

IIP Watch

October 2017

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IIP slows down in October

- The high volatility underlying the IIP series from month to month has limited the usefulness of the IIP as a reliable indicator. An attempt has been made to address some of those concerns 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 grew by 2.2% y-o-y in October as compared to a growth of 4.1% in September. The data over the last few months seems to suggest that the IIP has been impacted by uncertainty surrounding the introduction of GST. The strong IIP growth in August and September is an indication that as firms adjust to the new operating environment, the impacts of this uncertainty are beginning to fade but there are still linger effects.
- While IIP growth slowed down in November all sectors showed positive growth. Key contributors to the slowdown in the November reading was the mining sector which came in at 0.2%. The mining sector growth which has benefited from strong coal output was impacted by an adverse base effect.
- 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. Growth in capital goods was a robust 6.8%.
- Going forward, conditions for growth are improving. 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 continues to undertake tough reforms. Finally rural demand has been higher than previous year. 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 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 grew by 2.2% on a y-o-y basis in October compared to a growth of 4.1% recorded in September.
- The growth in the IIP for October was lower than expected. The median estimate of the Reuters survey was for a growth of 3% .
- In October all sectors including electricity, mining and manufacturing showed positive growth.
- Same was true in terms of use based classification where all classifications showed positive growth except consumer durables.

Mining (Weight 14.4%)

- The IIP index for mining sector stood at 101.2 a growth of 0.2% 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%)

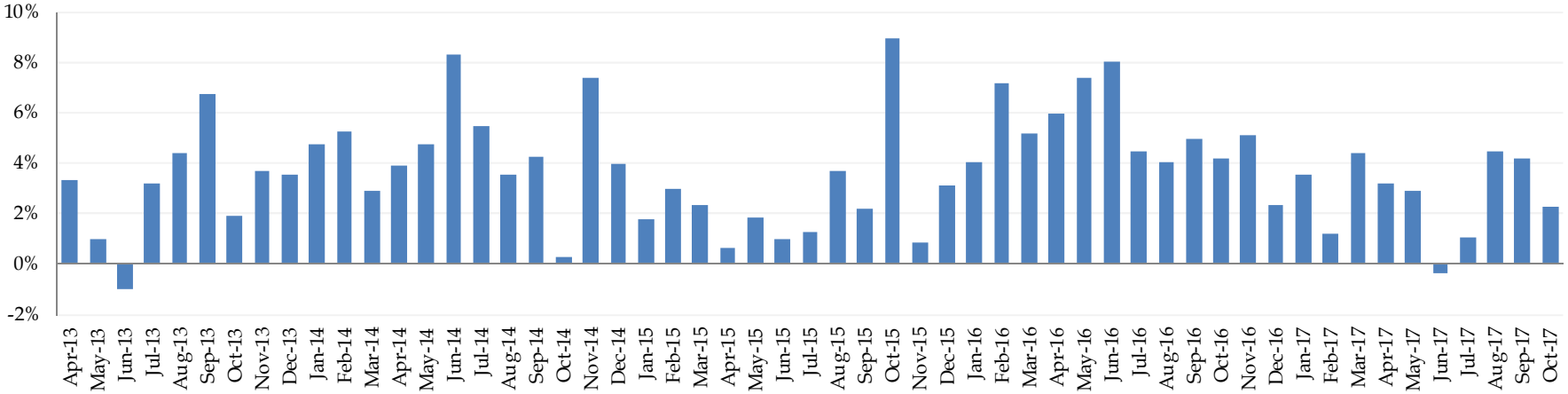
- The IIP index for manufacturing sector stood at 124.3 a growth of 2.5% y-o-y.
- Ten out of twenty three industry groups in the manufacturing sector showed positive growth as compared to October 2016.

Electricity (Weight 8%)

- The IIP index for electricity sector stood at 149.8 a growth of 3.2% y-o-y but a decline of 0.5% m-o-m.

