

India Industry Outlook

April 2010



Mega Ace Consultancy



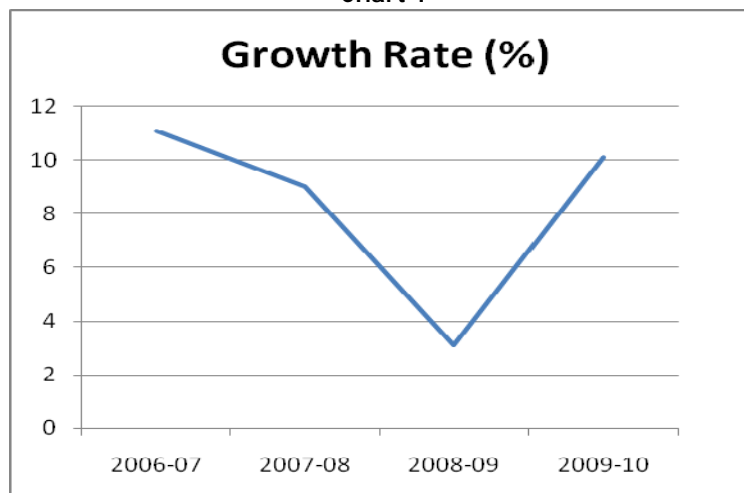
Index of Industrial Production for the month of February 2010:

Index of Industrial Production for the month of February 2010 posted positive growth of 15.1% as compared to the same month in the last year. The general index was 318.5 during this month as against 276.8 in February 2009. Though the acceleration of IIP was partly on account of the base effect as industrial production was up only 0.2 % in February 2009, output is recovering since June 2009. The double digit growth sustained for the fifth consecutive month indicates that the recovery in the industrial sector is prima facie healthy. The average growth for the period April–February 2009–10 was 10.1% over the corresponding period of the previous year. Table 1 provides the average indices and growth rates logged during April to February since 2006-07.

Table 1: Average growth rate of IIP during April – February

April - February	Average IIP	Growth Rate (%)
2006-07	243.1	11.1
2007-08	264.7	9
2008-09	272.6	3.1
2009-10	300.1	10.1

Chart 1



Though revival has been taken place in April – February 2009-10 after sharp fall in output in 2008-09, it would be interesting to analyze the sectoral contribution to the general index.



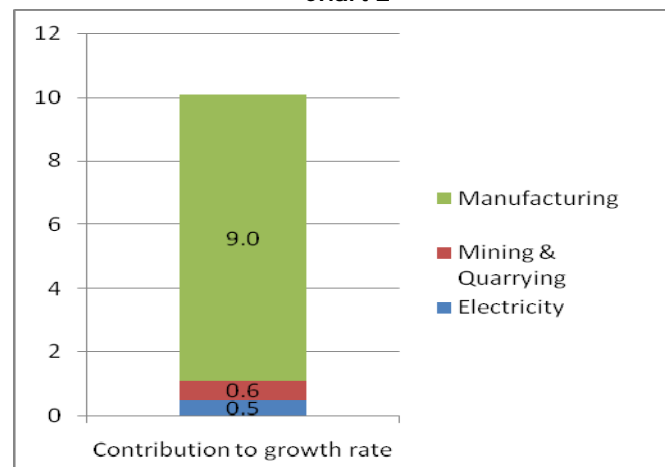
Sectoral contribution to IIP

The average index of industrial production for the period April – February 2008-09 and 2009-10 is shown in Table 2 alongside the respective indices for Manufacturing, Mining & Quarrying and Electricity.

Table 2: Contribution of Sectoral indices in average growth rate of IIP during April – February

	2008-09	2009-10	Growth Rate (%)	Contribution to growth rate
IIP	272.6	300.1	10.1	
Manufacturing	292.2	323.0	10.5	9.0
Mining & Quarrying	172.9	189.6	9.7	0.6
Electricity	222.1	235.0	5.8	0.5

Chart 2



As may be observed, though the manufacturing sector has a weight of 79.36% in the overall index its contribution to the growth rate is over 89%. The question of how widely the contribution of the manufacturing sector is distributed over different industries is relevant in this context.

Manufacturing: Manufacturing index was 345.1 in February 2010 as against 297.4 recorded in February 2009, registered a growth rate of 16%. The year on year growth rate fell in February as compared to 17.9% in January 2010 and robust 19.3% in December 2009. The output in this sector grew by 10.5% in the period April–February 2009–10.



Chart 3

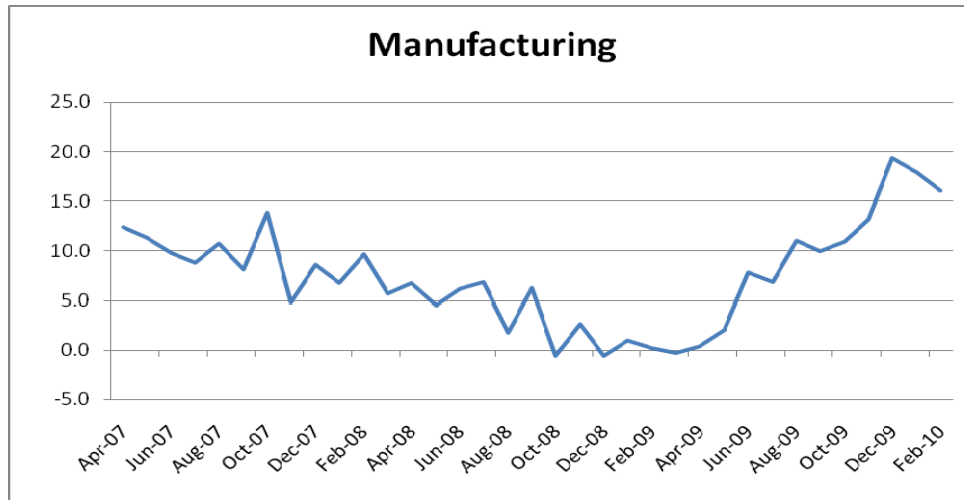
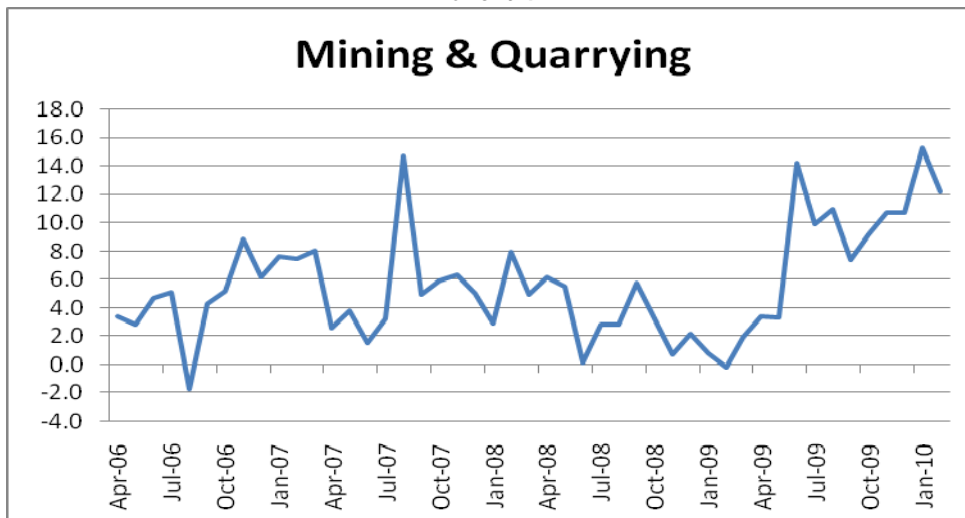


Chart 3 depicts the monthly Y-o-Y growth rates in the manufacturing sector since April 2007 till date. Effect of recession was clearly reflected in a declining trend since 2007-08. During the worst phase of recession that is after Sept 2008 manufacturing sector was badly affected as exports demand fell and global growth prospect became pessimistic. After a negative growth in manufacturing sector in October 2008, December 2008 and March 2009, monetary and fiscal stimulus programme of the government helped prop up growth in this sector.

Mining and Quarrying: Mining includes mining of coal, oil and other metals. Mining index recorded 205.5 in February 2010 as against 183.2 in February 2009.

Chart 4

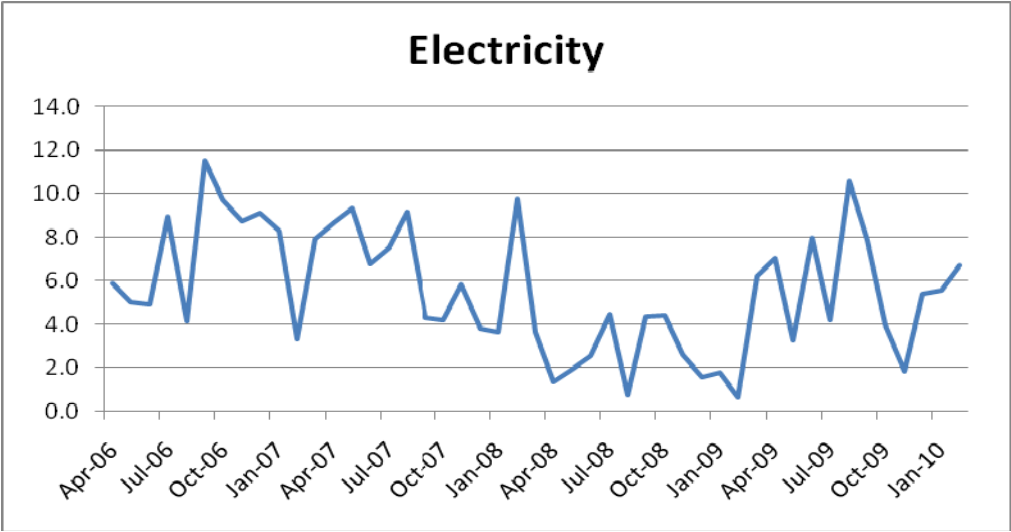


Mining sector registered a healthy growth of 12.2% in February 2010. However, this represents a deceleration as compared to the revised growth of 15.3% in January 2010. Mining growth for the period from April 2009 to February 2010 at 9.6% was substantially higher as compared to the low 2.7% growth in the corresponding period in the previous fiscal year.



Electricity: Electricity includes generation and transmission of electricity from various sources like - thermal, hydro, nuclear and new & renewable. The index of electricity generation stood at 227.0 in February 2010 as compared to 212.7 that was registered in February 2009.

Chart 5



Electricity generation expanded by 6.7% in February 2010. Electricity growth in the eleven-month period between April 2009 and February 2010 at 5.8% is significantly higher than the 2.4% growth in the corresponding period in the previous fiscal year.



Used based Indices

In terms of used based classification of industrial output, basic goods rose by 8.4%, capital goods production was up by 44.4%, intermediate goods increased by 15.6% and consumer goods was up by 8.9% in February 2010 over the corresponding month of the last year. Table 3 provides the year on year growth rates in different sub-indices since 2005-06. Capital Goods and Durable Consumer Goods have spear-headed the growth during February 2010 as well as preceding two months, which has to some extent pulled up the growth rates in the Basic Goods and Intermediate Goods segments.

Table 3: Used based industry growth rate (%) in February

February	Basic goods	Capital goods	Intermediate goods	Consumer goods	Durables	Non-durables
2005-06	9.6	10.7	2.2	12.5	20.3	10.1
2006-07	10.7	18.0	13.3	7.4	1.8	9.3
2007-08	7.3	10.7	8.5	11.7	3.1	14.3
2008-09	-0.1	11.8	-3.0	-1.3	6.0	-3.4
2009-10	8.4	44.4	15.6	8.9	29.9	2.3

Basic goods: Basic goods index was 254.2, expanded by 8.4% in February 2010 as against contraction of 0.1 during the same month of the previous year. The pace of growth in January and February 2010 reflected a favourable base effect with contraction of 0.7% and 0.1% in January and February 2009, respectively. Average growth over the months from April 2009 to February 2010 at 6.7% is considerably higher than the 2.7% growth in the same period in 2008-09.

Capital goods: Capital goods index was 576.1, expanded by 44.4% in February 2010, marking the third consecutive month of sharp growth following an expansion of 39% in December 2009 and 55% in January 2010. Increase in capital goods pointing towards increased investment activities in the economy. Though the growth rate is less than that of 56.2 registered in January 2010, it continued to remain in upward direction. This high growth suggests that the economic recovery is entering a phase of investment-led growth and broadening beyond a consumption-fuelled upturn. Capital goods sub-index remained the highest contributor to IIP growth amongst the use-based industries for three consecutive months, suggesting that the Indian economy may be entering a phase of investment-led growth. Also the robust growth rate in capital goods sector cannot be attributed to the base rate effect as capital goods displayed growth of 6.6%, 15.9% and 11.8% in the months of December 2008, January 2009 and February 2009, respectively. Enhanced infrastructure spending by the Central and the State government and increase in private investment are reflected in capital goods sector.

Intermediate goods: The intermediate goods index was 290.8 in February 2010, registering a growth rate of 15.6% over the same month of the previous year. Thus, the year on year growth was slowed down in February 2010 compared to 21.9% logged in January 2010, but remained robust as compared to a contraction of 3.0% in February 2009. Growth has remained in double digits since August 2009, pointing towards resurgence in the demand for finished products.



Consumer goods: Consumer goods index was 352.0 in February 2010 registering growth of 8.9% over the corresponding month of 2009. The consumer goods sub index had contracted by 1.3% in February 2009. This low growth rate in overall consumer goods segment is largely accounted for by the relative stagnation in the Consumer Non-durables.

Consumer durable goods: Consumer durable goods index was 563.3, in February 2010 rising significantly by 29.9%. But there was a deceleration in the pace of growth as compared to January 2010. Top 5 items are telephone instruments, scooter & mopeds, tyres, passenger cars and TV receivers. Hence increase in consumer durable goods is indicative of rising consumption demand. The rising trend appears to have been particularly strengthened by the release of Pay Commission related arrears to Government employees, increase in consumer confidence, as well as the recent revival of exports.

Consumer non-durables: The index in February 2010 was 309.6. The rate of growth by 2.3% in February 2010 (Y-o-Y), though poor, was an improvement over the contraction by 3.6% in January 2010. A major factor for this segment showing limited improvement is that a significant share of the inputs is from the agricultural sector, whose output was adversely affected due to poor monsoon / cyclical factors. Consumer non-durable sector includes cotton hosiery cloth, sugar, wheat flour / maida, paper & paper board, non cotton cloths and other FMCG products. The average growth witnessed by this category in the months from April 2009 to February 2010 remains low at 1.5% as compared to 5.6% growth in the same period in 2008-09

Table 4: Average growth rate (%) during April – February

Apr-Feb	Basic goods	Capital goods	Intermediate goods	Consumer goods	Durables	Non-durables
2007-08	7.3	17.7	9.3	6.6	-0.9	9.3
2008-09	2.7	9.2	-2.3	5.1	4.1	5.4
2009-10	6.7	18.3	13.6	7.1	25.5	1.3

Average Growth Rate: Table 4 depicts the average growth rates during the period April to February (2007=08 onwards) in the industrial sector distributed amongst industries as per the use their output is put to. The latest average growth rates indicate that the recessionary phase is getting over. Growth rates, however, do not clearly reflect the contribution each industry segment has made to the overall output growth as weights of these segments vary.

Contribution by Use-based Industries: When we analyze the growth rate for the period April – February 2007-08 to 2009-10, we can conclude that the revival has taken place. After the growth rate bottoming out in 2008-09, all the sub indices of used based industry goods registered a growth except consumer non durable segment. Table 5 depicts the average used based indices for the period April to February of 2008-09 and 2009-10. The table also shows the average growth rates as per industries sub-divided in terms of 'use' and what these growth rates translate to in terms of their contribution to the overall average growth rate of 10.1 %. Further, since this is the beginning of a revival from recession the maximum contribution of nearly 34 % is made by intermediate goods. The segments leading the revival



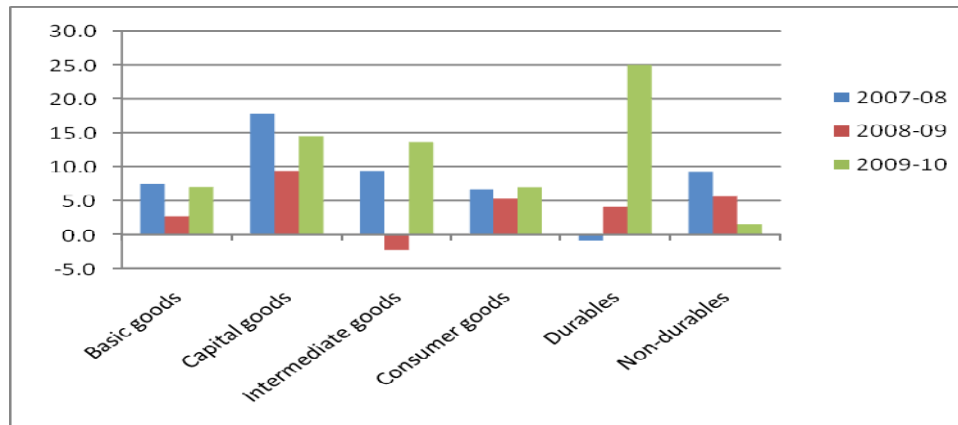
(Capital and Consumer Goods) together contribute to over 46 % of the growth, while Basic Goods have contributed close to 20 % of the industrial growth.

Table 5: Contribution by Use-based industries

	2008-09	2009-10	Growth Rate %	Contribution	Percentage contribution
Basic goods	227.8	242.9	6.7	2.0	19.6
Capital goods	387.8	458.9	18.3	2.4	24.0
Intermediate goods	256.7	291.7	13.6	3.4	38.8
Consumer goods	305.6	327.3	7.1	2.3	22.7
Durables	390.6	490.3	25.5	2.0	19.5
Non-durables	286.0	289.7	1.3	0.3	3.2

Chart 6 depicts the variation in growth rates by use based industries through recession in from 2007-08, its bottoming out in 2008-09 and revival in 2009-10. As may be observed, growth rates were worst hit in the consumer durables sector in 2007-08, while in 2008-09, the nadir of the recession, the intermediate goods sector was most affected.

Chart 6



Analysis of 17 Industry Groups

Out of 17 industries, 14 industries have shown positive growth while 3 industries have registered a negative growth in February 2010. 'Metal products & parts (except machinery & equipment)', 'machinery & equipment (other than transport equipment)' and 'transport equipment & parts' displayed sharp growth rates of 57%, 40.4% and 36.4%, respectively, in February 2010. 'Metal products & parts' and 'transport equipment & parts' benefited from a benign base effect that had seen output contract in this segment in February 2009 by 31.3% and 4.4% respectively. 'Machinery & equipment (other than transport equipment)' expanded by 40.4% in February 2010 on the back of a robust growth of 15.6% in February 2009. 'Basic chemicals and chemical products' have improved marginally however its weight in the index is highest.

