

Economics

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India Macro Flash

July Industrial Production Rises 13.8% YoY - Way Above Expectations; Capital Goods the Outlier, Up 63% YoY

- July industrial production up 13.8%** — July industrial production rose 13.8%, higher than our and consensus estimates (Citi 7.0%; Consensus 7.5%). Similar to last month, where incidentally the numbers were revised down from 7.1% to 5.8%, we were expecting single-digit growth in July due to the fading of the base effect. *(A quick re-cap, industrial growth which had averaged 0.9% during Oct08-May09 picked up in Jun09 with growth during Jun09-Mar10 averaging 12.1%).* The outlier in this month's number is capital goods, which rose 63% YoY v/s -0.3 last month. This is corroborated by trends seen in machinery and equipment up 49.4%, other equipment up 31.1% and transport equipment and parts up 24.9%. (pls see pages 2 and 4 for details).
- Capital goods: The outlier up 63%, consumer goods appears in line** — On a sectoral basis growth was led by mining (9.7%), manufacturing (15%) and electricity (3.7%). As regards the use-based classification, besides capital goods which were up 63%, trends in other segments were in line with past trends. Consumer goods rose 8.5% led by continued buoyancy in durables up 22.1% while non-durables remained weak rising 0.5%. Growth in Intermediate goods remained healthy, up 9.1%, while basic goods were up 5.1%.
- Implications - Maintain growth and rate estimates** — While we could see a revision to the headline July numbers (on a MoM seasonally adjusted basis, growth was up 6.1% v/s 0.4% in the previous month), we are maintaining our 8.4% GDP estimate for FY11 led by 5% growth in agriculture and 9% in industry and services. On rates, taking into account trends in non-food credit, non-oil imports, inflation and growth, we expect the RBI to hike in its review on Sept 16 and maintain our view of a further 50bps of tightening in 2010. This would take the repo and reverse-repo rate to 6.25% and 5% by Dec 2010.

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Figure 1. Trends in Industrial Production (% YoY)

Sectoral	Wts	Monthly					Apr-Jul		
		Mar-10	Apr-10	May10	Jun-10	Jul-10	Jul-09	FY11	FY10
Mining	10.5	11.9	12.0	10.1	8.5	9.7	8.7	10.0	7.2
Manufacturing	79.3	15.3	16.4	12.0	5.8	15.0	7.4	12.2	4.4
Electricity	10.2	-2.4	6.9	6.4	3.5	3.7	4.2	5.2	5.4
General	100.0	14.5	15.2	11.3	5.8	13.8	7.2	11.5	4.7
Use-based									
Basic goods	35.5	10.8	9.1	8.2	3.1	5.1	4.7	6.4	5.9
Capital goods	9.7	30.8	55.0	34.2	-0.3	63.0	1.7	35.6	1.9
Intermediate goods	26.4	13.4	10.8	10.1	8.9	9.1	9.8	9.7	8.0
Consumer goods	28.4	11.0	12.3	7.4	8.5	6.7	9.7	8.7	1.9
Durables	5.1	32.8	32.7	23.7	27.8	22.1	22.1	26.4	17.3
Non-durables	23.3	3.7	5.2	1.4	1.5	0.5	5.3	2.1	-2.8

Source: CSO

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

Data Highlights

Following the 5.8% growth in June, manufacturing activity rose 15% in July. On a cumulative basis growth during April-July came in at 12.2% v/s 4.4% in the same period last year.

The sectoral breakdown indicates 12 of 17 industries posted positive growth in July. The sectors that had the highest growth were machinery and equipment up 49.4%, other equipment up 31.1%, transport equipment up 24.9%, rubber and coal products up 19.4%, jute and vegetable fibres up 19.3% and metal products up 14.8%.

