STATSGURU

India's economic indicators suggest a mixed picture

WHILE HEADLINE gross domestic product numbers suggest a recovery is underway, other macroeconomic indicators paint a mixed picture. As shown in Table 1, the Index of Industrial Production (IIP) grew by only 1.2 per cent in May, dragged down by the manufacturing sector. Over the April to May period, IIP has, in fact, contracted by 0.1 per cent.

Within IIP, the capital goods sub-index has contracted for seven continuous months, suggesting investment demand continues to be weak. And, while the consumer durables segment has witnessed healthy growth, the contraction in the non-durables segment, as seen in Table 2, is worrying. It suggests that household demand is weakening.

Bank credit to industry has barely grown in the past few months, as shown in Table 3. This signals weak investment appetite. On the flip side, retail loans are up, reflected in the growth numbers seen in the consumer durables segment.

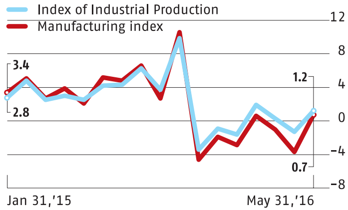
On the other hand, core sector data show signs of improvement, as shown in Table 4. Both cement and coal production are up. The former indicates road construction is gathering steam. Production of finished steel is also up, largely aided by imposition of a minimum import price (MIP) by the government, to protect the domestic steel industry from the onslaught of low-cost Chinese import.

The June quarter results are also promising. Companies' top line grew by 4.5 per cent, up from four per cent in the fourth quarter of FY16. It had contracted in the previous four quarters. Excluding heavyweight Reliance, growth is even more impressive, as shown in Table 5. But, with volume growth still under pressure, much of this improvement in top line growth is driven by increases in prices.

Expectations are that earnings will rev up. As shown in Table 6, Kotak Institutional Equities expects earnings to grow 14.7 per cent in 2016-17, up from 0.5 per cent in the previous year. But, this expectation is largely based on normalisation of profits in a few sectors such as banking (PSU), cement, metals and industrials, and not the entire Nifty index. Infrastructure is expected to continue to underperform. This suggests a broad-based recovery will take time.

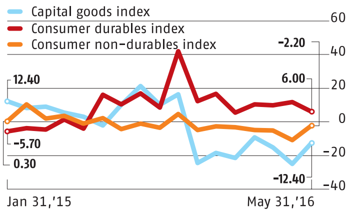
—ISHAN BAKSHI

1: LACKLUSTRE MANUFACTURING GROWTH DRAGS DOWN IIP



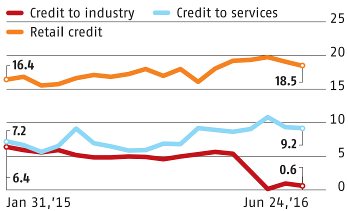
Source: Bloomberg

2: INVESTMENT DEMAND CONTINUES TO CONTRACT, CONSUMPTION ALSO SHOWING WEAKNESS

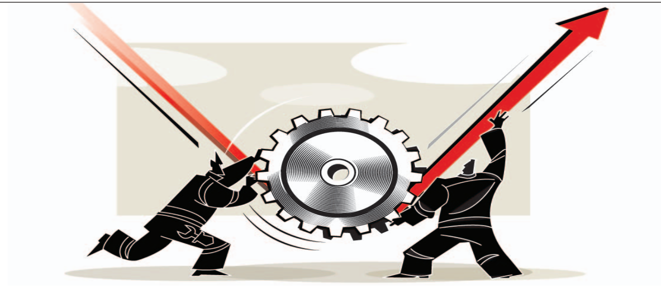


Source: Bloomberg

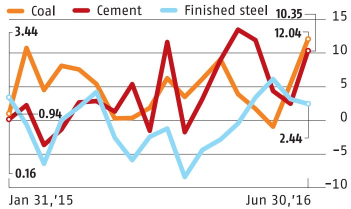
3: BANK CREDIT TO INDUSTRY SHOWS NO UPTICK BUT RETAIL CREDIT IS UP



Source: RBI & Bloomberg

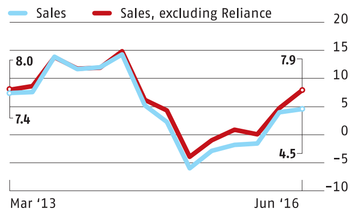


4: BUT, IMPROVEMENT SEEN IN CORE SECTOR DATA



Source: Bloomberg

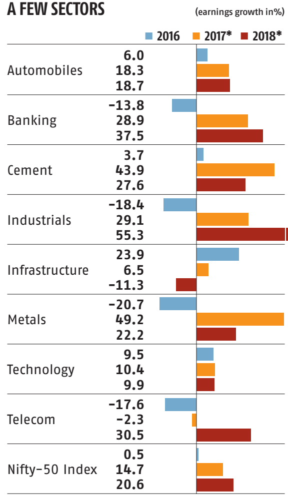
5: COMPANIES' TOP LINE GROWTH HAS PERKED UP; EXCLUDING RELIANCE, IT IS EVEN BETTER



Note: Sample for BSE500 companies for quarter-ended June 2016 is 200 companies which have declared their June results

Source: Capitaline

6: BUT, HIGHER EARNINGS GROWTH FORECASTS ARE LARGELY BASED ON A FEW SECTORS



*earnings forecasts

Source: Kotak Institutional Equities

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau