

India Flash

Industrial production picks up in November

India's factory activity data for November offers a glimmer of hope for the growth outlook, which has been deteriorating on the heels of high interest rates and weakening domestic and external demand. India's industrial production (IIP) growth for November 2011 rebounded by 5.9% y/y, beating consensus estimates (2.1%), and reversing a -4.7% decline in the previous month. On a three month moving average basis (which strips out the volatility of monthly outturns), IIP growth was modest in November, at 1.1% y/y, up from 0.2% in October. However, it is too early to call for a trend reversal in industrial growth as key sectors such as capital goods and consumer durables continue to face headwinds. The latest IIP together with tomorrow WPI inflation outturn for December will be key inputs for the RBI at its policy meeting on January 24th. With inflation still high and growth slowing but not collapsing, we expect the RBI to remain on hold and commence a rate easing cycle in the second quarter of 2012.

- Capital goods sector expected to see a temporary pickup in the run up to important state elections.** The upcoming elections should provide a boost to the downbeat capital goods sector as government investments pick up in the run up to elections and in turn stimulating private sector projects. However, the impact would be temporary as the sector continues to battle high input cost, policy uncertainty, land procurement and labour issues and tight liquidity. The year 2011 saw investment activity slide to a 5 year low with new investment proposals in the public sector falling by 40% y/y while those in the private sector down 48% y/y.
- Consumer durables growth may not sustain as producers face slackening order flow, narrowing margins due to high interest rates, weak rupee.** The latest IIP data depicts a pick up in consumer durables (11.2% y/y vs -0.2% previously). However, we believe the jump is largely one-off and expect the sector to remain downbeat over the medium term. The industry is seeing production cuts amid inventory backlogs on the retailers end due to a disappointing 2011. High inflation and a weakening rupee is eroding purchasing power of Indian households, particularly those in urban India where wage growth has been relatively moderate compared to their rural counterparts. Industry estimates suggest India's consumer durable makers under achieved their earnings target in 2011 by almost 15% with the fourth quarter being most hit as sales fell almost 30% y/y.

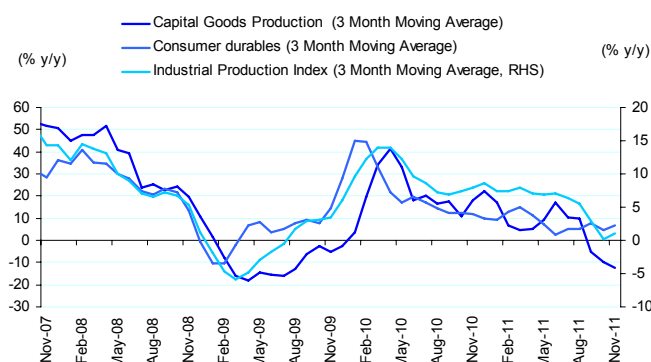
Table 1

India's IIP depicts a pick up in activity...

India Industrial Production						
% Change Y/Y	Wts	Nov-11	Oct-11	Sep-11	Aug-11	Jul-11
Sectoral						
Mining	14	-4.4	-6.1	-7.1	-5.5	0.6
Manufacturing	76	6.6	-5.7	2.4	3.9	3.1
Electricity	10	14.6	5.6	9.0	9.5	13.1
Use Based						
Basic Goods	46	6.3	1.4	4.0	5.8	10.0
Capital Goods	9	-4.6	-26.5	-6.5	4.0	-13.7
Intermediate Goods	16	0.2	-7.8	1.3	-1.0	-0.1
Consumer Goods	30	13.1	0.2	4.3	2.1	6.4
Durables	8	11.2	-0.2	9.2	5.5	9.0
Non-durables	21	14.8	0.7	-0.2	-0.7	4.1
Headline IIP	100	5.9	-4.7	2.0	3.4	3.7
% Change Y/Y (3 MMA)						
Headline IIP	100	1.1	0.2	3.0	5.5	6.4

Chart 1

... but capital goods and consumer durables sector continues to be downbeat



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