

IIP Watch

February 2017

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IIP contracts in February but should pick up going forward

- The high volatility underlying the IIP series from month to month has limited the usefulness of the IIP as a reliable indicator. Therefore we are always cautions not to read too much into any single month of the IIP data. However when looked at in combination with other indicators it can still provide useful information on current trends.
- Consistent with other indicators that showed that the consumer sector has been adversely impacted by demonetisation, the IIP consumer sector index had fallen significantly in December. After the December fall, the January data rebounded but it has fallen again in February. In the medium term, we expect that the consumer index should see improvement given the Pay Commission increases and the governments focus on stimulating the rural economy.
- In the mining sector sustained growth continues to be a struggle. Despite some improvement over the last several months, the growth in the mining continues to be muted. For example the mining index is still below the level it was at during March 2015. The mining sector has been showing muted growth reflecting regulatory and environmental issues affecting coal mining, iron ore mining and oil production. We expect the government will be focused on reviving the mining sector and continue with the reform process initiated in the sector.
- The electricity sector has shown some improvement and that improvement should continue. With the expected improvement in the financial health of power distribution companies after implementation of the UDAY scheme, the outlook for electricity generation has brightened considerably.
- Going forward, conditions for growth are improving. Falling cost pressures, and recent measures relating to project approvals, land acquisition, mining, and infrastructure will be supportive of growth in industrial output. We also believe that conditions for growth have improved further as the government's ability to undertake reforms has improved with the recent showing in state assembly elections. Under such conditions we expect continued improvement in the IIP over the coming months.

Industrial production growth lower than expected

Headline IIP

- IIP fell by 1.2% on a y-o-y basis in February compared to a growth of 3.3% recorded in January. The cumulative growth for the period April- February 2016-17 was 0.4% over the corresponding period the previous year.
- The growth in the IIP for February was lower than expected. The median estimate of the Reuters survey was for a growth of 1.3%.
- In February the electricity and mining sectors showed positive growth while the electricity sector declined..
- In terms of use based classification, basic goods showed a y-o-y growth while capital, consumer and intermediate goods declined.

Mining (Weight 14.2%)

- The IIP index for mining sector stood at 140.6 a growth of 3.3% y-o-y. Although it grew in February, the mining sector which had been adversely impacted by regulatory constraints continues to struggle to gain momentum
- The mining sector index however declined by 3.8%% on m-o-m basis.

Manufacturing (Weight 75.5%)

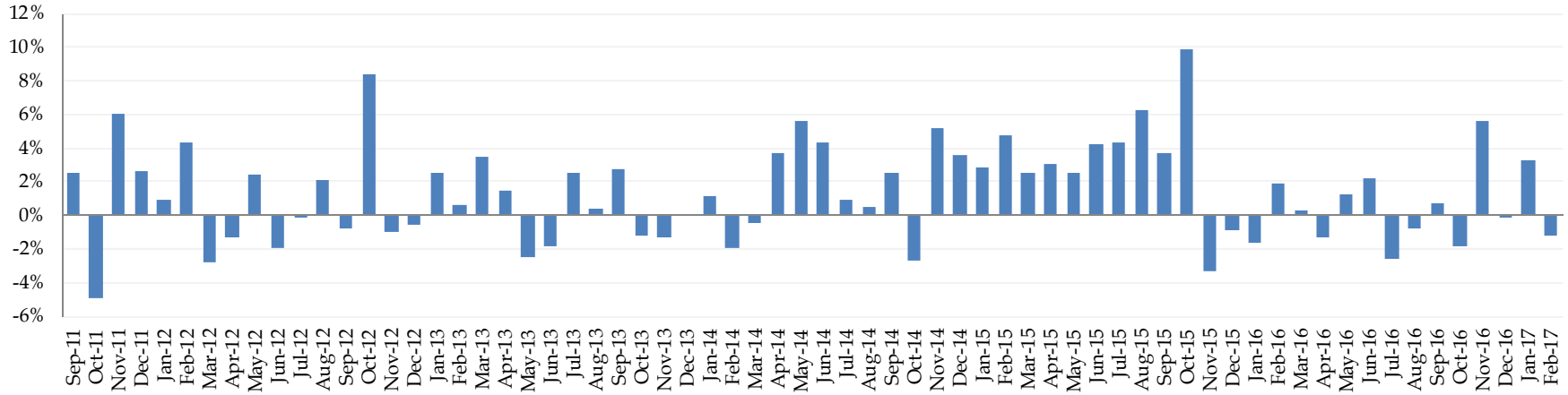
- The IIP index for manufacturing sector stood at 190.1 a decline of 2.0% y-o-y.
- Seven out of twenty two industry groups in the manufacturing sector showed positive growth as compared to February 2016.

