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Industrial output got a data boost

India's new Reserve Bank of India (RBI) governor seems to have had a positive rub-off effect, not just on the market sentiment but also on the economic datareleased, since he took charge.

While India entering into forex swap deal was a masterstroke that ensured stability in the currency market, the recently released trade data gave much room for optimism. And now the Index of Industrial Production (IIP) data, which pleasantly surprised on the upside.

Confounding the various consensus estimates (all of which, not surprisingly, predicted a contraction), the July industrial production jumped 2.63 per cent, after having contracted for two straight months earlier.

What is even more encouraging for the optimists is that it was led by a massive jump in capital goods production, which grew by 15.6 per cent, the highest growth rate recorded since June 2011, when capital goods production jumped 38.7 per cent.

Unfortunately, however, the optimist camp might have celebrated a bit too early. As is the won't with the IIP numbers, especially with regard to capital goods production, there's a data issue that seems to have given the unlikely positive spin to the story. While investments are yet to show signs of picking up, the sharp rise in capital goods production is suspect. Moreover, had this been an across the board phenomenon, things would still have been comforting. Unfortunately, it is not so, as is revealed by a closer scrutiny.

Manufacturing has a weight of 75.527 per cent in IIP, of which capital goods has a weight of 8.825 per cent.

Within this, there's a component, electrical machinery and apparatus, which has a weight of a mere 1.98 per cent.

Interestingly, according to the IIP data, the index number of this component rose from 312.5 in July 2012 to 573.9 in July 2013 - an increase in production of 83.6

per cent annual rate or an increase of 261.4 index points.

As a result, even with a weight of less than two per cent in IIP, it's contribution to the IIP index was 5.176 points. Interestingly, the IIP index itself increased by 4.4 points only, out of which manufacturing index contributed 4 points.

Essentially, what it means is that, without this unusual boost, manufacturing and hence the IIP for the month would have contracted, rather than surprising us on the upside.

This can only mean two things. Either the August 2013 IIP will come in sharply lower or the July data will be revised sharply downward.

Given the unusual volatility of this data, it is good that Central Statistics Office decided to publish it after market hours and thereby prevented unusual exuberance in the market which would inevitably have been followed by a more sobering performance as reality would have sunk.

However, one positive aspect of the data is that non-durable consumer goods continue to record robust growth, which indicates that rural demand is still holding up, though urban demand, essentially leveraged demand continues to bite, as consumer durable production shrank for the eighth straight month.

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