

India Macro Flash

Macro Woes Continue Unabated – Dec Factory Output Contracts - 0.6% YoY; Jan CPI Edges Higher to 10.8% YoY

Data Remain Disappointing — Following last week's below-consensus FY13 GDP print of 5% (see [FY13 GDP at a Decade Low](#)), two sets of data released today indicate (1) a contraction in Dec factory output to -0.6% (Citi: 1%; consensus 1.1%) with the Nov data also being revised lower to -0.8% from 0.1% and (2) an uptick in Jan CPI to 10.79% from 10.6% last month. While policy makers have been taking the right steps since Sept 12, the latest data points re-iterate the need for continued policy efforts to reverse this trend of lower growth and higher inflation.

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With thanks to

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■ Data Highlights

- **Dec Factory Output Contracts by 0.6%** — Despite buoyant trends in electricity (up 5.2%), industrial production fell -0.6% in Dec led by a 4% decline in mining reflecting continued environment/forest clearance related issues and a -0.7% contraction in manufacturing with eight sub-sectors recording a fall greater than 10% (detailed break-down on p. 2). On a use-based classification, a contraction was seen across both capital and consumer goods – down -0.9% and -4.2% respectively. Cumulatively, industrial growth during 9MFY13 was a mere 0.7% vs 3.7% in the same period last year. Key to note is that the CSO's first GDP est. of 5% is based on agri growth of 1.8%, industry at 3.1% and services at 6.6%.
- **Jan CPI Edges Higher to 10.8%** — The headline combined CPI continued to inch higher, coming in at 10.8% vs the 10.6% reading last month. The uptrend was seen across all components, led by higher food prices up 13.2% – mainly due to veggies which rose 26%, fuel up 8.5%, clothing up 11% and housing up 10.3%. Given the across-the-board rise in prices, core CPI (Ex Food & Fuel) reversed the flattish trend seen in the last few months, edging marginally higher to 8.2%. Given the higher weighting of food in the rural index, trends in rural inflation (10.9%) continue to outpace urban inflation (10.7%).

Policy Implications – Following the govt's first GDP estimate of 5% for FY13, we revised our FY14 numbers down to 5.7%. This factors rates being eased by a further 50bps in 2013. While there has been much debate about the 5% print and admittedly, data is prone to revisions, the key point to note is that growth is at a ten year low led by both consumption and investments. As mentioned earlier, while the govt has taken several measures since Sept 12 (see pg 17 of [India Macroscope](#)) continued action from all policy makers is needed to reverse the decline across all the macro variables. Key to watch in the coming weeks is (1) The WPI print due on Feb 14 (2) Upcoming Budget due Feb 28 (3) Effectiveness of the Cabinet Committee on Investments and whether it can stem the decelerating trend in projects stalled and new project intentions (see pg 4).

WHAT'S INSIDE

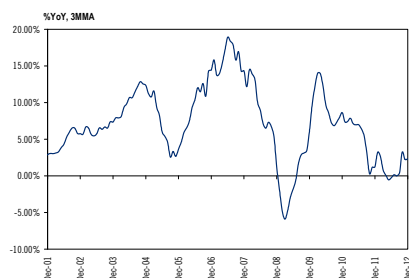
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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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December Factory Output: Contracts -0.6%

Figure 1. Trends in Headline IIP (%YoY, 3mma)



Source: CSO

Despite buoyant trends in electricity (up 5.2%), industrial production fell -0.6% in Dec led by a 4% decline in mining reflecting continued environmental/forest-related issues and a -0.7% contraction in manufacturing, with eight sub-sectors recording a fall greater than 10%. As seen below, this was due to medical instruments (-27%), publishing and printing (-24%), office equipment (-21%), communication (-20%), wood products (-19%), metal products (-14%), motor vehicles (-13%) and machinery (-12.1%).

On a use-based classification, a contraction was seen across both capital (-0.9%) and consumer goods (-4.2%), led by durables down 8.2% and non-durables down 1.4%. On a cumulative basis, industrial growth during 9MFY13 was a mere 0.7% vs 3.7% in the same period last year.

