

IIP Watch

June 2017

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IIP slower in June under revised series

- In our last few IIP Watches we have highlighted our concern that the high volatility underlying the IIP series from month to month has limited the usefulness of the IIP as a reliable indicator. We are now hopeful that some of those concerns will be addressed with the revision of the IIP base year and methodology. The base year for the IIP index was revised from 2004-05 to 2011-12 to capture structural changes in the economy and improve the quality and representativeness of the index.
- The revised series shows consistently higher IIP growth as compared to the old series. For example on annual basis the IIP growth under the new series was 3.8% from FY13 and FY17compared with an average of 1.4% under the old series. The growth rate under the new series has been higher in each year compared with the old series.
- As per the new data IIP contracted by 0.1% y-o-y in June as compared to a growth of 2.8% in May The data seems to suggest that the IIP has been impacted by uncertainty surrounding the introduction of GST and remaining residual impacts that arose out of demoneitsation. As firms adjust to the new operating environment we expect the impact of this uncertainty to fade.
- Key contributors to the contraction of the June IIP was the manufacturing sector and specifically the capital goods sector.
- As per the new series the electricity sector has been showing consistent positive growth going back all the way to 2013. The electricity sector series in the new IIP now includes electricity generation from renewable sources to reflect the increasing significance of renewables.
- For capital goods, data in the new series will now be captured in terms of 'work in progress' to better represent the growth of capital goods and to avoid reporting of production figures in bulk after the completion of production. This change should help reduce the volatility that has plagued the capital goods index.
- 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. Finally a normal monsoon will also be supportive of rural demand. Under such conditions we expect continued gradual improvement in the IIP over the coming months especially as the impact some the transitory factors such as GST and demonetisation recede.

Industrial production growth lower than expected

Headline IIP

- The base year for the IIP index has been revised from 2005-05 to 2011-12 to reflect structural changes in the economy
- IIP contracted by 0.1% on a y-o-y basis in June compared to a growth of 2.8% recorded in May.
- The growth in the IIP for June was lower than expected. The median estimate of the Reuters survey was for a growth of 0.6% .
- In June the electricity and mining sectors showed positive growth while manufacturing declined.
- In terms of use based classification, infrastructure and consumer non-durable goods showed a y-o-y growth while other classifications decreased.

Mining (Weight 14.4%)

- The IIP index for mining sector stood at 98.8 a growth of 0.4% y-o-y. The mining sector under the new series has shown muted but consistent positive growth and over the last several months.

Manufacturing (Weight 77.4%)

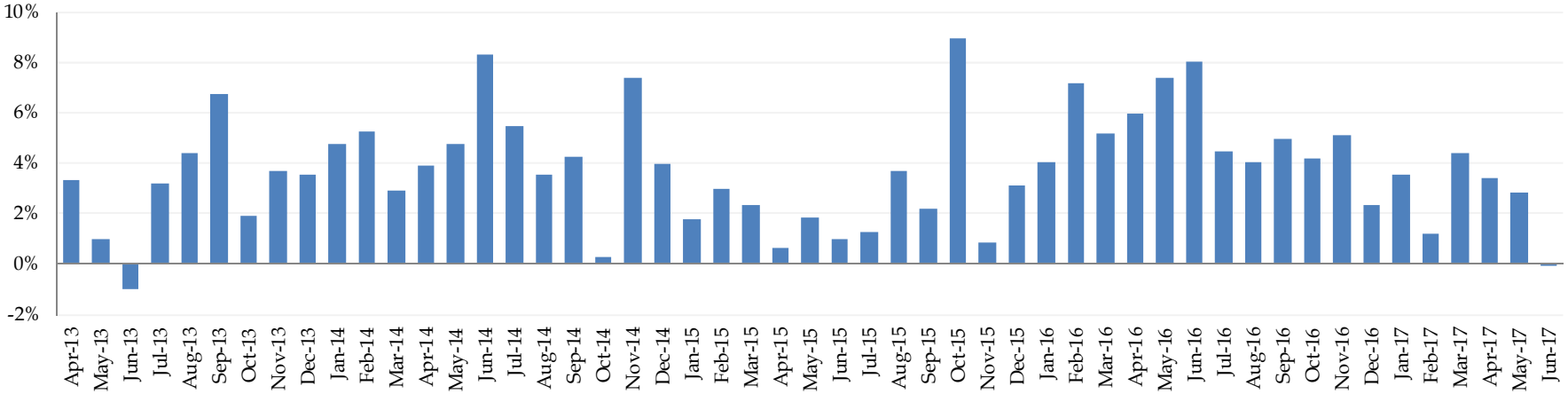
- The IIP index for manufacturing sector stood at 120.6 a decline of 0.4% y-o-y.
- Fifteen out of twenty three industry groups in the manufacturing sector showed negative growth as compared to June 2016.