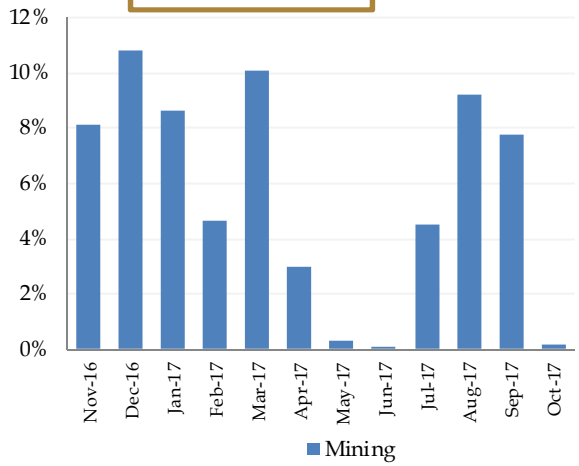
Sectoral IIP growth: mining and manufacturing dips in October

Index of Industrial Production

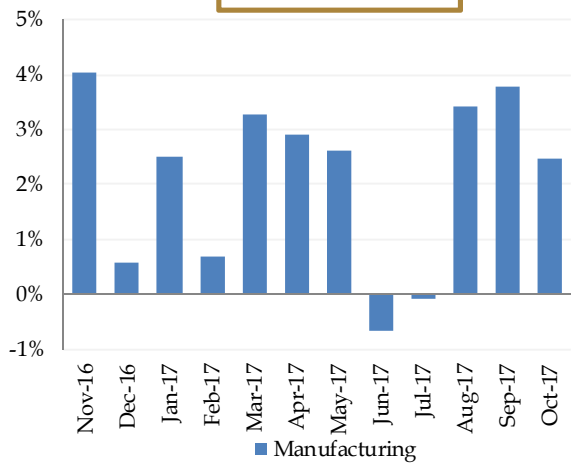


Sectoral IIP Growth

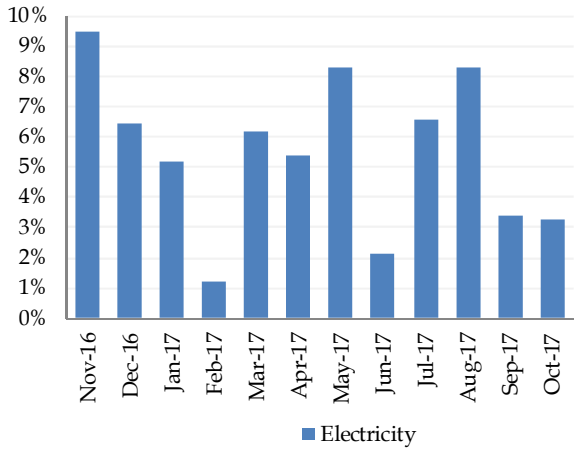
Weight 14.4%



Weight 77.6%

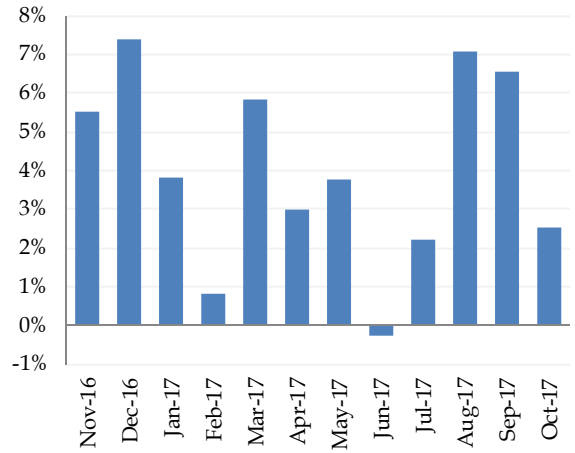


Weight 8%

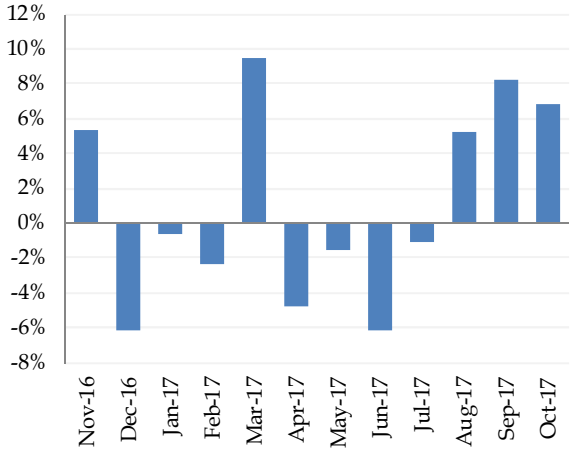