Table 6: Growth in 17 Industry group for in February 2010

Industry Groups	Feb'2009	Feb'2010	Growth Rate (%)	Contribution
Machinery and Equipment other than Transport equipment	447.2	627.7	40.4	7.3
Transport Equipment and Parts	378.9	516.7	36.4	2.3
Food Products	218.4	250.5	14.7	1.2
Basic Chemicals & Chemical Products (except products of Petroleum & Coal)	324.4	341.5	5.3	1.0
Metal Products and Parts, except Machinery and Equipment	142.2	223.2	57.0	1.0
Rubber, Plastic, Petroleum and Coal Products	250.5	284.0	13.4	0.8
Basic Metal and Alloy Industries	317.7	341.7	7.6	0.8
Non-Metallic Mineral Products	319.9	352.7	10.3	0.6
Cotton Textiles	151.0	168.4	11.5	0.4
Beverages, Tobacco and Related Products	549.8	582.8	6.0	0.3
Paper & Paper Products and Printing, Publishing & Allied Industries	233.1	261.5	12.2	0.3
Leather and Leather & Fur Products	138.3	166.5	20.4	0.1
Wood and Wood Products; Furniture and Fixtures	103.0	110.9	7.7	0.1
Textile Products (including Wearing Apparel)	323.4	326.8	1.1	0.0
Other Manufacturing Industries	359.1	355.4	-1.0	0.0
Jute and other vegetable fibre Textiles (except cotton)	114.6	81.7	-28.7	-0.1
Wool, Silk and man- made fibre textiles	297.4	279.6	-6.0	-0.2
				16.07

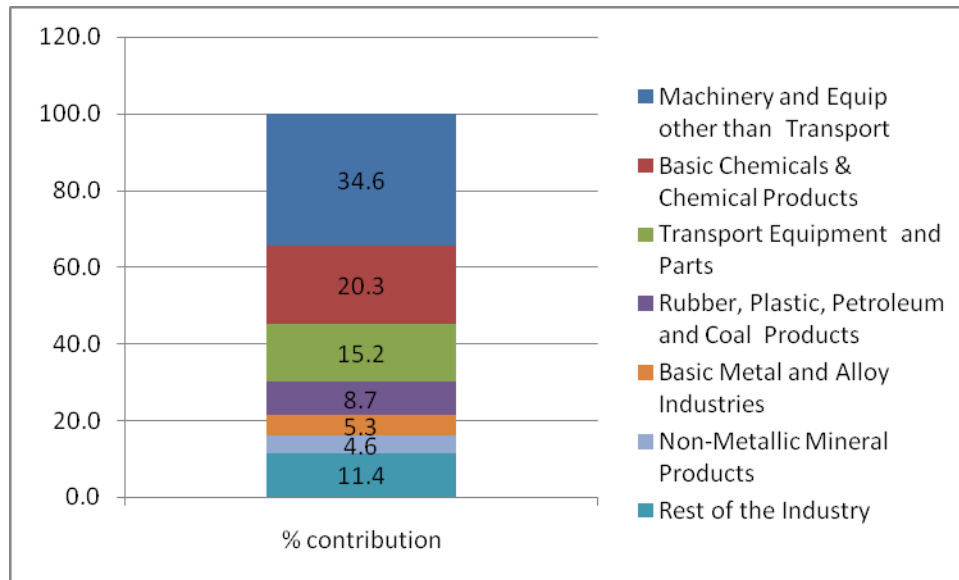
'Food products' displayed growth of 14.7% in February 2010 after the negative growth in January and December 2010. However, this category too benefited from a favourable base effect, having contracted by 29.5% in February 2009. Food industry has been adversely affected by the low agricultural output in 2009-10. In the month of February, the 'Food Product' industry is among the top three industries



contributing maximum to the manufacturing growth. Within this industry, sugar industry that contributes around 22% has revived leading to improvement in overall food industry.

Three categories, namely, jute & vegetable fibre textiles (except cotton), wool, silk & man-made fibre textiles and other manufacturing industries contracted during February 2010.

Chart 7



Average growth rate in the manufacturing sector during the period April – February 2009-10 was 10.5%. The contribution made by top 6 industries in the manufacturing is depicted in Chart 7. Though the manufacturing sector growth contributed maximum in the total industrial output, not all the industries within this sector have shown healthy growth. It is evident from the chart that the growth is concentrated in few industries while some industries have contracted. Four industries namely machinery and equipment other than transport, basic chemicals and chemical products, transport equipment and parts and rubber, plastic, petroleum and coal products contributes around 80% to the total manufacturing growth. These industries have been consistently growing since October 2009. Two industries namely 'basic metal and alloy industries' and 'Non-Metallic Mineral Products' have displayed strong growth and when added to the top 4 industries mentioned above, they all contribute over 90% to the total manufacturing output.



Conclusion

The average index of Industrial production has been showing consistent improvement reflected in the growth rate during the financial year picking up successively –

Table 7

Period	Growth Rate (%)
9 Months ended December 2009	8.8
10 Months ended January 2010	9.6
11 Months ended February 2010	10.1

This rally is prima facie not 'broad' enough because merely 3 industries, viz., 1. Machinery & Equipment (other than Transport Equipment) 2. Basic Chemicals and Chemical Products 3. Transport Equipment and Parts, out of 17 broad industry groups; contribute to 70 % of the growth. However, these industry groups account for around 35% and 27.5% in terms of weight in the Manufacturing sector and Industrial Indices respectively.

This is probably not the correct way of interpreting the rally in industrial output during 2009-10 because it is the initial phase after the trough. Moreover, it was a difficult year for the agricultural sector in view of the poor rains resulting in supply as well as demand constraints. Therefore, it cannot be expected that an industrial revival would from the start be broad-based. It must also be appreciated that Industry grouping in the Index of Industrial Production are very broad.

A more appropriate way of viewing the rally would be to analyze it in terms of what type of goods the growth is distributed into and what has been the evolutionary pattern of the recent recession. It would be best to analyse the evolutionary pattern of recession first so as to appreciate the sequencing of the recent revival.

Evolutionary Pattern: If we analyse the average growth rates (first 11 months of financial year) over the past few years we find that the growth rate of the Index of Industrial Production peaked in the 2006-07. Therefore, a recessionary phase would be the period after the peak when the average growth rate assumes a declining trend. By this yardstick 2007-08 could be classified as the year when the recessionary trend emerged. However, when we analyse in terms of sub-groups of the use-based industry classification, we find that while the IIP attained peak growth rates in 2006-07 the growth rate of consumer goods attained a peak a year earlier and the recessionary phase commenced a year earlier. The most severely segment of consumer goods was that of durables, which attained a negative growth



rate in 2007-08. It is only in the subsequent financial year that the remaining segments attained their lowest growth rates. Therefore, in a sense, the current recession was led by the contraction of the consumer durables segment. In these circumstances, it is natural to expect that the resurgence would be led by an upsurge in the consumer durables segment. These aspects are well illustrated in Table 8.

Table 8

	General Index	Basic Goods	Capital Goods	Intermediate Goods	Consumer Goods	Durables	Non-Durables
2005-06	8.1	6.5	16.3	2.4	12.0	14.7	11.1
2006-07	11.1	10.1	18.3	11.7	9.5	9.7	9.4
2007-08	8.9	7.3	17.7	9.3	6.6	-0.9	9.3
2008-09	3.0	2.7	9.2	-2.3	5.1	4.1	5.4
2009-10	10.1	6.7	18.3	13.6	7.1	25.5	1.3

Distribution of Growth: The contribution to industrial output growth by industries (use-based) up to February 2010 seems to be distributed in a fairly even manner –

Table 9

Use – Based Industry	Contribution to Growth in IIP (%)
Intermediate	33.8
Capital Goods	24.0
Consumer Goods	22.8
Basic Goods	19.4

The growth seems to be internally generated and the upsurge in intermediate goods seems to suggest that the rally would be sustained for the next 6 to 9 months. However, the rally within the Non-Durables segment of the Consumer Goods sector would be dependent on the next agricultural season and the performance of the agricultural sector.

