



Confederation of Indian Industry

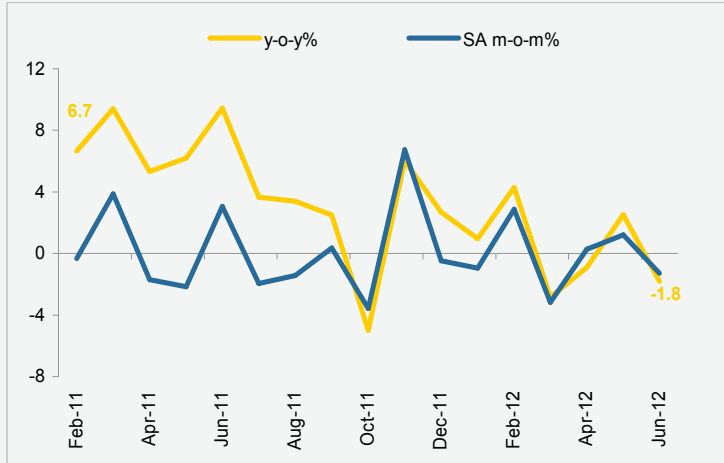
Economy Update - IIP



IIP growth slips into negative territory in June 2012

9 August, 2012

Industrial production contracts in June



- Index of industrial production (IIP) growth contracted by 1.8 per cent in June 2012 as compared to 2.5 per cent growth in the previous month. Industrial production growth continues to remain volatile, it had contracted in the two consecutive months from March-April 2012 and then moved into the positive territory in May 2012.

- Even on a sequential basis, IIP growth declined to 1.3 per cent (seasonally-adjusted basis) in June 2012, indicating the underlying downward momentum in the series.

- Manufacturing sector, which has the highest weight in overall IIP, also contracted by 3.2 per cent in the reporting month as compared to 2.6 per cent growth in the previous month.

Sectoral growth in IIP sectors

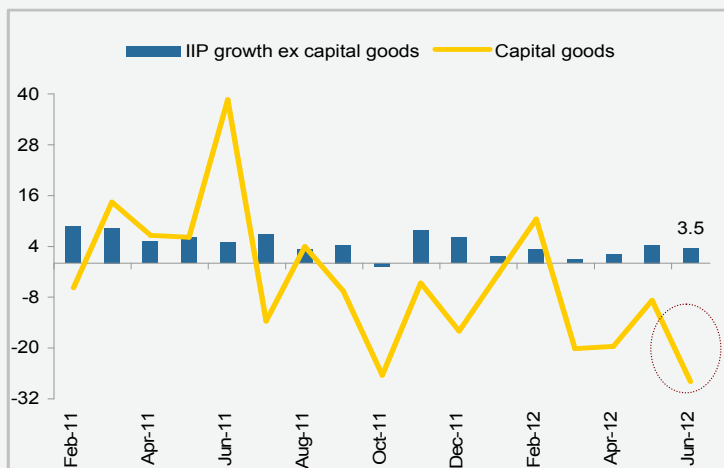
	Weight	Apr-June					
		Jun-11	Apr-12	May-12	Jun-12	FY12	FY13
General	1000.0	9.5	-0.9	2.5	-1.8	6.9	-0.1
Manufacturing	755.3	11.2	-1.2	2.6	-3.2	7.7	-0.7
Mining	141.6	-1.4	-3.2	-0.6	0.6	0.6	-1.1
Electricity	103.2	7.9	4.6	5.9	8.8	8.3	6.4
Use-Based							
Basic	456.8	7.8	2.1	4.2	4.1	7.5	3.5
Capital	88.3	38.7	-19.6	-8.8	-27.9	17.0	-19.6
Intermediates	156.9	1.6	-1.6	3.7	1.6	1.8	1.2
Consumer Goods	298.1	3.1	3.7	4.5	3.5	4.4	4.0
-Durables	84.6	1.6	5.2	9.8	9.1	2.7	8.0
-Non durables	213.5	4.4	2.5	0.3	-1.0	5.9	0.7

- Mining sector's growth remained lackluster at 0.6 per cent in June 2012, albeit it moved into the positive territory after posting successive contractions for most part of last fiscal. Ban on iron ore mining has hit the output of this sector.

- In some positive news, output of electricity sector accelerated to 8.8 per cent in June 2012 as compared to 5.9 per cent in the previous month.

- Intermediate sector's output slowed to 1.6 per cent in June 2012 from 3.7 per cent in the previous month, thus indicating the grim outlook for future IIP growth.

Volatility in capital good sector continues



- Volatility in capital goods has been a disturbing trend of IIP growth in recent times. Hence its better to estimate overall IIP growth excluding the volatile capital goods sector to get the real picture. IIP growth ex capital goods stood at 3.5 per cent in June 2012, despite the overall IIP data print posting a contraction during the month.

- Capital goods contracted by a hefty 27.9 per cent for the fourth consecutive month in June 2012. This reflects the weak investment outlook in the economy currently.

- Consumer goods growth decelerated to 3.5 per cent in June 2012 as its largest component by weight consumer non-durables contracted during the month due to prevailing high inflation levels.

Source: Central Statistical Organization (CSO) & CII computations

Outlook: IIP growth continues to disappoint, with the June 2012 data print posting a contraction. We continue to expect the IIP growth to remain sluggish at least till the first-half of the current fiscal. Poor monsoons have emerged as an additional risk for the economy this fiscal and it is expected to impinge on the output of the consumer goods sector, especially non-durables. Under the current backdrop, we expect the RBI to cut interest rates in the next quarter to cushion falling industrial demand.