Use-based IIP growth: consumer durables falls

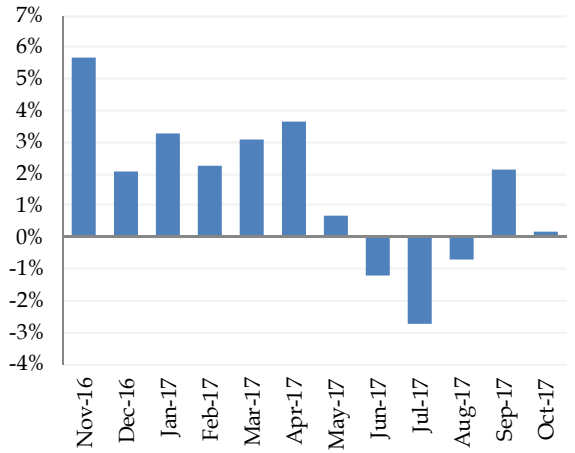
Primary Goods Growth



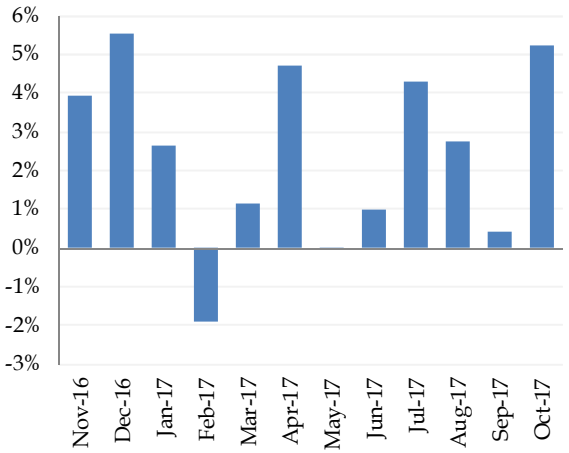
Capital Goods Growth



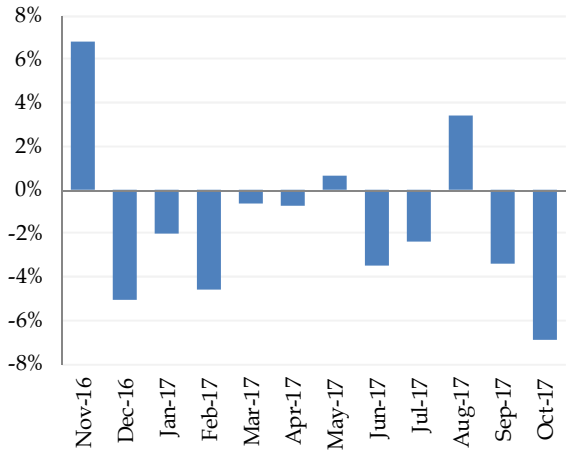
Intermediate Goods Growth



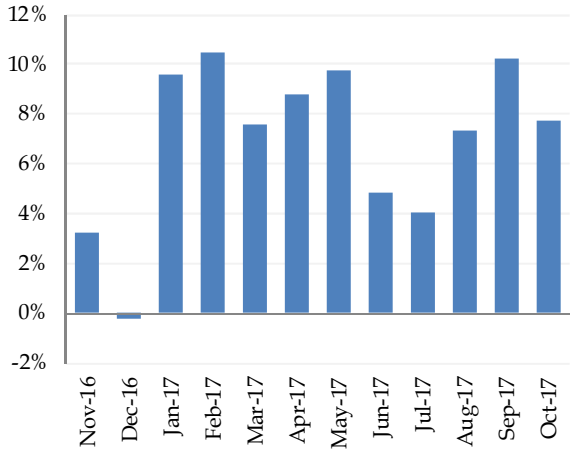
Infrastructure/ construction Goods Growth



