



Confederation of Indian Industry

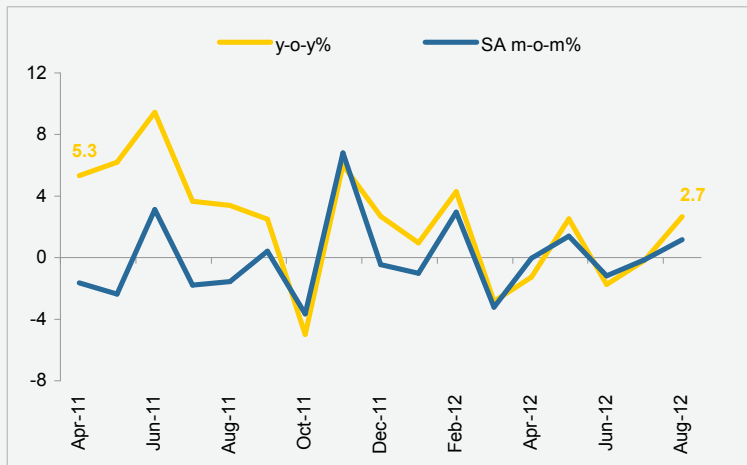
Economy Update - IIP



Industrial production growth picks up pace in August 2012

12 October, 2012

Industrial production growth beats market estimates



- Index of industrial production (IIP) growth beat market estimates by posting a 6-month high growth of 2.7 per cent in August 2012 as compared to a revised -0.2 per cent in the previous month. However, its important to note that this improvement in industrial output might prove to be temporary unless the impediments to investment are removed.

- On a sequential basis too, IIP growth (on a seasonally-adjusted basis) picked up to 1.2 per cent in August 2012 as compared to a contraction in the previous month.

- Manufacturing sector, which has the highest weight in overall IIP, jumped to 2.9 per cent in the reporting month as compared to a decline in the previous month.

Sectoral growth in IIP sectors

	Weight	Aug-11	Jun-12	July12	Aug12	FY12	FY13
General	1000.0	3.4	-1.8	-0.2	2.7	5.6	0.4
Manufacturing	755.3	3.9	-3.1	-0.4	2.9	6.0	0.0
Mining	141.6	-5.5	0.2	-1.6	2.0	-0.5	-0.6
Electricity	103.2	9.5	8.8	2.8	1.9	9.5	4.8
Use-Based							
Basic	456.8	5.8	4.2	1.0	2.8	7.6	2.8
Capital	88.3	4.0	-28.1	-4.5	-1.7	7.3	-13.8
Intermediates	156.9	-1.0	0.6	-1.2	1.9	0.8	0.6
Consumer Goods	298.1	2.1	4.1	0.5	5.0	4.4	3.5
-Durables	84.6	5.5	9.2	0.6	4.0	4.5	5.7
-Non durables	213.5	-0.7	-0.1	0.3	5.8	4.3	1.6

- Mining sector's growth picked up pace to 2.0 per cent in August 2012. But much should not be read into this improved reading as the pick up in growth was mainly due to a favorable base-effect. The sector is still plagued with multiple problems like ban on iron-ore mining in some states.

- Poor performance by electricity sector in the last few months remains a matter of concern. The sector's growth slid to 2.3 per cent in July-Aug 2012 period, after posting an impressive 6.4 per cent growth in the first-quarter of 2012-13.

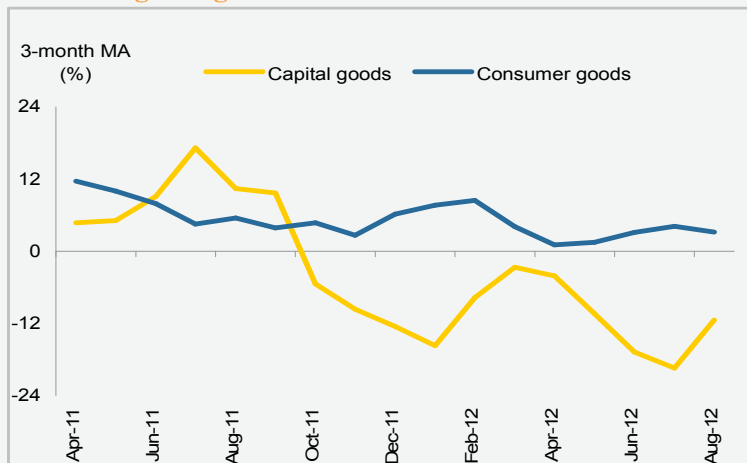
- Though, intermediate sector's output moved to the positive territory in August 2012, it still remains weak.

- Capital goods growth showed some strength as its magnitude of contraction moved down. The sector still posted the sixth consecutive contraction in August 2012, indicating the weak investment outlook in the economy currently. IIP growth excluding the volatile capital goods stood at 3.4 per cent in the reporting month.

- Consumer goods growth accelerated to a 8-month high of 5.0 per cent in August 2012 underpinned by a pick-up in output of both its consumer- durables and non-durables.

- Pick-up in consumer non-durables growth to 5.8 per cent in August 2012 as compared to an anemic 0.3 per cent growth in the last month was mainly attributable to a low base of last year.

Consumer goods growth accelerates



Source: Central Statistical Organization (CSO) & CII computations

Outlook: The improvement in IIP in August 2012 is encouraging, but is still indicative of activity stabilizing rather than signaling a sustained and strong upturn. We continue to expect the IIP growth to remain sluggish at least for next couple of months. High interest rates, high input costs and uncertain global scenario have all played a part in dampening the IIP growth. We have been suggesting an immediate cut in repo rates by 100 bps as inflation clearly remains a supply-side phenomena and hence demand should not be curtailed by keeping interest rates high. Hence, we are hoping that the RBI bites the bullet in the forthcoming monetary policy meeting due by month-end.

CII Economy Update is a report prepared by the CII Economic Research. Reach us at: ecoresearch@cii.in