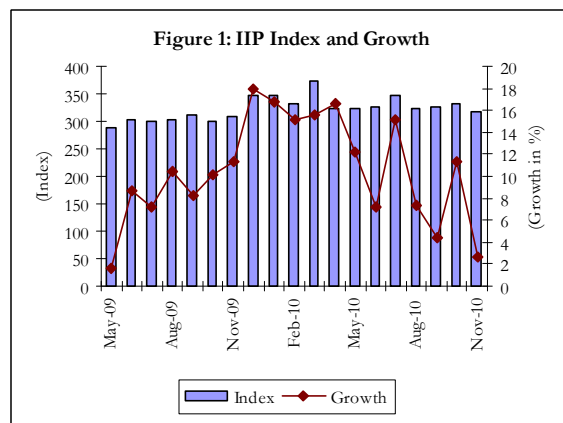


## Indian Economy - Fortnightly Update



Source: CSO

**Table 1: IIP – Sector-wise growth (in %)**

	Nov-09	Nov-10	Apr-Nov 09	Apr-Nov 10
Mining	10.7	6.0	8.5	8.0
Manufacturing	12.3	2.3	7.5	10.1
Electricity	1.8	4.6	5.7	4.6
IIP	11.3	2.7	7.4	9.5

Source: CSO

### I. IIP slumps to 2.7%

IIP Index in Nov-10 was at 317.9 implying a growth of 2.7%, lower than growth rate of 11.3% noted in Nov-09. Growth slumped Oct-10 levels of 11.3% (revised upwards from 10.8%). IIP growth for Nov-10 again surprised markets with a lower than expected number of around 6.5% as per several newswire polls.

Despite a lower monthly number, average growth rates are higher in Apr-Nov 2010 compared to Apr-Nov 09 (Table 1). Hence, overall industrial activity is still robust compared to the previous year.

**Sector-wise:** Except electricity, growth in the other two sub-sectors grew at a slower pace in Nov-10 compared to Nov-09. In Apr-Nov period, growth rate in Manufacturing is higher in Apr-Nov-10 compared to Apr-Nov 09. Average growth is lower for both Electricity and Mining sub-sectors. (Table 1)

Within Manufacturing, we see double digit growth in just two industries – Transport Equipment and Leather Products. We saw double digit growth rates in nine industries in both Oct-10 and Nov-09. The growth rate of Transport Equipment and Parts and Leather Products increased by 15.6%, and 12.6% respectively. Growth rates decelerated in nine industries in Nov-10 led by Machinery & Equipment at (-) 61.2% and Wood Products by (-) 27.4%.

**Use Based Classification:** We see lower growth in all sub-sectors compared to Nov-09 levels. In Apr-Nov period, only capital goods grew faster than Apr-Nov 09 period.

There is a sharp decline in growth of consumer durable goods. The reasons for the decline are – end of festive season, high interest rates and inflation. Though, the decline is much sharper even if we account for these three factors. Consumer durables index declines by 20.5% on a


**Table 2: IIP – Use Based Classification (in %)**

	Nov-09	Nov-10	Apr- Nov 09	Apr- Nov 10
Basic Goods	6.0	4.5	5.8	5.8
Capital Goods	25.7	12.6	20.6	25.8
Intermediate Goods	24.0	2.4	16.2	9.6
Consumer Goods	14.0	-3.1	8.1	6.9
Durable	40.4	4.3	24.6	22.2
Non-Durable	6.0	-6.0	2.8	0.8

*Source: CSO*

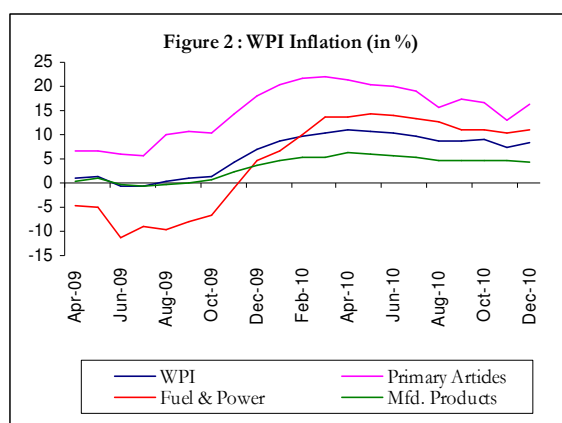
MoM basis, which is the second highest MoM decline (in Apr-07 the index declined by 20.6%) in the time-series. The sales of items in consumer durables goods like cars, two-wheelers etc. have not declined and only post stronger numbers. Hence, again the quality of numbers is questionable.