Consumer Durables Goods Growth

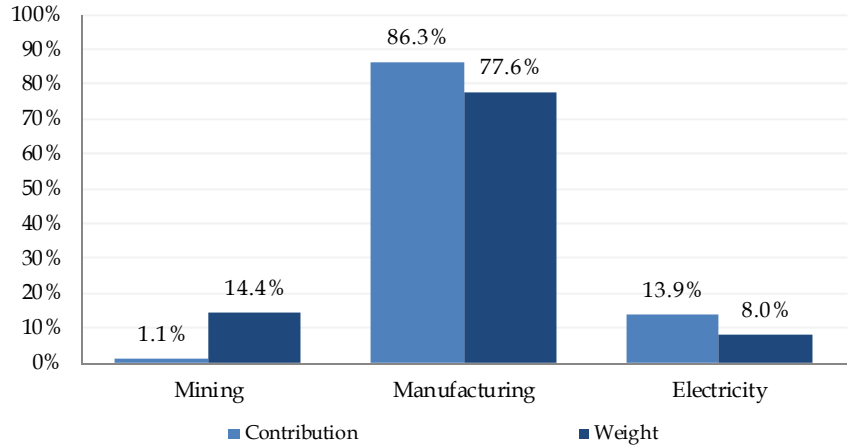


Consumer non-durables Goods Growth

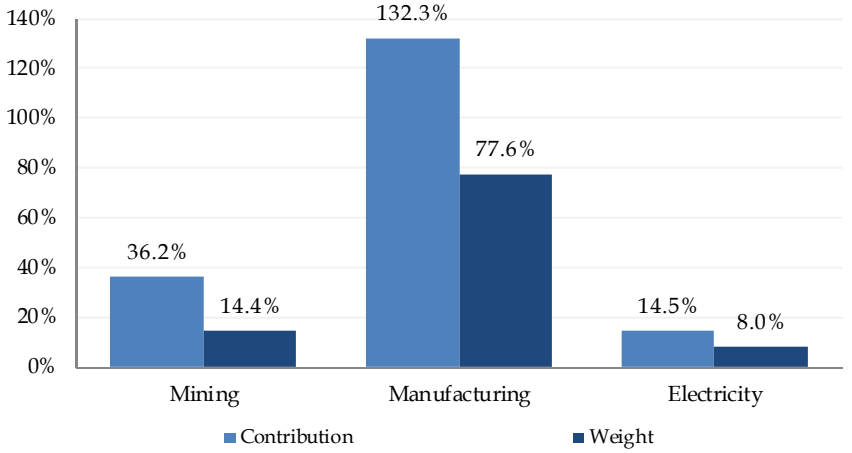


Contribution Analysis

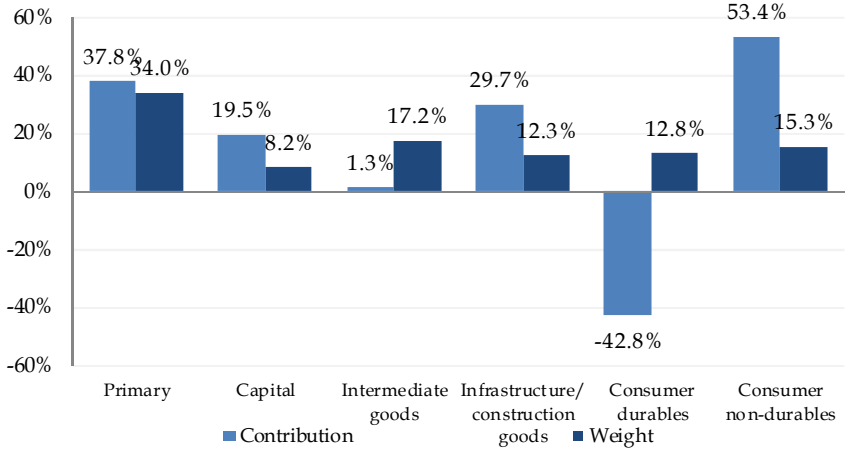
Sectoral Weight and Contribution to IIP Growth (Oct)



Sectoral Weight and Contribution to IIP Growth (Sept)