Electricity (Weight 8%)

- The IIP index for electricity sector stood at 147.4 a growth of 0.2% y-o-y but a decline of 6.8% m-o-m.

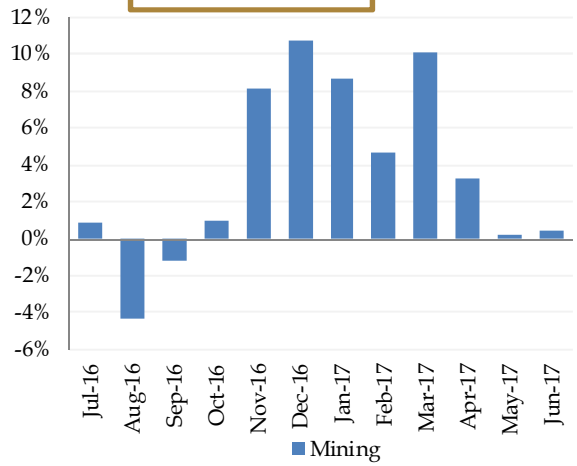
Sectoral IIP growth: manufacturing dips in June

Index of Industrial Production

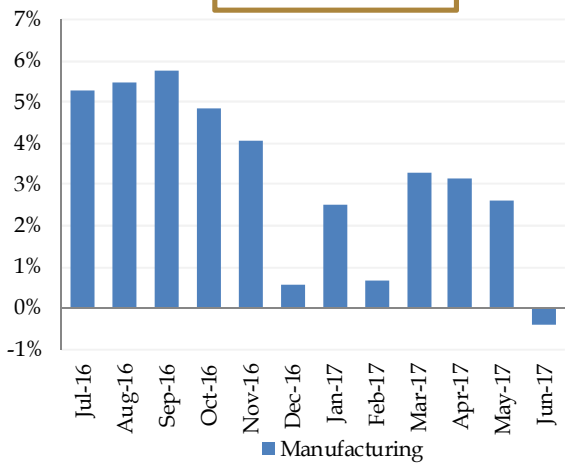


Sectoral IIP Growth

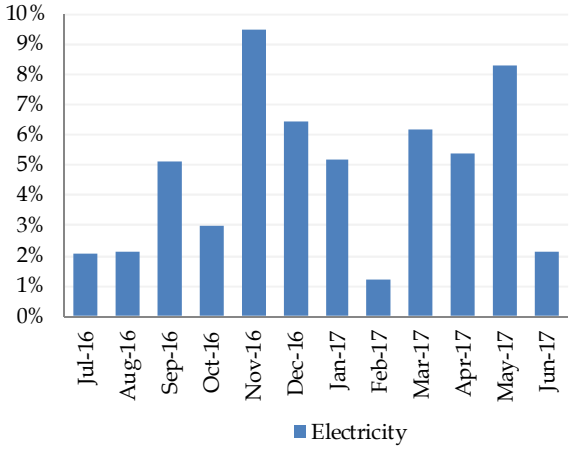
Weight 14.4%



Weight 77.6%

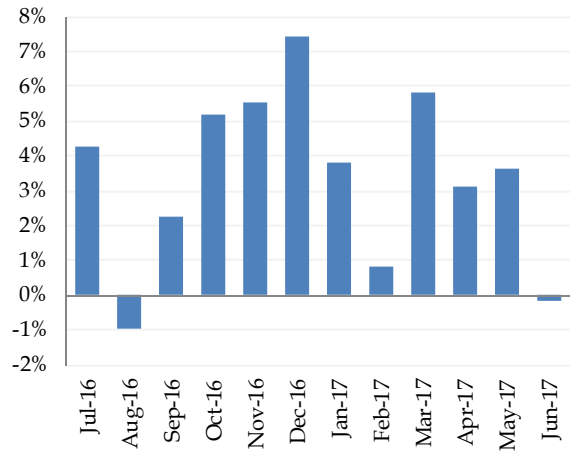