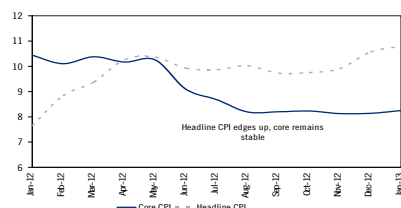
Figure 2. Industrial Production – Detailed Breakdown (%YoY)

SECTORAL	Wts	Monthly						Apr-Dec	
		Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Dec-11	FY13 FY12
Manufacturing	75.5	0.0	2.4	-1.6	9.8	-0.6	-0.7	2.8	0.7 4.0
Food products and beverages	7.3	-6.6	6.7	4.3	14.0	5.7	3.7	19.4	2.5 17.6
Tobacco products	1.6	-5.0	-4.7	-20.8	-8.6	-8.0	4.4	27.4	-7.0 4.8
Textiles	6.2	8.7	5.3	2.4	11.6	3.4	3.8	0.4	6.8 -2.4
Wearing apparel	2.8	-7.0	9.8	13.8	12.6	-1.4	-8.2	4.5	-0.7 -4.8
Leather & Leather Products	0.6	-2.7	-2.8	4.6	13.7	14.1	2.7	3.5	6.0 4.4
Wood and Wood Products	1.1	-3.6	-3.5	-3.5	-5.8	-18.9	-19.3	14.0	-7.2 0.7
Paper and Paper Products	1.0	1.1	1.8	1.3	4.1	-4.0	0.8	2.9	0.8 5.4
Publishing, printing etc	1.1	17.7	15.5	16.7	13.8	-23.8	-24.0	57.9	3.1 20.4
Coke, refined petro prod. & nuclear fuel	6.7	8.7	7.4	7.5	22.3	8.5	9.3	-0.5	7.5 4.1
Chemicals & Related Products	10.1	8.5	10.3	0.6	9.7	-0.3	-0.2	3.8	2.7 0.3
Rubber and Plastic Products	2.0	-4.6	-1.9	0.5	13.6	-9.4	-3.3	-4.0	1.5 -1.7
Other non-metallic mineral products	4.3	0.3	-3.6	2.9	0.2	-9.8	-3.5	8.3	0.9 4.6
Basic Metals	11.3	-2.6	3.7	-0.4	1.9	7.0	6.2	7.3	2.5 11.1
Fabricated metal products	3.1	-1.7	5.8	-1.9	-0.5	-12.7	-14.3	14.3	-2.3 13.5
Machinery & Equipment	3.8	4.6	-0.7	-13.9	0.0	-18.1	-12.1	-4.8	-3.8 -2.5
Office, accounting, computing machinery	0.3	-13.8	-13.1	-30.7	6.9	-21.9	-20.8	9.3	-12.4 6.2
Electrical machinery	2.0	-7.1	-4.4	-19.2	26.9	24.8	48.2	-48.5	-14.6 -21.1
Radio, TV and communication equipment	1.0	4.9	6.6	1.2	18.6	15.3	-19.8	12.5	8.2 7.4
Medical, precision & optical instruments	0.6	3.1	14.2	5.5	-11.9	-12.0	-27.4	38.1	-0.4 10.4
Motor vehicles, trailers & semitrailers	4.1	-6.4	-9.5	-1.0	25.9	-18.7	-13.1	5.4	-3.2 11.6
Other transport equipment	1.8	-2.5	-7.6	-3.9	5.1	-7.5	4.0	9.8	-1.3 15.3
Furniture; manufacturing, n.e.c	3.0	-11.7	-2.5	-12.7	2.7	2.8	18.8	-10.6	-3.7 -2.3
Mining	14.2	-3.5	-0.3	2.2	0.0	-5.5	-4.0	-3.3	-1.9 -2.6
Electricity	10.3	2.8	1.9	3.9	5.5	2.4	5.2	9.1	4.6 9.5
General	100.0	-0.1	2.0	-0.7	8.3	-0.8	-0.6	2.7	0.7 3.7
USE BASED									
Basic Goods	45.7	1.0	3.0	2.7	4.1	1.5	2.6	5.5	2.7 6.2
Capital Goods	8.8	-5.8	-4.4	-13.3	7.5	-8.5	-0.9	-16.0	-10.1 -2.9
Intermediate Goods	15.7	0.1	2.7	1.7	9.3	-1.6	-0.1	-1.5	1.5 -0.7
Consumer Goods	29.8	0.7	3.6	0.0	13.7	-0.3	-4.2	10.1	2.6 5.7
Durables	8.5	0.8	1.0	-1.5	16.9	1.3	-8.2	5.1	3.7 5.2
Non-Durables	21.3	0.6	6.0	1.4	10.7	-1.6	-1.4	13.8	1.7 6.1