Sectors in the red included wood products (-9.4%), leather products (-1.8%), beverages and tobacco (-2.1%YoY) and textile products (-0.7%)

Figure 2. Industrial Production – Detailed Breakdown

SECTORAL	Wts	Monthly					Apr-July	
		Apr-10	May-10	Jun-10	Jul-10	Jul-09	FY11	FY10
Manufacturing	79.4	16.4	12.0	5.8	15.0	7.4	12.2	4.4
Food Products	9.1	23.9	7.4	7.9	9.1	-0.1	12.4	-13.6
Beverages, Tobacco & Related	2.4	-2.1	-7.6	-2.2	-2.1	3.7	-3.9	-3.9
Cotton Textiles	5.5	4.2	7.0	6.7	12.1	0.5	8.1	-1.1
Wool, Silk, Man-made fibres	2.3	-5.2	0.9	0.1	1.2	34.0	-0.1	11.1
Jute, Vegetable, and Fibre Textiles	0.6	1.3	26.6	30.0	19.3	-28.1	17.6	-19.4
Manf of Textile Prod	2.5	-6.0	1.3	5.6	-0.7	5.9	1.5	7.6
Wood, Wood Products	2.7	-14.4	-5.7	-7.0	-9.4	1.7	-9.2	11.2
Paper, Prod, Printing, Pub.	2.7	11.4	6.4	3.0	7.3	1.7	6.7	3.1
Leather and Leather Products	1.1	4.3	12.4	-9.9	-1.8	14.9	0.1	1.2
Basic Chemicals ,Chemical Products	14.0	8.9	7.6	3.8	2.5	6.9	5.6	3.2
Rubber, Plastic, Petro, Coal Products	5.7	19.5	15.6	12.6	19.4	12.5	16.7	11.1
Non-Metallic Mineral Products	4.4	2.6	5.6	3.0	0.0	6.5	3.0	7.8
Basic Metal and Alloy Industries	7.5	10.9	9.4	-0.5	4.6	3.7	5.9	6.7
Metal Products and Parts	2.8	31.6	39.3	62.1	14.8	12.6	35.8	-0.4
Machinery and Equipment	9.6	54.4	24.7	9.5	49.4	12.0	28.8	8.4
Transport Equipment and Parts	4.0	33.2	25.2	24.6	24.9	10.9	26.3	7.9
Other	2.6	32.7	27.6	11.8	31.1	-0.7	25.0	10.4
Mining	10.5	12.0	10.1	8.5	9.7	8.7	10.0	7.2
Electricity	10.2	6.9	6.4	3.5	3.7	4.2	5.2	5.45
USE BASED								
Basic goods	35.5	9.1	8.2	3.1	5.1	4.7	6.4	5.9
Capital goods	9.7	55.0	34.2	-0.3	63.0	1.7	35.6	1.9
Intermediate Goods	26.4	10.8	10.1	8.9	9.1	9.8	9.7	8.0
Consumer Goods	28.4	12.3	7.4	8.5	6.7	9.7	8.7	1.9
Durables	5.1	32.7	23.7	27.8	22.1	22.1	26.4	17.3
Non-durables	23.3	5.2	1.4	1.5	0.5	5.3	2.1	-2.8
General	100.0	15.2	11.3	5.8	13.8	7.2	11.5	4.7

Source: CSO

Charting Trends in Industrial Production

Figure 3. Monthly Trends in Industrial Production (%YoY)

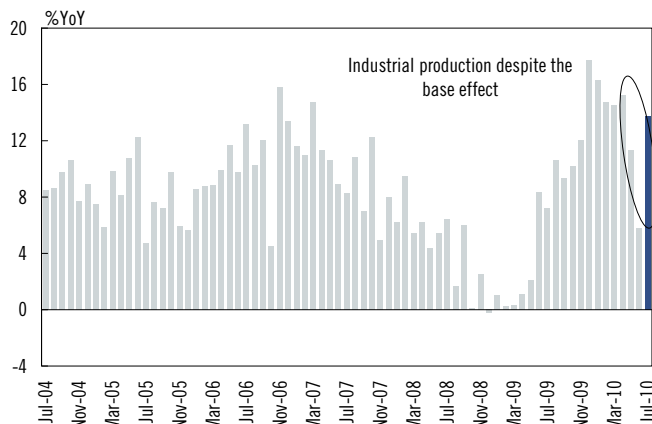


Figure 4. Trends in Manufacturing (%YoY)