Weight 8%

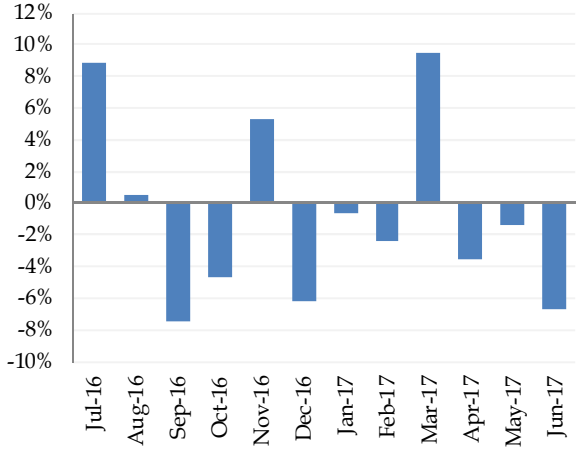


Use-based IIP growth: capital goods growth muted

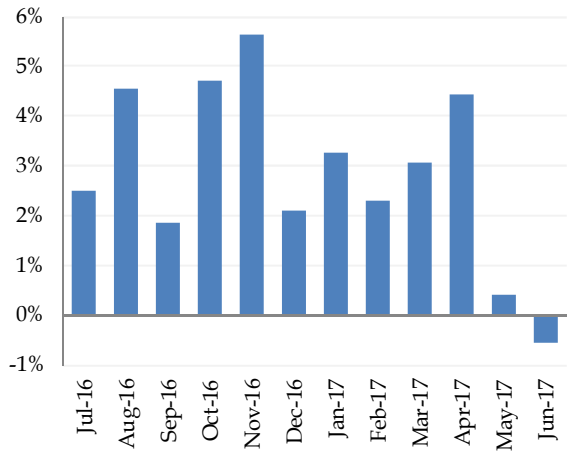
Primary Goods Growth



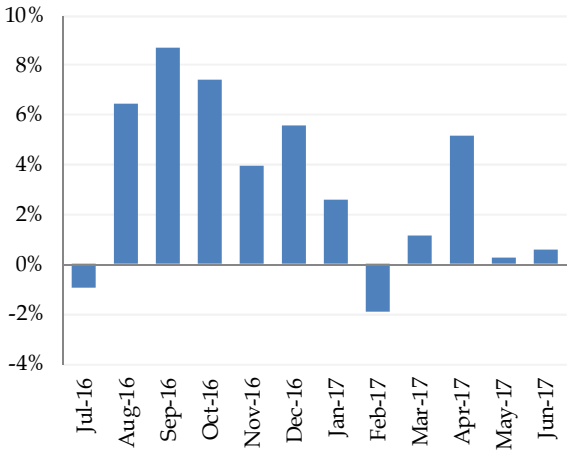
Capital Goods Growth



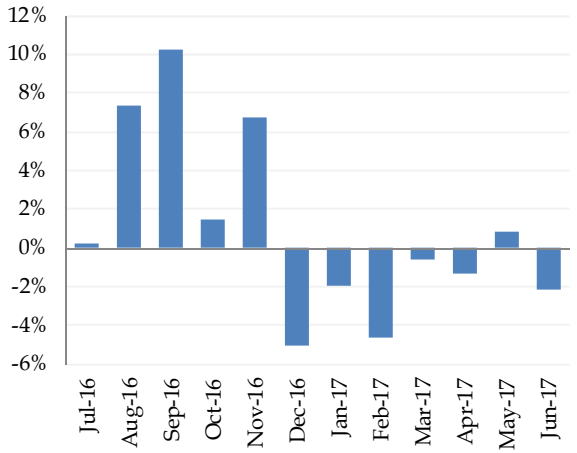
Intermediate Goods Growth



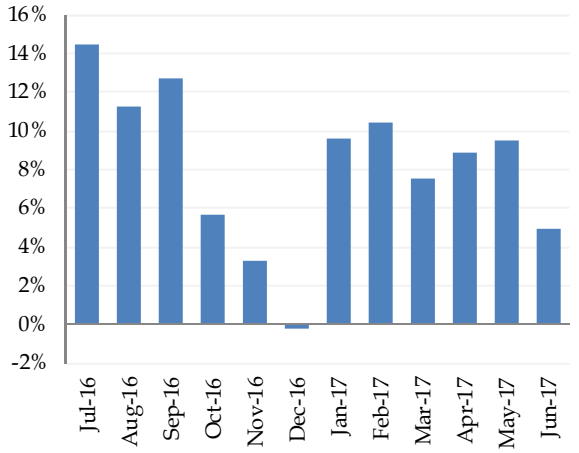
Infrastructure/ construction Goods Growth