Source: CSO

Jan CPI Edges Higher to 10.8%

Figure 3. Trends in Headline+core CPI (%YoY)



Source: MOSPI

India's headline combined CPI continued to inch higher, coming in at 10.8% vs the 10.6% reading last month. The uptrend was seen across all components, led by higher food prices, up 13.2% YoY – mainly due to veggies which rose 26%, fuel up 8.5% YoY, clothing up 11% YoY and housing up 10.3% YoY. Given the across-the-board rise in prices, core CPI (Ex Food & Fuel) reversed the flattish trend seen in the last few months, edging marginally higher to 8.2%.

As food has a higher weighting in the rural index, trends in rural inflation (10.9%) continue to outpace urban inflation (10.7%). Latest WPI readings are in the 7% range. As mentioned earlier, the higher weight of food in the CPI vs WPI (Food wts: CPI 49.7%; WPI 20.1%) is the reason for the ~300bp difference in the WPI/CPI.

Figure 4. Trends in the CPI – (%YoY, Combined, Unless Specified)

	Wts	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
1. Food, Beverages and Tobacco	49.7	10.5	10.8	11.6	12.0	11.7	11.4	11.8	13.0	13.2
Rural	59.3	10.1	10.3	11.3	11.7	11.6	11.7	11.9	12.9	13.0
Urban	37.2	11.4	11.6	12.2	12.6	11.7	10.8	11.5	13.0	13.7
Cereals and Products	14.6	4.8	4.9	6.4	8.6	10.3	11.7	12.3	13.6	14.9
Pulses and Products	2.7	7.9	9.4	12.6	16.0	16.2	14.9	14.1	13.5	12.8
Oils and Fats	3.9	18.1	16.6	17.5	18.4	18.5	17.9	17.6	16.7	15.0
Egg, Fish and Meat	2.9	10.6	11.5	11.0	11.6	12.1	12.2	11.2	11.7	13.7
Milk and Milk Product	7.7	13.7	12.7	12.1	11.5	10.6	10.1	9.0	8.2	8.1
Condiments and Spices	1.7	3.0	2.0	1.9	2.8	2.3	2.3	2.4	2.6	3.7
Vegetables	5.4	26.7	27.8	27.2	20.8	14.4	10.7	14.9	25.6	26.1
Fruits	1.9	4.0	6.9	9.2	8.0	5.3	5.0	8.0	10.6	9.6
Sugar etc	1.9	5.4	6.0	9.4	17.5	19.3	19.6	17.0	13.6	13.0
Non-alcoholic Beverages	2.0	9.4	8.9	9.3	9.4	10.0	10.3	10.3	9.8	9.6
Prepared Meals etc	2.8	9.1	8.9	9.0	9.0	8.9	9.1	9.2	9.5	10.0
Pan, Tobacco and Intoxicants	2.1	10.7	10.6	10.8	10.7	10.3	10.4	11.3	11.2	10.8
2. Fuel and Light	9.5	10.7	10.3	7.3	7.5	7.2	7.6	7.4	8.2	8.5
Rural	10.4	9.3	9.1	6.8	7.4	7.1	7.2	6.4	7.6	7.9
Urban	8.4	13.1	12.5	8.0	8.1	7.3	8.1	9.1	9.1	9.5
3. Clothing, Bedding, Footwear	4.7	11.4	11.0	10.9	10.6	10.3	10.4	11.1	10.7	11.0
Rural	5.4	11.0	10.8	10.6	10.4	10.0	10.3	11.4	11.0	11.4
Urban	3.9	11.9	11.6	11.4	11.1	10.9	10.7	10.6	10.3	10.3
4. Housing	9.8	15.7	10.6	10.7	10.8	10.8	10.5	10.4	10.3	10.3
Rural	-	-	-	-	-	-	-	-	-	-
Urban	22.5	15.7	10.6	10.7	10.8	10.8	10.5	10.4	10.3	10.3
5. Miscellaneous	26.3	8.1	8.2	7.5	6.8	6.8	7.0	6.7	6.8	7.0
Rural	24.9	8.3	8.2	7.5	6.6	6.7	6.9	6.6	6.6	6.8
Urban	28.0	7.9	8.2	7.6	7.1	7.0	6.9	7.0	7.1	7.2
Medical Care	5.7	6.7	6.7	6.4	6.4	6.5	6.7	6.1	6.0	6.4
Education	3.4	7.5	6.7	6.9	6.7	6.9	7.1	7.2	7.3	7.3
Recreation and Amusement	1.4	3.9	3.7	3.4	3.3	3.4	3.8	4.7	4.9	5.0
Transport and Communication	7.6	8.2	8.5	6.8	6.3	5.8	5.7	5.7	6.0	6.1
Personal Care and Effects	2.9	7.7	7.4	7.2	7.3	7.3	7.5	7.8	7.6	7.4
Household Requisites	4.3	10.5	11.1	10.6	8.2	8.5	8.7	8.2	8.2	8.2
Others	1.1	12.3	12.3	11.9	11.2	11.0	10.9	11.1	10.9	11.3
Headline	100.0	10.36	9.93	9.86	10.03	9.73	9.75	9.90	10.56	10.79
Rural	-	9.6	9.6	9.8	9.9	9.8	9.9	10.0	10.7	10.9
Urban	-	11.5	10.4	10.1	10.2	9.7	9.5	9.7	10.4	10.7
Core CPI (ex-food, ex-fuel)		10.3	9.1	8.7	8.2	8.2	8.2	8.1	8.1	8.2
Core CPI (ex-food)		10.3	9.3	8.4	8.1	8.0	8.1	8.0	8.2	8.3
Core CPI (ex-fuel)		10.4	10.0	10.3	10.3	10.1	10.0	10.1	10.8	11.0

