

July 13, 2010

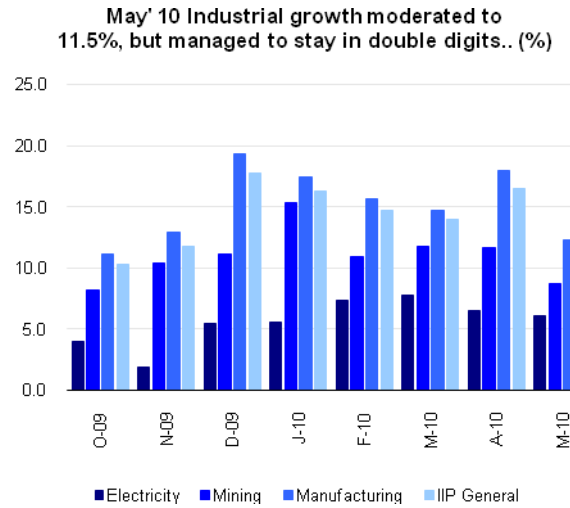
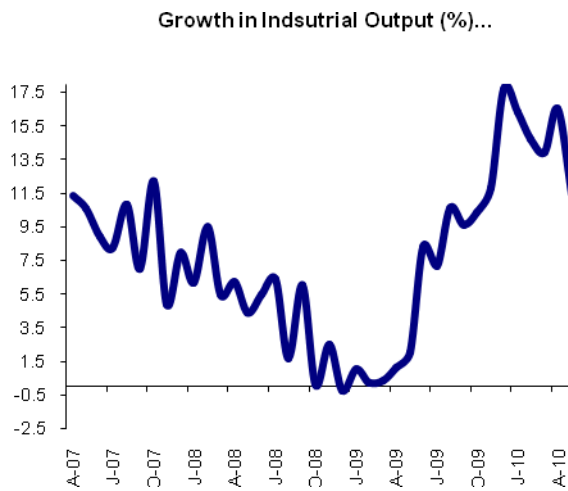
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## Industrial growth retracted sharply to 11.5% in May'10: Below than expectations, but no worries

**Industrial growth for May 2010 came in at 11.5% from 16.5% in April 2010 (revised down from 17.6% estimated earlier), primarily on account of a deceleration in manufacturing and mining sectors. However, IIP numbers in May 2010 are much better than 2.1% a year ago. While the numbers are below expectations, it should not be mistaken as any serious problem in Indian economy. Investment driving segments i.e. capital goods and consumer goods posted good numbers though the same were lower than last month. Intermediate goods, in spite of high base, managed to record double digit growth.**

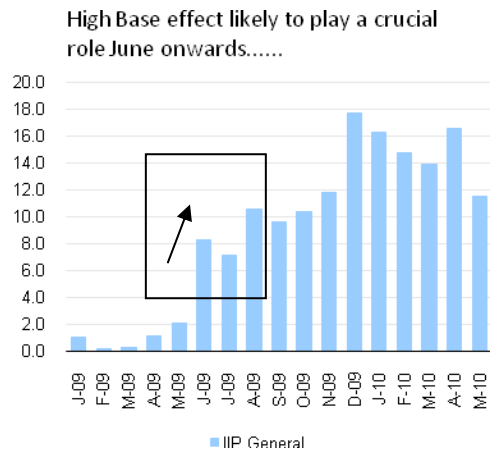
- **IIP numbers weaken:** Industrial output grew at 11.5% in May'10, the eight straight month of double digit growth but lowest in the last seven months mainly due to the wearing down of the low base effect. Numbers were also sharply below market expectations. The number came in against a growth of ~16.5% in the previous month and ~2.1% a year ago. IIP growth for April 2010 has been revised to 16.5% from 17.6% reported earlier.
- **'Manufacturing'** clocked 12.3% growth in May'10 compared with 17.9% in April and 1.8% a year ago. Fifteen out of the 17 industry groups showed positive growth except 'Wood products' (-5.7%) and 'Beverages' (-3%). 'Metal products' and 'Transport equipment' continued previous month's trend and posted a growth of 39.8% and 25.2% respectively. However, growth was slower than the trends seen last month. Other sectors witnessing strong growth included 'Jute and Fiber textiles' (+26.9%), 'Machinery equipment' (+24.8%), 'Rubber, Petro and Coal products' (15.4%) and 'Leather products' (+12.9%). Textile segment which is the largest employment generator in India after agriculture also maintained growth and came at 5.6%.
- Among the other major constituents of the IIP, **'Mining' and 'Electricity'** grew at 8.7% and 6.1% against 3.4% and 3.3% in May'09 respectively.

