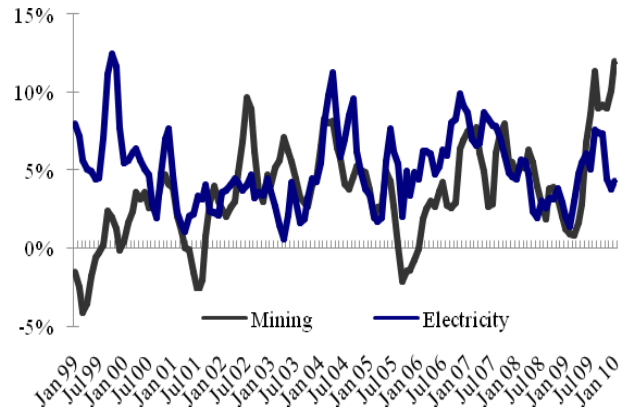


**Manufacturing, the big boy of IIP, surged**

**IIP and Manufacturing (%yoy 3 mma)**

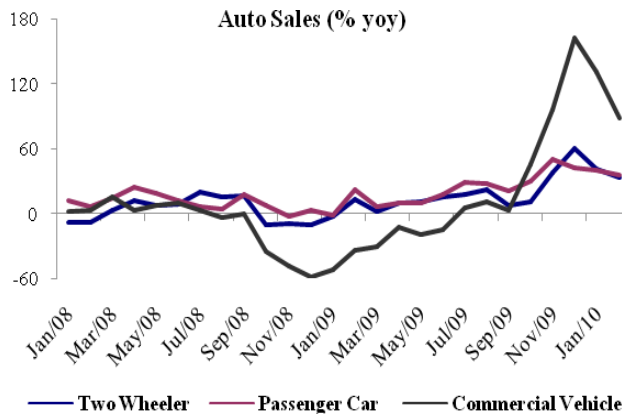


**Mining and Electricity (%yoy 3 mma)**

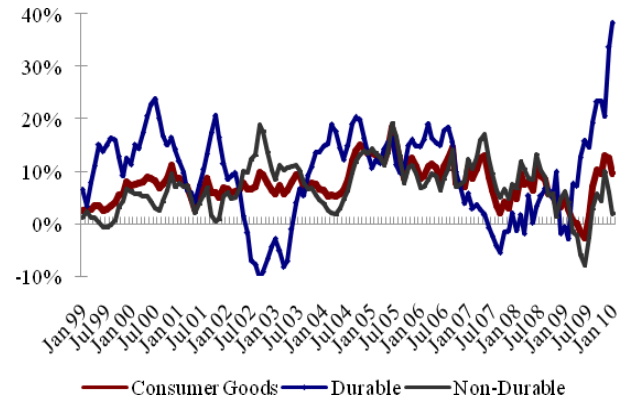


**Consumer durables spikes at 56.2% yoy in Jan, non-durables lag on poor food production**

**Auto sales continue with robust growth**

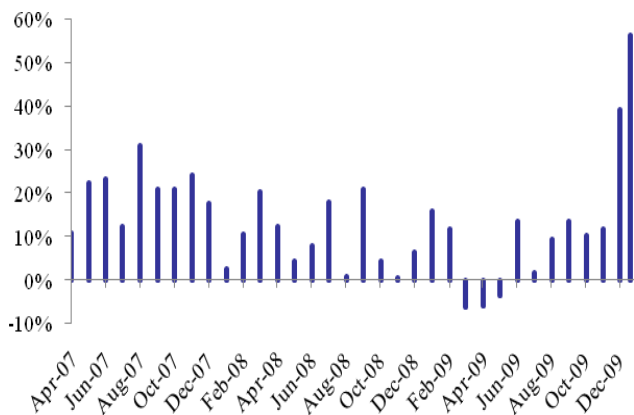


**Consumer Goods (%yoy 3 mma)**

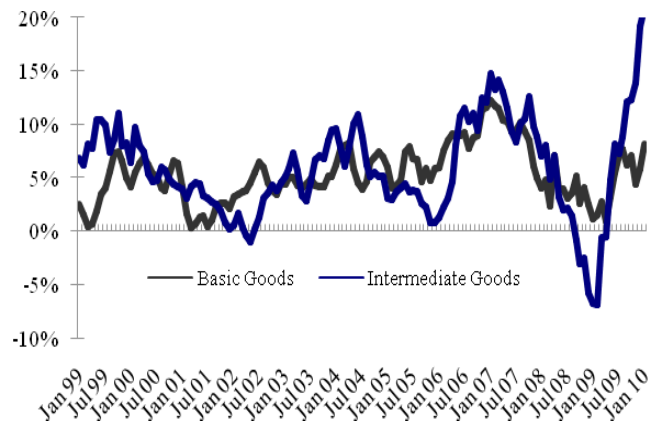


**Capital goods at impressive 56.2% in Jan indicating broad-based growth; intermediate still strong**

**Capital Goods (%yoy)**



**Basic and Intermediate Goods (%yoy 3mma)**



## Appendix

Use-Based Classification: Top 15 Components by Weight

<b>Component</b>	<b>Wt(%)</b>	<b>Component</b>	<b>Wt(%)</b>
<b>Basic Goods</b>	<b>35.6</b>	<b>Capital Goods</b>	<b>9.3</b>
Mineral index	10.5	Diesel engines (IPP)	0.8
Electricity	10.2	Well/off shore platforms	0.7
Cement all kinds	2.0	Industrial machinery	0.5
Nitrogenous fertilizers	1.8	Complete tractors	0.5
Bars and rods	1.8	Laboratory and scientific instruments	0.4
Carbon steel	1.1	Protection system/switch board/switch gear etc.	0.4
Structurals (light, medium & heavy)	1.0	Computer system and its peripherals	0.4
High speed diesel	0.7	Process control instruments	0.3
Caustic soda	0.5	Ship building and repair	0.3
Soda ash	0.4	Agricultural implements	0.3
Aluminium ingots	0.4	Power & dist. transformers (IPP)	0.3