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

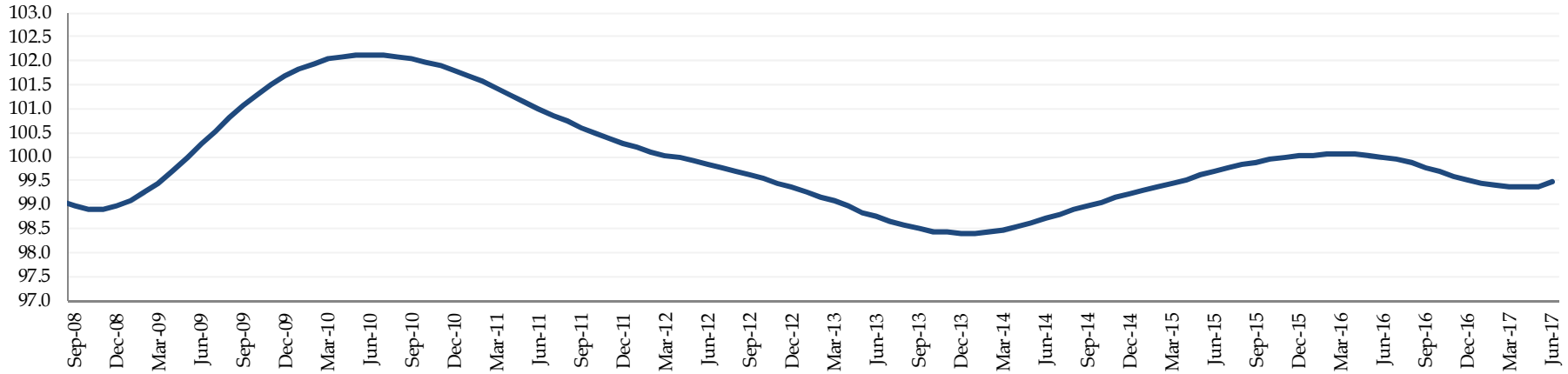


Use-based Weight and Contribution to IIP Growth (Sept)

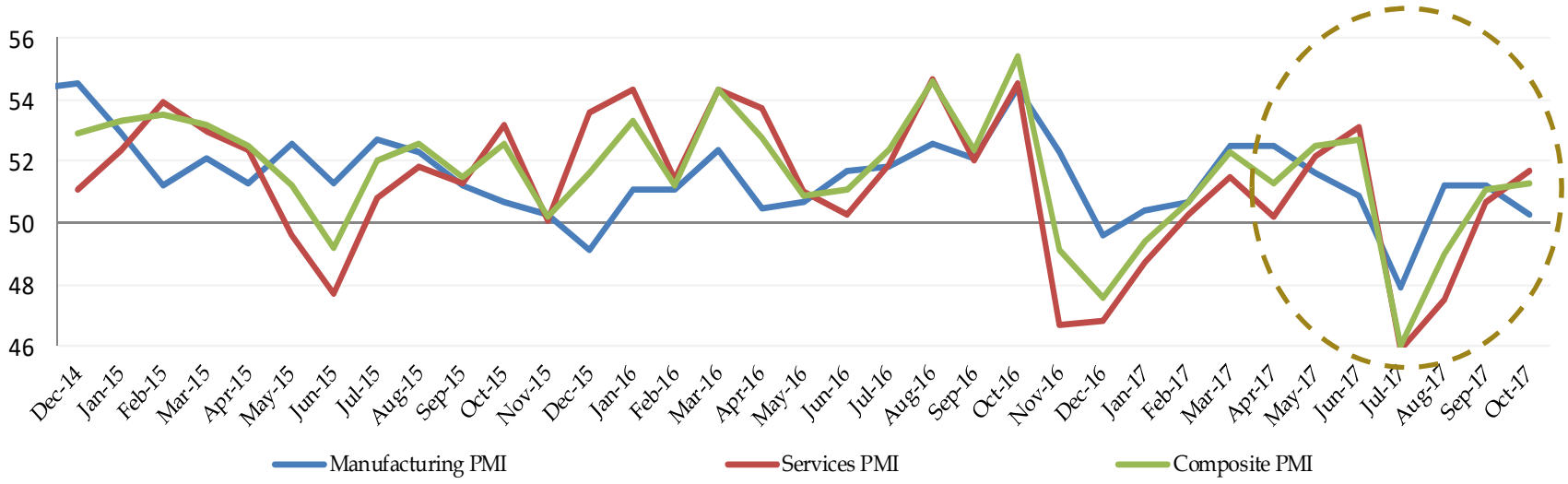


OECD Leading Indicators stable

OECD India Composite Leading Indicators Growth (%)



India PMI



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Thank You

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