Consumer non-durables growth has remained sluggish since Apr-10 but declines sharply in November mainly because of persistent inflation. Within Consumer non-durables, production of Beverages and food products declines.

Capital goods has grown compared to other sub-sectors mainly because of growth in Transport Equipments. The other category in capital goods viz. machinery and equipment has fallen sharply.

Intermediate goods also declined sharply mainly because of lower production in wood products.

**Summing up:** The industrial data remains highly volatile making it difficult to determine any trend going forward. The lower growth was expected in Nov-10 but the decline is much lower than most pessimistic expectations. The quality of the data remains a major concern.



*Source: Commerce Ministry*

### WPI Inflation jumps to 8.43%

WPI index increased from 142.3 in Nov-10 to 144.1 in Dec-10. This implied inflation for Dec-10 at 8.43% (y-o-y), higher than previous month inflation of 7.48%. For the month of Oct-10, the inflation was again revised upwards from 8.58% to 9.12%. The final inflation numbers continue to be revised upwards.

**Primary Articles:** The index for primary articles increased sharply from 182.6 in Nov-10 to 188.9 in Dec-10, implying primary articles inflation at 16.46%, compared to 13.00% in Nov-10. Within primary articles, we see substantial rise in all the three sub-sectors - food articles, non-food articles and minerals.



	Nov-10	Dec-10
Primary Articles	13.00	16.46
Food Articles	9.41	23.22
Non-Food Articles	13.55	22.31
Fuel Products	10.28	11.17
Manufactured Products	4.56	4.46
Core Inflation	5.32	5.36
WPI Inflation	7.48	8.43

*Source: Commerce Ministry*

Food article inflation has again jumped to double digits after declining to single digit in Nov-10. Before Nov-10, food inflation was in double digits for seventeen consecutive months. In food articles, we see prices rise across items especially in fruits and vegetables. Prices of meat items like chicken, meat, eggs etc. also rose.

In non-food articles, inflation has been around 20-22% for four consecutive months. In this, prices rose of oil-seeds, flowers, silk etc. As most of these items are intermediate goods, they effect most prices in the supply chain. We indeed see this linkage in manufactured products inflation discussed below.

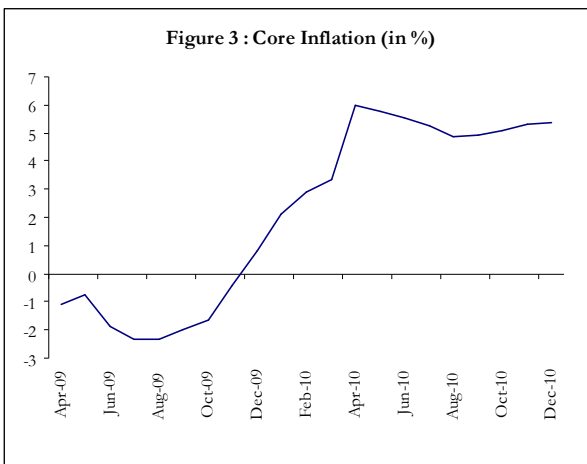
Prices of certain minerals like copper, zinc, gypsum etc also rose leading to a sharp rise in minerals inflation from 21.5% to 27.7%. Inflation under this sub-sector has been in the range of 25-37% for twelve consecutive months.

**Fuel Group:** Fuel Group inflation increased as Oil Marketing Companies revised price of petrol upwards in December. Further, price of light diesel oil, aviation turbine fuel, naphtha and bitumen also rose tracking rise in global crude prices.

**Manufactured Products:** For Dec-10 this inflation was lower than Nov-10 levels. So far, inflation has only increased gradually in this sector.

Within Manufactured Products, prices rose sharply in food products, textiles and wood products. In food products, higher prices were noted of sugar, vanaspati, soyabean oil etc. This was the linkage we were mentioning in the non-food articles sub-sector. As prices of oilseeds and other raw materials rise, prices of manufactured products follow.

**Core Inflation:** Core inflation for Dec-10 was at 5.36%, higher than Oct-10 levels. It has been rising gradually after declining to 4.94% in Sep-10.



