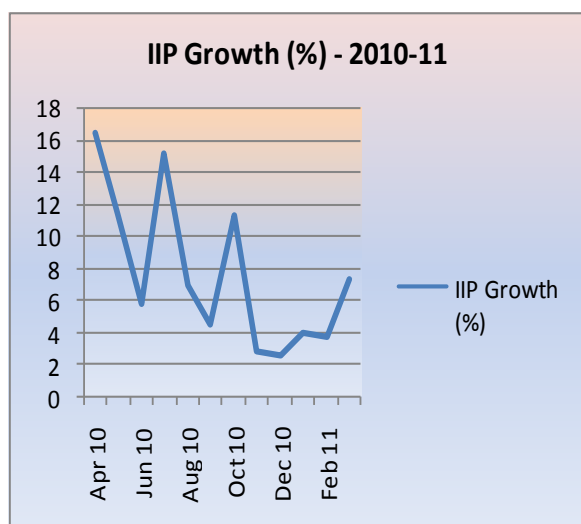


# THE WEEKLY BUZZ

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## IIP GROWTH NUMBERS FOR INDIA



## INDUSTRIAL GROWTH SLOWS TO 7.8% IN 2010-11

A poor show by the manufacturing and mining sectors pulled down the industrial growth rate to 7.8% in 2010-11 from 10.5% in 2009-10. However, the silver lining is the 'vastly improved' performance during March this year with the Index of Industrial Production (IIP) growing at 7.3%, the best since October 2010 and way above the 3.7% notched up in February. It must be kept in mind that this 'vastly improved' performance is only on account of 4 months of pathetic industrial growth. After posting a robust expansion of 11.3% in October last year, industrial growth had slumped for four straight months to below 4% from November onwards, mainly owing to a sharp fall in manufacturing output, which accounts for nearly 80% of the IIP basket. Again, the consensus estimate of IIP growth in March was 4%. Thus, a 7.3% growth seems excellent! A sobering thought is to remember that IIP growth was 15.5% in March 2010.

### But is this growth in industrial production in March sustainable?

Clearly not, as the larger concerns around industrial activity remain. The evidence of this comes from the softening in growth of consumer goods, which softened 7.7% year-on-year against 11% in February. Consumer durables recorded 12% growth, compared to 23% growth in February. Again, although capital goods production increased by 12.9% year-on-year, compared with a decline of 18.2% in February and 18.8% in January, the sharp rise is believed to be because of government spending in March, as government departments tried to meet their targets for the fiscal year.

If the capital goods growth is a flash in the pan and if consumption is slowing (as indicated by the sharp deceleration in month-on-month growth), then this would indicate a moderation in economic activity. Moreover, the latest round of interest rate hike will start to bite in a couple of months' time. The global macro-economic scenario continues to remain grim, with commodity prices ruling at multi-year highs, the European Union on a constant bailout mode, the much-anticipated economic recovery in the US not happening as expected, China slowing down production to combat rising inflation rates, the severe blow to Japan on account of the recent earthquake and tsunami, the continuing political crisis in West Asia and North Africa....

However, the continued strong growth in Indian exports is welcome news. Exports rose 44% in March, taking the full year's total to an all-time high of \$246 billion, up 37.5% over that of 2009-10.

### IIP numbers too volatile

Economists, too, are skeptical about the rise in the growth rate for March 2011. "IIP numbers are too volatile. Good numbers in one month do not indicate a trend. The numbers should be interpreted with caution as the underlying trend shows weakening growth," said CRISIL's Chief Economist, D K Joshi. This has been one of the biggest complaints against the Index of Industrial Production – that it's too volatile to take a meaningful call on projecting industrial growth in India. The chart on monthly IIP growth % for 2010-11 shows just how volatile these numbers are. Another complaint is that the basket of commodities that make up the IIP (currently 283 items) along with their weights do not reflect the reality of present-day industrial activity in the country.

## Reading too much into numbers

The problem with a constant stream of numbers is that one tends to read too much into them and may end up making erroneous conclusions. We are bombarded with numbers for industrial growth month after month. Thus, anyone would assume that the industrial sector drives the Indian economy. Not so. In 2010, the industrial sector accounted for 28.6% of India. The agricultural sector accounted for 16.1% and the services sector ... a massive 55.3%. India is a service-driven economy, not a manufacturing-driven one. Both the agricultural and service sectors are expected to post decent growth in the coming years and that should offset any drop in industrial output.

## ALGORITHMIC TRADING VOLUME IN INDIA TO DOUBLE IN 3 YEARS

Algorithmic trading (algo trading) or automated trading is the use of computer programs for entering trading orders with an algorithm deciding on aspects of the order such as the timing, price, or quantity of the order, or in many cases initiating the order without human intervention.