INDUSTRIAL GROWTH (%)					
	May-10	Apr-10	May-09	Apr-May 10	Apr-May 09
Total industry output	<b>11.5</b>	16.5	2.1	<b>14.0</b>	1.6
Mining	<b>8.7</b>	11.7	3.4	<b>10.2</b>	3.4
Electricity	<b>6.4</b>	6.5	3.0	<b>6.6</b>	4.8
Manufacturing output	<b>12.3</b>	17.9	1.8	<b>15.1</b>	1.1
i. Basic good	<b>7.9</b>	8.7	3.8	<b>8.5</b>	4.1
ii. Capital Goods	<b>34.3</b>	69.9	-3.6	<b>50.9</b>	-4.7
iii. Intermediate Goods	<b>10.2</b>	10.6	6.6	<b>10.4</b>	7.3
Consumer Goods	<b>8.2</b>	11.9	-1.1	<b>10.0</b>	-2.9
i. Consumer Durables	<b>23.7</b>	32.8	13.2	<b>28.1</b>	15.3
ii. Consumer non Durables	<b>2.4</b>	4.5	-5.5	<b>3.5</b>	-8.0



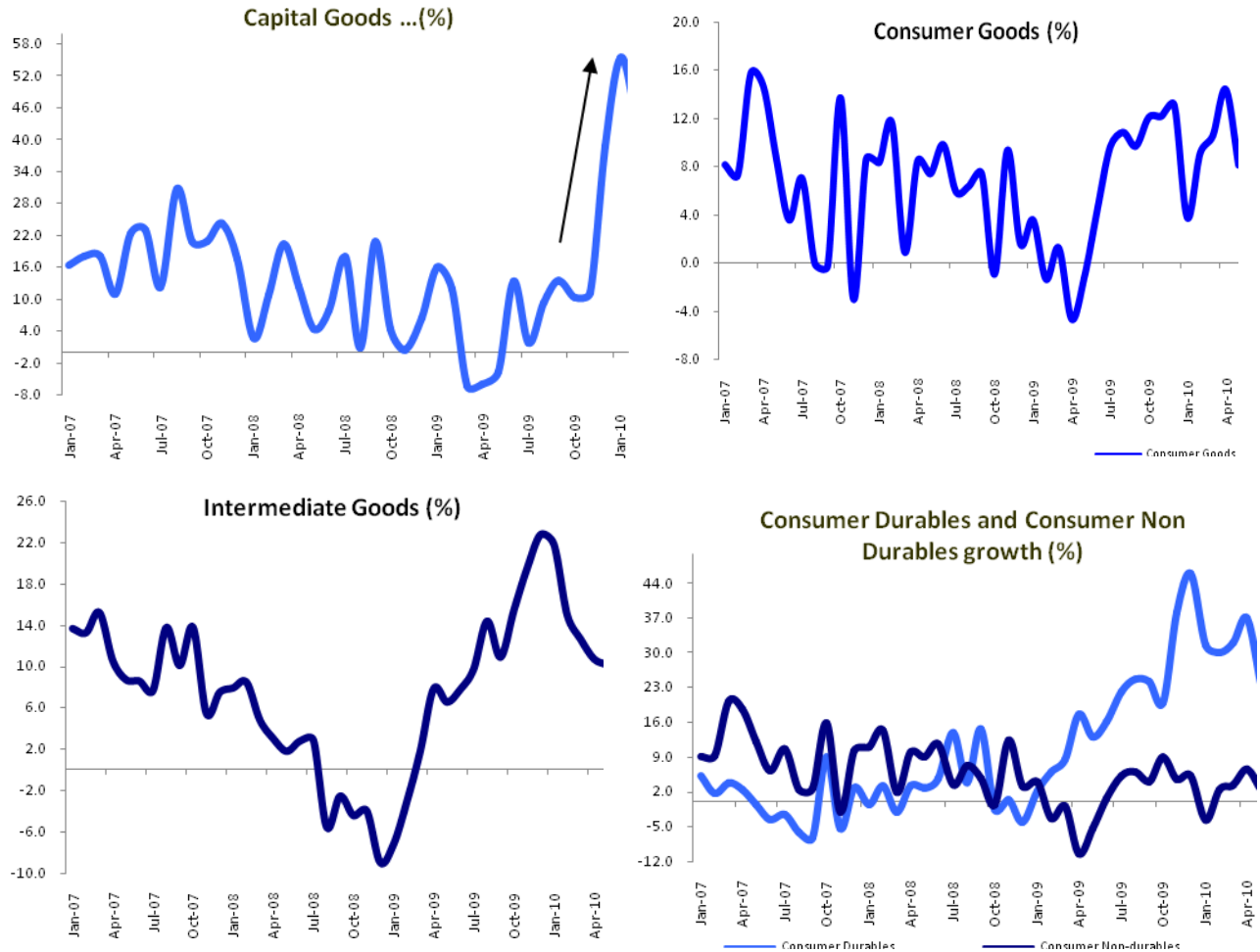
- Capital Goods and Intermediate Goods suggested lower growth in IIP:** Capital goods, once again, acted as a major swing factor. In Apr'10, stellar growth of ~70% in capital goods led IIP number to post a growth of 16.5%. Whereas in May'10, IIP growth eased on the back of a relatively moderation in capital goods growth at ~34%. Growth in intermediate goods continued to soften for the fourth straight month from 21.9% in Jan'10 to 10.2% in May'10. High base effect in intermediate goods is likely to play out June onwards.

- Dynamics of the Base Effect:** IIP growth (Y-o-Y) in last few months was exaggerated by low base effect which is likely to drop June'10 onwards. A reversal from low base to high base is likely to bring overall IIP growth to high single digits by June, thus exhibiting slower growth. It is also expected that in the coming six month IIP growth would witness a more steady state and a sustainable path. But this decelerated growth in industrial production should not be understood as a slowdown.



**Outlook:** Previous eight months in a row saw a double digit growth in IIP which is a big cyclical uptick and seems over now. Going ahead, IIP is expected to calm down to high single digits in coming months but should not be mistaken for a slowdown.

## IIP growth at 11.5% for May 2010



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