Consumer Durables Goods Growth

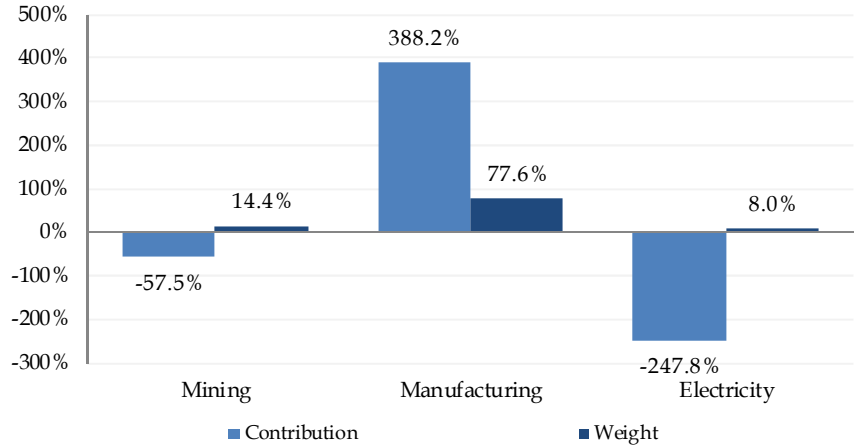


Consumer non-durables Goods Growth

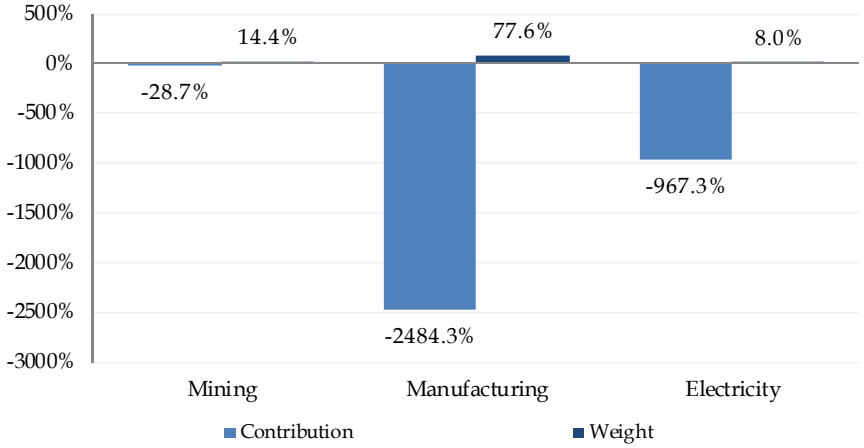


Contribution Analysis