About 60% of stock trades in the US bourses come from firms that use algo trading. In India, too, this form of trading is rapidly on the rise. Automated programmes carry about 25% of orders at present and is expected to account for half of all trades on the Indian bourses in 3 years time. Faster trading technology has contributed to a surge in turnover of equity derivatives on the NSE. Index options worth \$4.1 trillion traded on the NSE in 2010-11, up 500% from 2008-09 and accounting for 63% of total derivatives traded on the NSE!

Although algo trading substantially improves volumes on the stock exchanges, the flip side is that it also contributes equally substantially to high volatility. Algo trading is widely believed to have been responsible for the 600 point (6%) in less than 5 minutes in the Dow Jones Industrial Average on May 6, 2010. 20 minutes later, the index had recovered 400 points of that loss, leaving investors battered and bewildered.

## PROTECTIONISM RAISES COSTS OF IT COMPANIES

It's not just the US which is raising barriers for the Indian IT industry. Protectionism has reared its ugly head in other developed countries as well, driving up on-site people costs for companies. Revisions in minimum wages and changes in immigration laws in the UK, Switzerland, Canada, UAE and Singapore have led to cost escalation of \$250-450 per person every month. The impact would be felt in FY12 as new laws take effect.

The UK introduced new immigration fees last month. Only those who earn £40,000 or more will be able to stay in the country for more than a year under the Intra-Company Transfer route; earlier, there was no such minimum wage. Effective July, Singapore is raising thresholds for three categories of "employment passes" -Q1, P1 and P2. The salary threshold for Q1 are being hiked from S\$2,500 to S\$2,800; that of P2 passes from S\$3,500 to S\$4,000 and for P1 passes, the new thresh-hold is up from S\$7,000 to S\$8,000.

Switzerland has now suggested salaries based on age, experience and location while Canada requires IT employers to apply for a 'Labour Market Opinion' (LMO) when hiring foreign workers - a system that assesses the impact of a foreign worker on Canadian jobs. While applying for the work permit, the wage rate for all skill levels must be consistent with the wages being paid to Canadians working in the same occupation and geographical area. A work permit can be submitted for processing only on receiving a positive LMO.

## NO TAX DEDUCTIONS FOR ELSS UNDER DIRECT TAX CODE

Under the Direct Tax Code (DTC) regime, no deductions will be available for investments into equity linked savings schemes (ELSS). In fact, once DTC comes into effect, all ELSS will turn into diversified equity funds. A big attraction for ELSS, besides the tax deduction available, was the fact that it was the only investment option that allowed interim cash flow during lock-in periods under the 1961 Income Tax Act. Investors could opt for the dividend option thereby ensuring that they received regular dividends during the duration of the investment.

The important point to be noted here is that according to the revised 2011 Direct Tax Code, only ELSS initiated after April 1, 2012 will not be exempted from tax deductions. ELSS currently in existence and investments made into such funds will continue to attract tax benefits. Therefore, it would be wise to avail this offer while it is still available.

### Did You Know?

The Federal Reserve Bank of New York (where the monetary policy in the United States is implemented) is the largest gold repository in the world, holding approximately 7,000 metric tons of gold bullion worth \$335 billion as of April 2011. The gold is owned by many foreign nations, central banks and international organizations. The Federal Reserve Bank does not own the gold but serves as guardian of the precious metal, which it protects at no charge as a gesture of goodwill to other nations. Incidentally, the official gold reserves of the US is held at the United States Bullion Depository, popularly known as Fort Knox.

## Weekly Spotlight

	May 12/13	May 20	% chg	
Sensex	18,531.28	18,326.09	↓	(1.11)
Nifty	5,544.75	5,486.35	↓	(1.05)
US	12,695.92	12,512.04	↓	(1.45)
China	2,871.03	2,858.38	↓	(0.44)
Japan	9,648.77	9,607.08	↓	(0.43)
Hong Kong	23,276.27	23,199.39	↓	(0.33)
Germany	7,443.95	7,256.48	↓	(2.52)
UK	5,944.96	5,947.71	↑	0.05
Brazil	64,003.16	62,596.52	↓	(2.20)
NYMEX Crude (\$ per barrel)	99.00	100.10	↑	1.11
Gold (\$ per oz)	1,489.50	1,490.75	↑	0.08
Weekly DII Inflow (Rs.cr)	406.64	(20.42)		
Weekly FII Inflow (\$ mn)	53.24	(1,133.99)		
Cumulative DII Inflow - YTD (Rs.cr)	13,890.00	13,869.58		
Cumulative FII Inflow - YTD (\$ mn)	530.83	(603.16)		
Food Inflation (%)	7.70	7.47		

Contentment makes poor men rich; discontent makes rich men poor.  
-Benjamin Franklin .

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