Source: MOSPI

¹ **Features of the new combined CPI** (1) It is newer – the base year is 2010 (vs. 1986-87 and 2001 for the existing CPI indices). (2) It is broader – coverage includes 1,182 villages for the rural and 310 towns for the urban segment; with more than the 360 items covered by the CPI-IW. (3) It provides a state-wise break-down with different weights for each state. (4) It includes services, such as education, recreation, transport, etc. (5) Provisional data released after 30 days, and final data after two months.

Charting Trends – IIP, Inflation and Growth

Figure 5. Trends in Headline IIP (%YoY, 3mma)

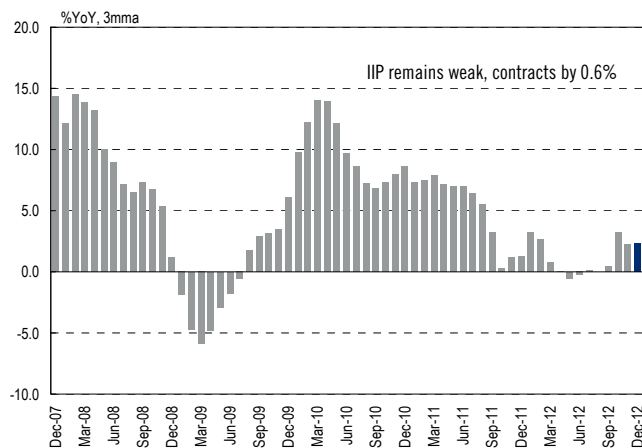


Figure 6. Trends in Capital Goods Production (%YoY, 3mma)

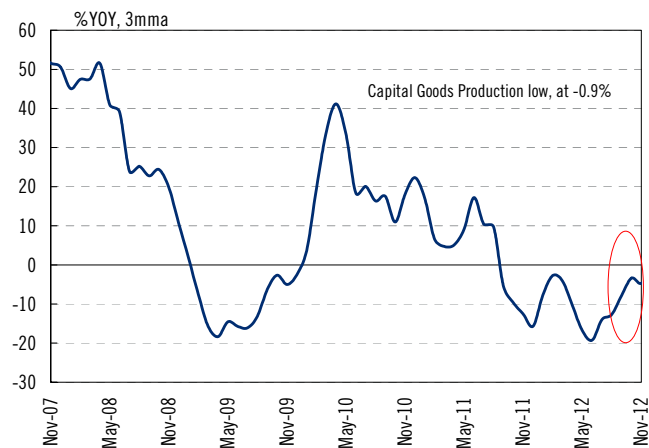


Figure 7. Trends in Consumer Goods Production (%YoY, 3mma)