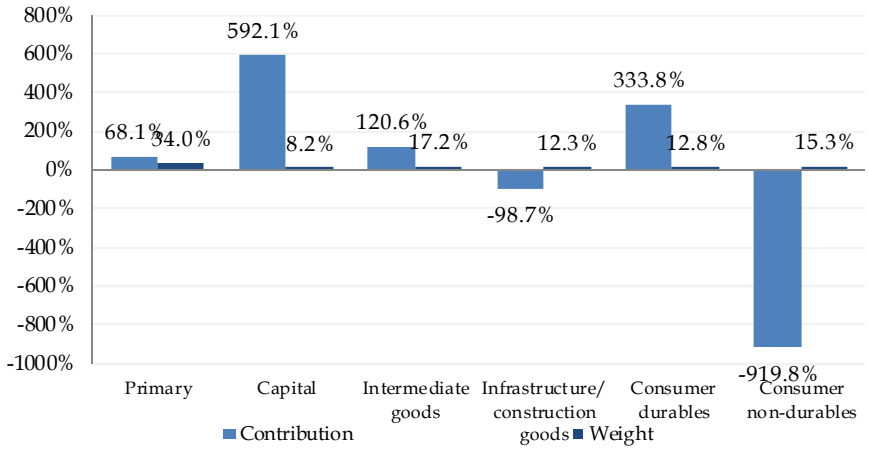
Sectoral Weight and Contribution to IIP Growth (June)



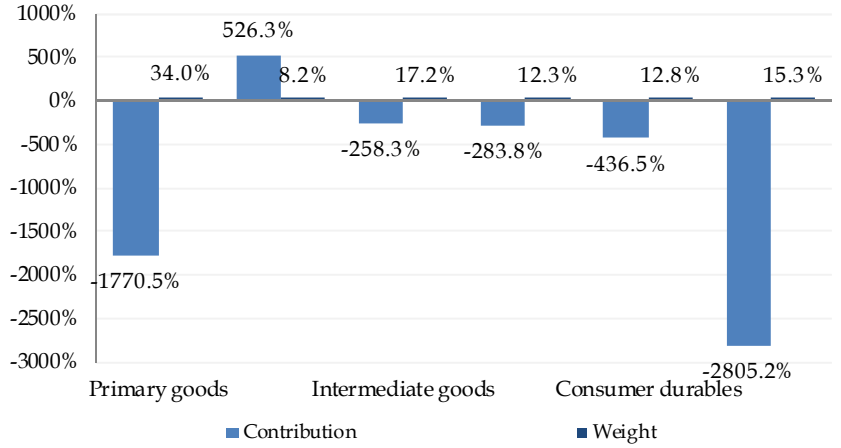
Sectoral Weight and Contribution to IIP Growth (May)