Pig iron	0.3	Broad gauge passenger carriage	0.3
Phosphatic fertilizers	0.3	Textile machinery	0.3
Sponge iron	0.2	Telecommunication cables	0.3
Plates	0.2	Insulated cables/wires all kinds	0.2
<b>Intermediate Goods</b>	<b>26.5</b>	<b>Consumer Durables</b>	<b>5.4</b>
Cotton yarn (including SSI)	4.5	Telephone instruments	0.6
Filament yarn	1.8	Scooter and mopeds	0.6
Plywood commercial	1.7	T.V. receivers	0.5
PVC pipes & tubes	1.5	Passenger cars	0.4
Particle board	1.0	Giant tyres	0.4
Glazed tiles/ceramic tiles	0.9	Wrist watches	0.4
Auto ancillary & parts	0.7	Motor cycles	0.4
Polyester fibre	0.7	Bicycles all kinds	0.4
Shoe uppers	0.6	Alarm time pieces	0.3
Paints, enamels & varnishes (IPP)	0.5	Electric fans all kinds (IPP)	0.2
Viscose staple fibre	0.5	Washing/ laundry machines etc.	0.2
Corrugated boxes/cartons (all kinds)	0.5	Metallic utensils excl. pressure cooker	0.2
Ball & roller bearings	0.5	Refrigerators (domestic)	0.1
Newsprint bleached	0.5	A.C. single phase house service meters	0.1
Bottles/bottle glass wares	0.4	Two wheeler tyres	0.1
<b>Consumer Non-durables</b>	<b>23.3</b>		
Cotton hosiery cloth	2.5		
Sugar	2.2		
Wheat flour/maida	2.1		
Paper & paper board (IPP)	1.4		
100% Non-cotton cloth	1.2		
Vitamin a	1.1		
Milk powder of all kinds	1.0		
Cotton cloth (excluding hosiery)	1.0		
Cigarettes	0.8		
Tea	0.8		
Vitamin c	0.6		
Ampicillin	0.6		
Mustard oil / rape seed oil	0.5		
Indian made foreign liquor	0.5		
Writing Instruments	0.4		
		<b>TOTAL USE BASED INDEX</b>	<b>100</b>