Electricity (Weight 10.3%)

- The IIP index for electricity sector stood at 182.5 a growth of 0.3% y-o-y and a decline of 6.7% m-o-m.

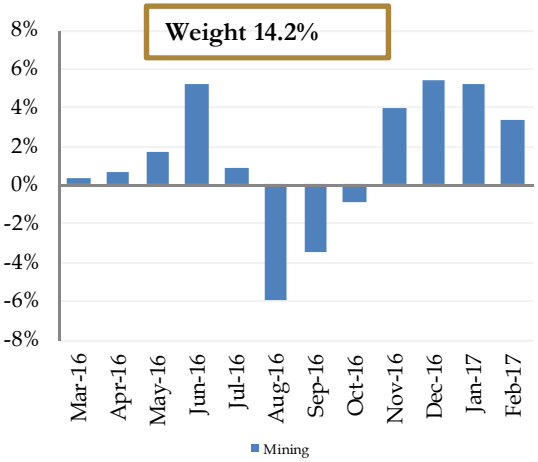
Sectoral IIP growth: manufacturing turns negative

Index of Industrial Production

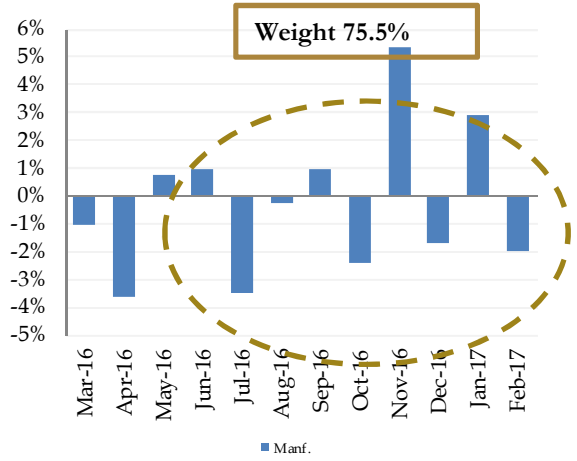


Sectoral IIP Growth

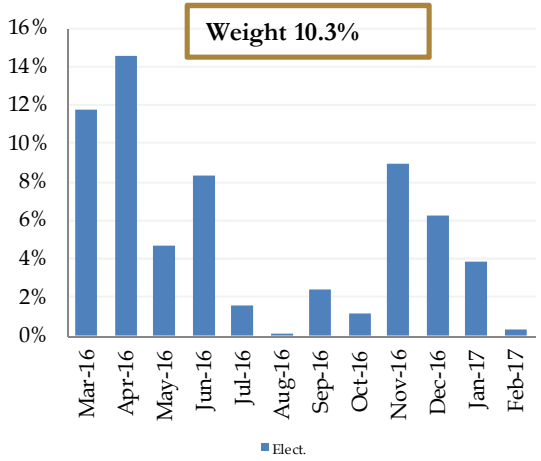