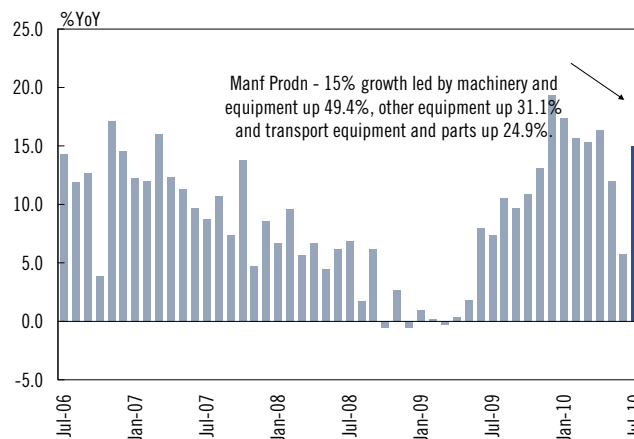


Figure 5. Trends in Mining and Electricity (%YoY, 3mma)

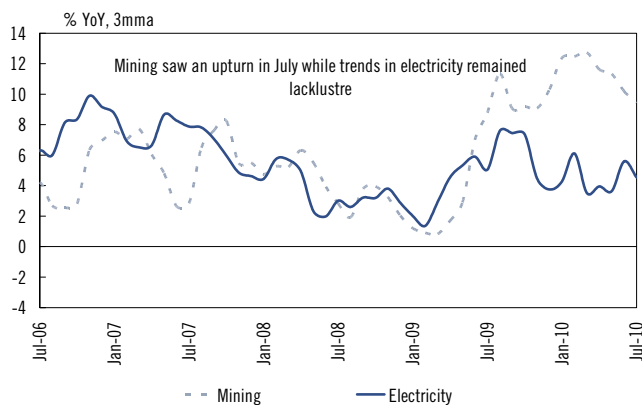


Figure 6. Trends in Basic and Intermediate Goods (%YoY, 3mma)

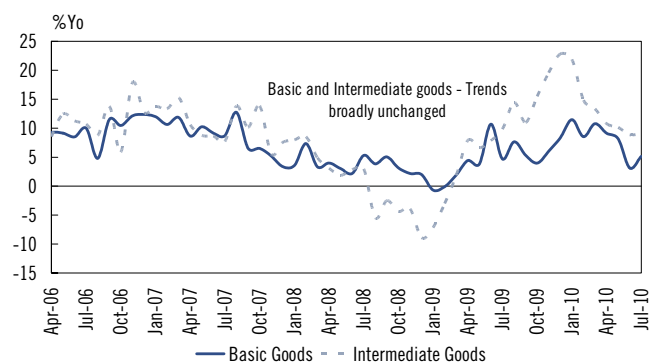


Figure 7. Trends in Capital Goods (%)

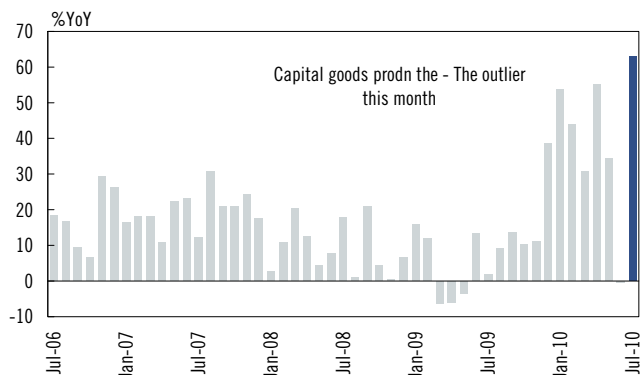
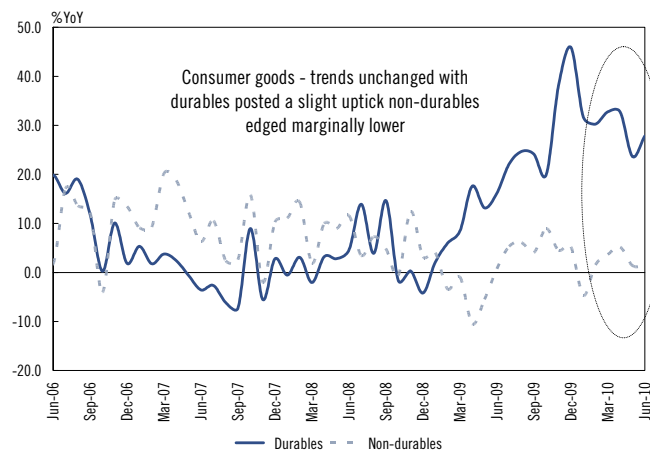