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

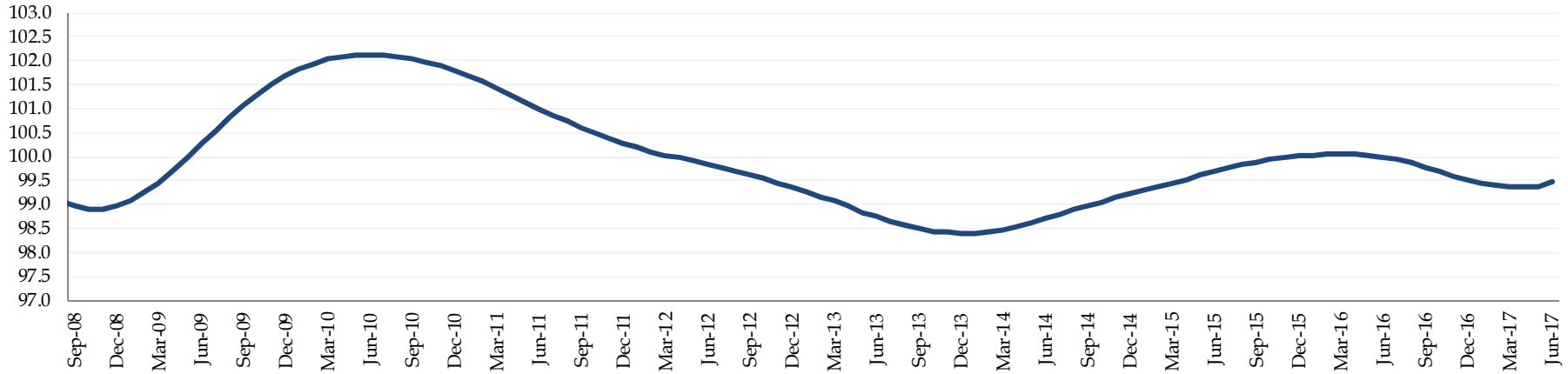


Use-based Weight and Contribution to IIP Growth (May)

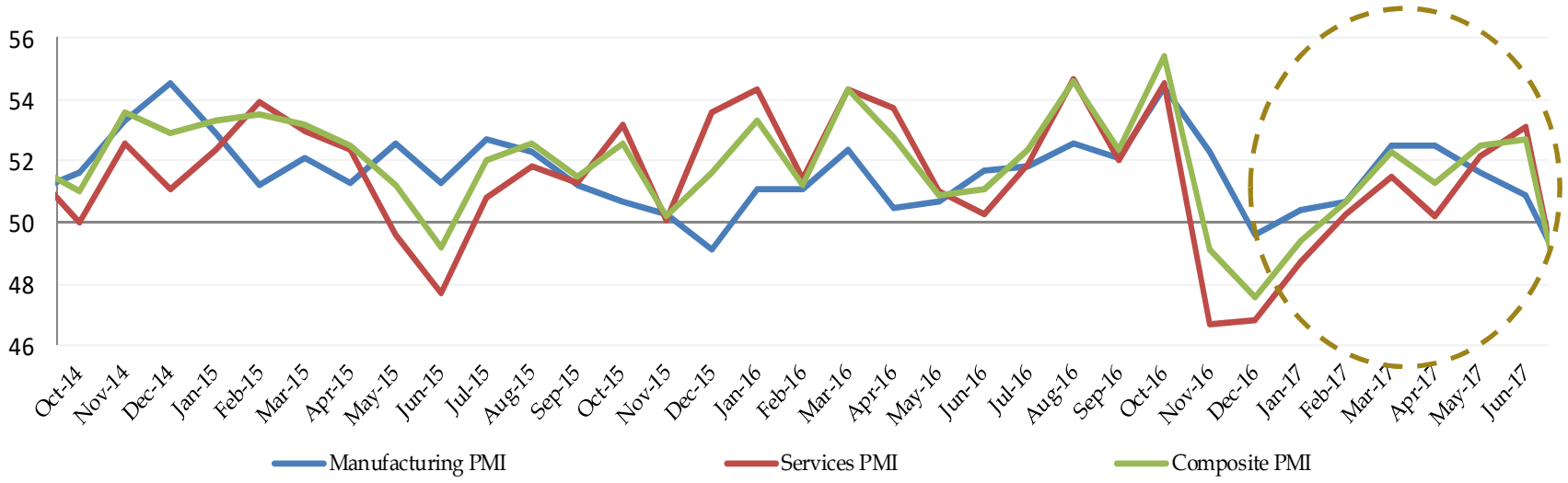


OECD Leading Indicators stable

OECD India Composite Leading Indicators Growth (%)



India PMI



Rates and Credit Research
Binyam Taddese
+91 22 42245000
binyam.taddese@trustgroup.in

Institutional Sales
Pranav Inamdar
+91 22 40845031
pranav.inamdar@trustgroup.in

Head of Equity
Naren Shah
+91 22 42245074
naren.shah@trustgroup.in

FII Sales
Sandeep Bagla
+91 22 42245143
sandeep.bagla@trustgroup.in



Thank You

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Trust Group

109/110, 1st Floor, Balarama, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in