*Source: Commerce Ministry*



**Summing up:** Inflation continues to remain a major concern in Indian economy prospects. In Nov-10, inflation had eased and above all food articles inflation was noted in single digits. However, this was just a temporary respite and food inflation is back in double digits. Inflation is not just limited to food prices but is very broad based.

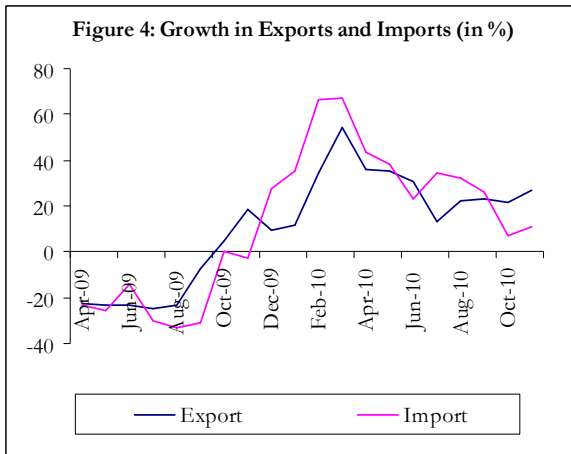
In our recent research report (Why food inflation is likely to remain persistent in India, Jan 2011), we show food inflation is a structural problem and needs a substantial increase in production and investments. This is not just the case for food alone but economy as a whole as well. RBI in its upcoming monetary policy is likely to maintain its hawkish stance.

**Exports in Nov-10 grew by 26.5%**

Exports in Nov-10 were at \$18.9 bn (grew by 26.5% YoY) and imports were at \$ 27.8 bn (grew by 11.2% YoY). Within imports, oil imports were at \$7.7 bn (grew by 2.3%) and non-oil imports at \$ 20.1 bn (grew by 15.0%). The trade deficit was at \$ 9.0 bn, lower than \$ 9.7 bn in Oct-10.

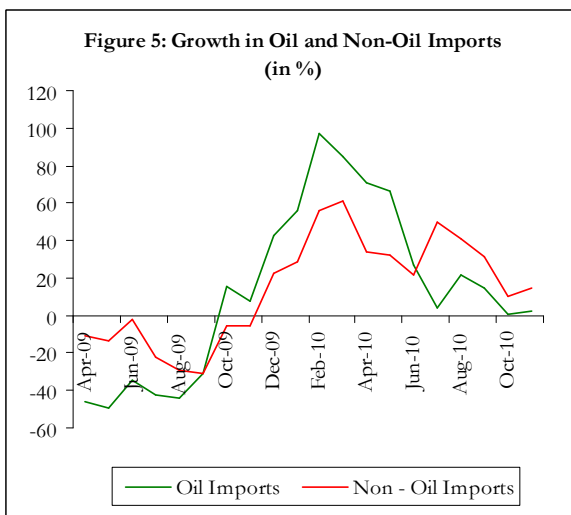
In Nov-10 export volumes increased by 5% compared to Oct-10 levels. Import volumes increased slightly by 0.4% compared to Oct-10. This led trade deficit to narrow to \$ 8.9 bn from \$ 9.7 bn in Nov-10. Within imports, oil imports have decreased and non-oil imports have increased marginally compared to Oct-10 levels.

**Figure 4: Growth in Exports and Imports (in %)**



Source: Commerce Ministry

**Figure 5: Growth in Oil and Non-Oil Imports (in %)**



Source: Commerce Ministry



**STCI Primary Dealer Ltd.**

A/B1- 801, A Wing, 8th floor, Marathon Innova, Marathon Next Gen Compound,  
Off. Ganpatrao Kadam Marg, Lower Parel (w), Mumbai 400013.

Dealing Room: (022) 66202217-20 • Settlements: (022)66202262-64, Fax (022) 66202288

Delhi Office: (011) 47676555-570 • Bangalore Office: (080) 22208891

Please mail your feedback to [stcipd@stcipd.com](mailto:stcipd@stcipd.com) • Website: <http://www.stcipd.com>

THIS COMMUNICATION IS FOR PRIVATE CIRCULATION ONLY. IT IS BASED UPON THE INFORMATION GENERALLY AVAILABLE TO PUBLIC AND CONSIDERED RELIABLE. THIS REPORT DOES NOT CONSTITUTE AN INVITATION OR OFFER TO SUBSCRIBE FOR OR PURCHASE OR SALE OF ANY SECURITY AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER WITH STCI PRIMARY DEALER

14 January 2011

---



**STCI**  
Primary Dealer Ltd