Weight 14.2%



Weight 75.5%

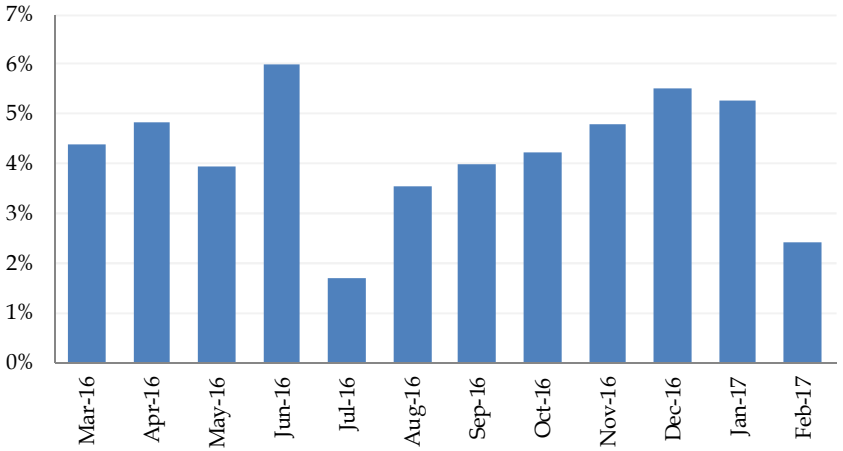


Weight 10.3%

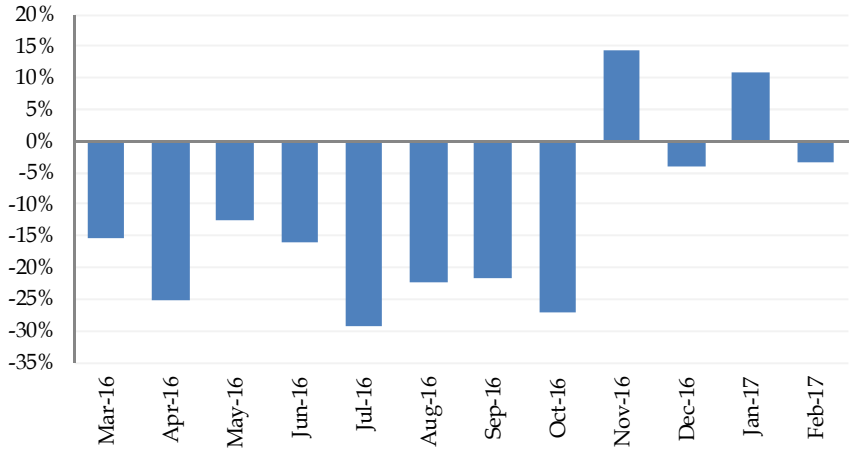


Use-based IIP growth: consumer goods falls again

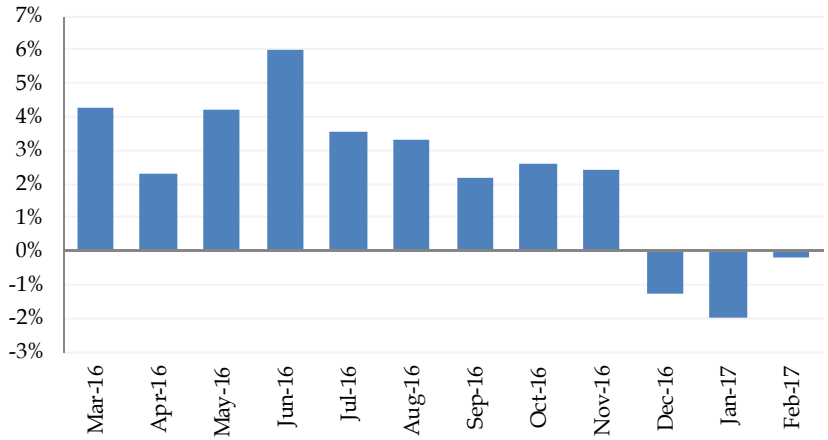
Basic Goods Growth



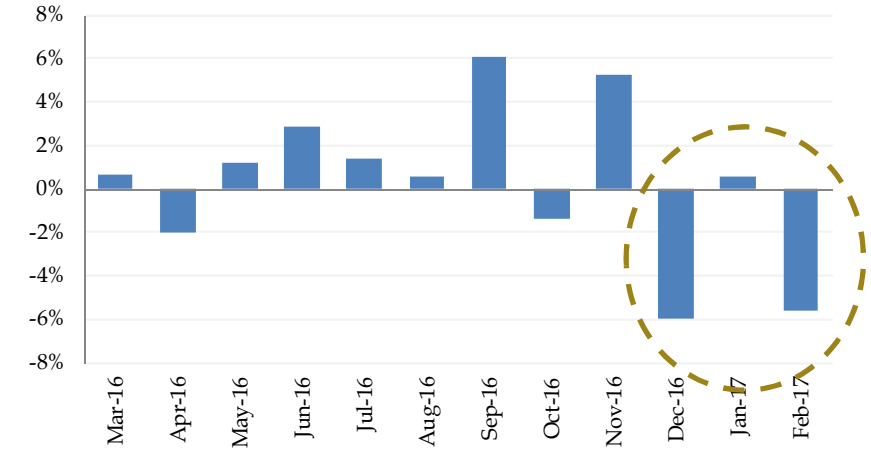
Capital Goods Growth



Intermediate Goods Growth

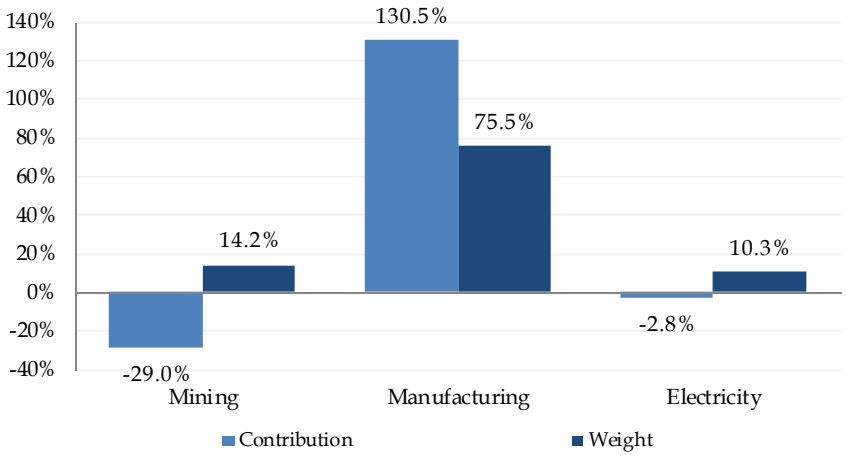