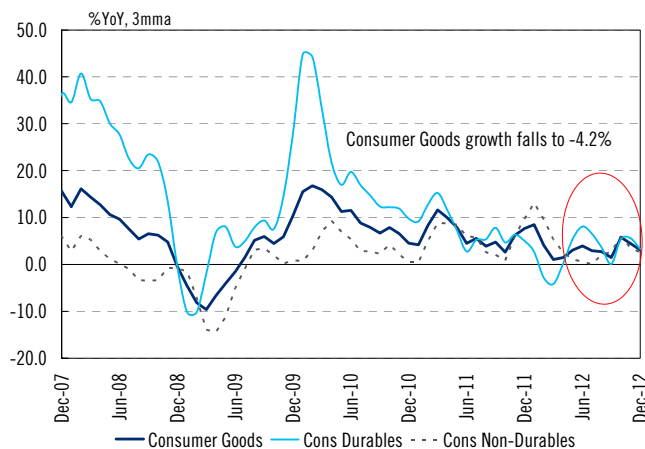


Figure 8. Trends in GDP (%YoY)

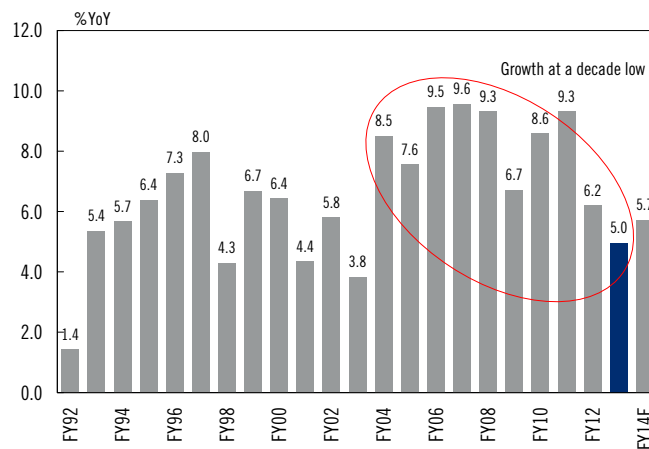


Figure 9. Trends in CPI – Rural, Urban, Headline (%YoY)

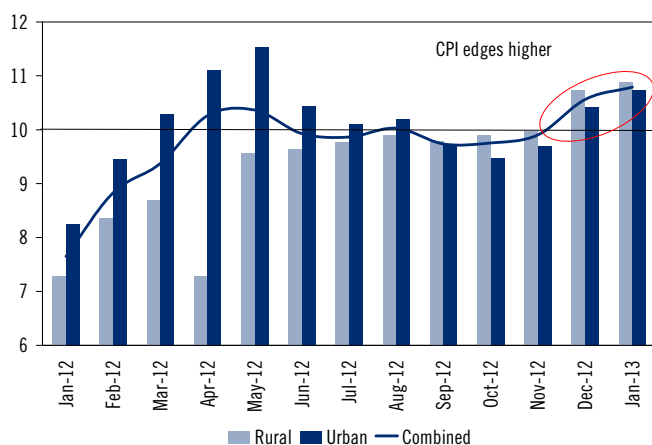
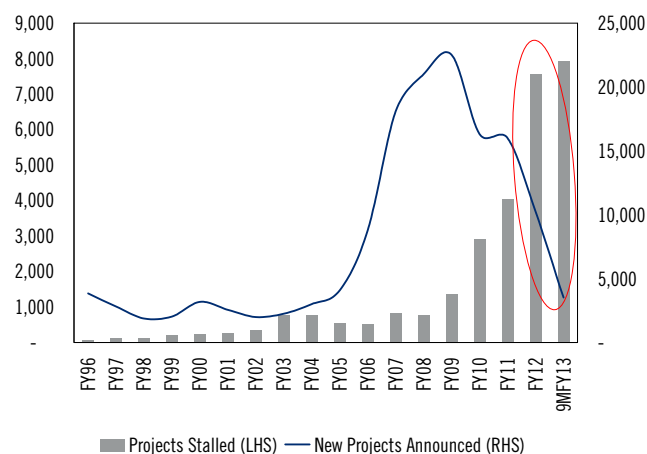


Figure 10. Trends in Projects Stalled and New Intentions (Rs bn)



Source: CSO, RBI, Citi Research; CMIE

Appendix A-1

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