Figure 8. Trends in Consumer Goods (%YoY)



Source: CSO for all charts

Appendix: Components of Use-Based Classification

Figure 9. Use-Based Classification — Top 15 Components by Weight

Component	Wt(%)	Component	Wt(%)
1. Basic Goods	35.6	4. Capital Goods	9.3
Mineral index	10.5	Diesel engines (IPP)	0.8
Electricity	10.2	Well/off shore platforms	0.7
Cement all kinds	2.0	Industrial machinery	0.5
Nitrogenous fertilizers	1.8	Complete tractors	0.5
Bars and rods	1.8	Laboratory and scientific instruments	0.4
Carbon steel	1.1	Protection system/switch board/switch gear etc.	0.4
Structurals (light, medium & heavy)	1.0	Computer system and its peripherals	0.4
High speed diesel	0.7	Process control instruments	0.3
Caustic soda	0.5	Ship building and repair	0.3
Soda ash	0.4	Agricultural implements	0.3
Aluminium ingots	0.4	Power & dist. transformers (IPP)	0.3
Pig iron	0.3	Broad gauge passenger carriage	0.3
Phosphatic fertilizers	0.3	Textile machinery	0.3
Sponge iron	0.2	Telecommunication cables	0.3
Plates	0.2	Insulated cables/wires all kinds	0.2
2. Intermediate Goods	26.5	5. Consumer Durables	5.4
Cotton yarn (including SSI)	4.5	Telephone instruments	0.6
Filament yarn	1.8	Scooter and mopeds	0.6
Plywood commercial	1.7	T.V. receivers	0.5
PVC pipes & tubes	1.5	Passenger cars	0.4
Particle board	1	Giant tyres	0.4
Glazed tiles/ceramic tiles	0.9	Wrist watches	0.4
Auto ancillary & parts	0.7	Motor cycles	0.4
Polyester fibre	0.7	Bicycles all kinds	0.4
Shoe uppers	0.6	Alarm time pieces	0.3
Paints, enamels & varnishes (IPP)	0.5	Electric fans all kinds (IPP)	0.2
Viscose staple fibre	0.5	Washing/ laundry machines etc.	0.2
Corrugated boxes/cartons (all kinds)	0.5	Metallic utensils excl. pressure cooker	0.2
Ball & roller bearings	0.5	Refrigerators (domestic)	0.1
Newsprint bleached	0.5	A.C.single phase house service meters	0.1
Bottles/bottle glass wares	0.4	Two wheeler tyres	0.1
3. Consumer Non-Durables	23.3		
Cotton hosiery cloth	2.5		
Sugar	2.2		
Wheat flour/maida	2.1		
Paper & paper board (IPP)	1.4		
100% Non-cotton cloth	1.2		
Vitamin a	1.1		
Milk powder of all kinds	1		
Cotton cloth (excluding hosiery)	1		
Cigarettes	0.8		
Tea	0.8		
Vitamin c	0.6		
Ampicillin	0.6		
Mustard oil / rape seed oil	0.5		
Indian made foreign liquor	0.5		
Writing instruments	0.4		
		TOTAL USE BASED INDEX (1:5)	100

Source: CSO, CIRA

Appendix A-1

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