Consumer Goods Growth

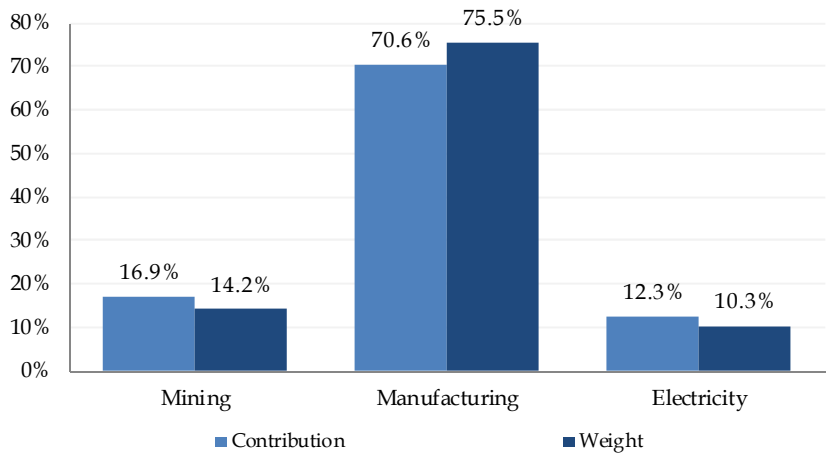


Contribution Analysis

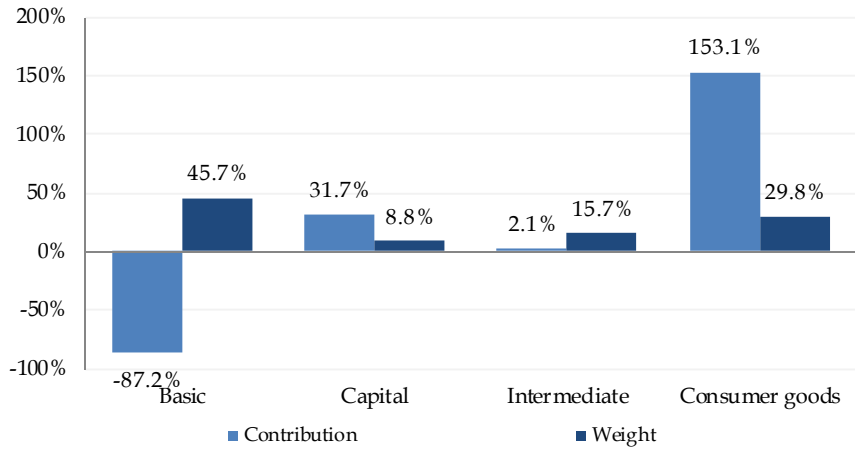
Sectoral Weight and Contribution to IIP Growth* (Feb)



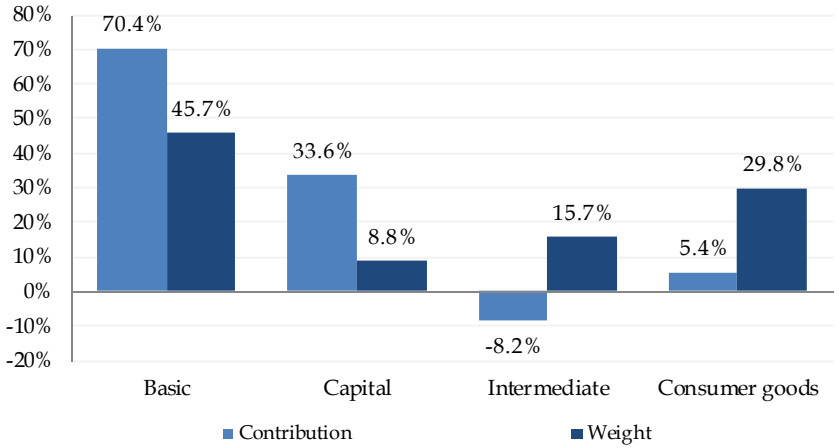
Sectoral Weight and Contribution to IIP Growth (Jan)



Use-based Weight and Contribution to IIP Growth (Feb)



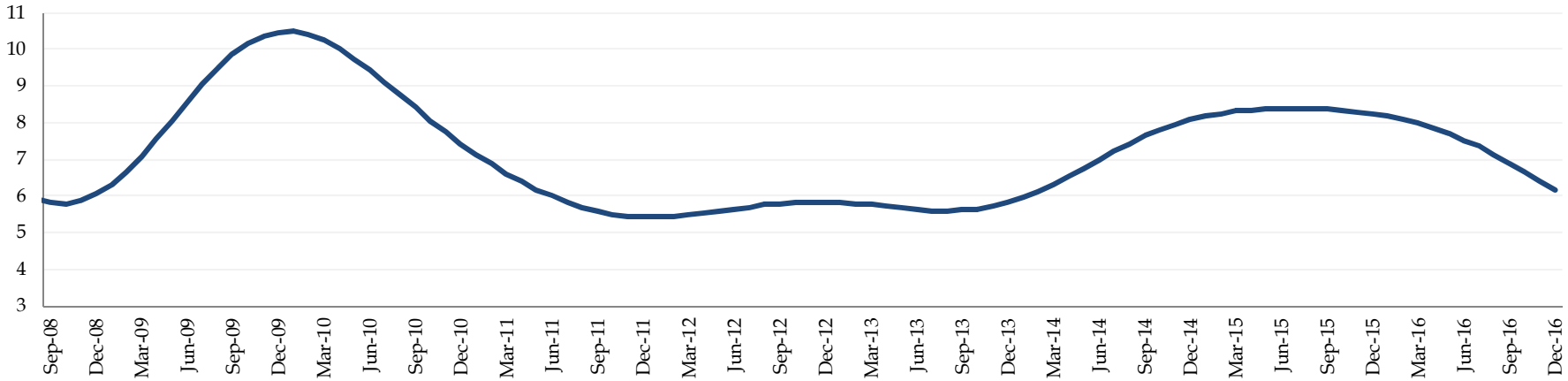
Use-based Weight and Contribution to IIP Growth (Jan)



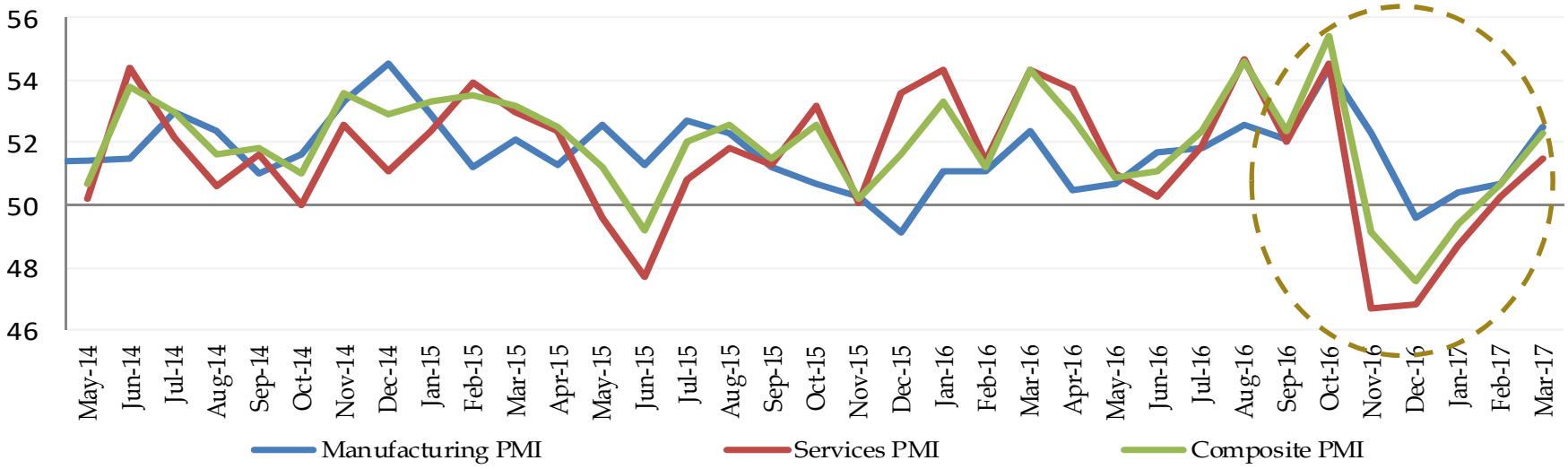
* Contribution in December is to the negative growth

PMI has recovered from November lows

OECD India Composite Leading Indicators Growth (%)



India PMI



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Thank You

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