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India Economics

Oct Industrial Production much below estimates: Slows to 6.2%

Industrial Production Growth — Forecasts and Actual (Percent)

Event	Actual	Citigroup Forecast	Consensus	Previous Data (Sep)	Previous Data (Aug)
Oct Industrial Production	6.2	9.7	9.6	11.4	9.9

Source: CSO, Bloomberg, and Citigroup

- Oct Industrial Production – way below estimates:** Industrial production in Oct rose 6.2%, lower than ours and consensus estimates, as well as the 11.4% growth seen last month and the 9.8% growth in Oct05. While growth in mining and electricity was in line with recent trends at 4% and 9.7% respectively, manufacturing slowed to 6.0% as compared to double-digit growth seen during the last seven months. We believe this is an aberration and are thus maintaining our macro forecasts which include one more rate hike this fiscal year.
- Key culprit - Slowdown in consumer goods:** Though growth was expected to moderate a bit in 2HFY07 due to the base effect, the October numbers are a surprise. An analysis of the data indicates that the slow-down was primarily due to consumer goods (0.5%) both durables (2.4%) and non-durables (-0.4%). While inventory build-up in Sept due to the festive demand in October could partially explain the slow-down in durables, the contraction in non-durables remains puzzling given that discussions with major FMCG companies suggest that growth remained buoyant in October.
- Other Highlights include:** (1) Continuation of reasonably buoyant trends in basic (9.9%), capital (8.2%) and inter-mediate goods (8.1%) (2) Strong growth in basic metals (20.8%), metal products (25.6%) beverages and tobacco (11.5%) and textiles (10.8%) (3) Contraction in food products (-9.7%), leather (-8.3%) and other manufacturing industries (-17.2%). (see page 2 and 4 for details)
- Maintain our FY07 macro forecasts:** While the recent GDP numbers (1HFY07 = 9.1%) pose marginal upside risks to our full year 8.3% estimate (led by 3% in agri, 9.2% in industry and 9.3% in services) we are maintaining our estimates till clarity emerges on the impact of El-Nino conditions on agriculture. Key risks to the near term outlook remain unchanged - much further monetary tightening which could result in rates rising over 100bps.

Trends in Industrial Production (% YoY)

	WTS	May-06	Jun-06	Jul-06	Aug-06	Sept-06	Oct-06	Apr-Oct FY07	Apr-Oct FY06
KEY DATA REVISIONS									
<i>Jul Prodn revised from 12.7% to 13.2%</i>									
<i>Capital Goods Prodn for Jul revised from 16.1% to 18.3%; and for Sept from 2.2% to 6%</i>									
<i>July Consumer Durables prodn revised by 18.6% to 16.1%</i>									
Sectoral Classification									
Mining	10.5	2.9	4.7	5.1	-1.2	4.3	4.0	3.4	0.9
Manufacturing	79.3	13.3	10.7	14.3	11.4	12.0	6.0	11.2	9.7
Electricity	10.2	5.0	4.9	8.9	4.1	11.5	9.7	7.1	5.2
General	100	11.7	9.7	13.2	9.9	11.4	6.2	10.3	8.6
Use-based Classification									
Basic goods	35.5	9.1	8.5	10.0	4.8	11.5	9.9	9.0	6.3
Capital goods	9.7	21.4	21.6	18.3	13.9	6.0	8.2	15.0	16.9
Intermediate gds	26.4	12.5	11.2	10.7	8.4	13.4	8.1	10.4	3.0
Consumer gds	28.4	10.5	6.1	16.8	15.0	12.0	0.5	9.8	13.5
Durables	5.1	17.5	19.9	16.1	19.7	11.8	2.4	13.2	13.9
Non-durables	23.3	8.2	1.8	17.1	13.2	12.1	-0.4	8.5	13.5

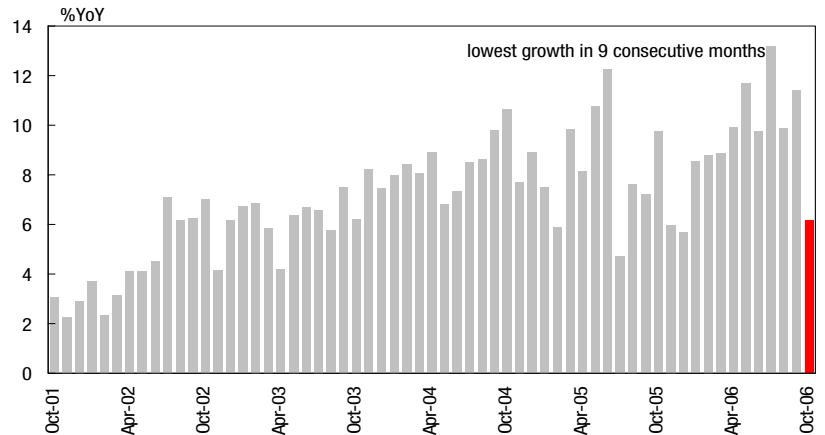
Source: CSO

Charting Trends in Industrial Production

Industrial Production Decelerates Sharply in October

- Industrial production in October slowed to 6.2%, down from 11.4% in prior month and 9.8% growth in Oct 05. On a cumulative basis, growth during April-Oct was 10.3% v/s 8.6% last year.
- Slow growth was a surprise and much lower than ours as well as consensus expectations. The key reasons behind the slow-down were lower manufacturing growth largely attributed to a sharp deceleration in consumer goods.

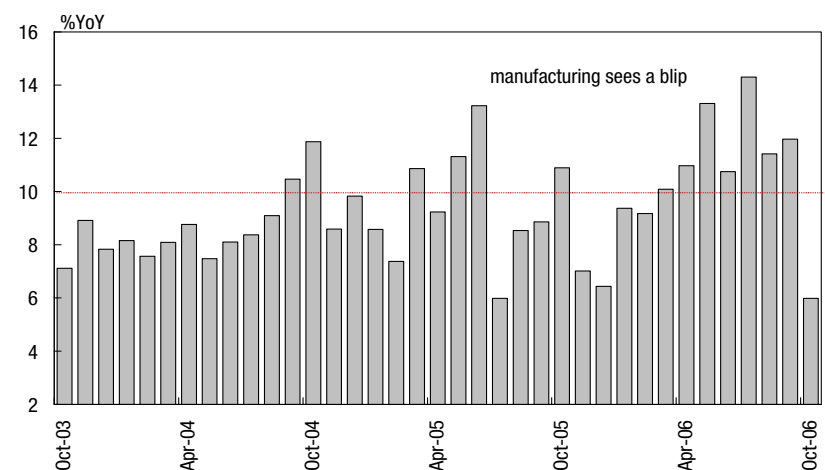
Trends in Industrial Production (%YoY)



Manufacturing records lowest growth seen since July 05

- Manufacturing growth in October slowed to 6% as compared to double-digit growth seen in the last seven months.
- While strong growth was recorded in basic metals (20.8%), metal products (25.6%) beverages and tobacco (11.5%) and cotton textiles (10.8%)
- Key items that saw a contraction include food products i.e biscuits, sugar, tea, coffee, wheat flour (-9.7%), leather (-8.3%) and other manufacturing industries i.e medical/surgical instruments, wrist watches, lab instruments (-17.2%).

Trends in Manufacturing (%YoY, 3mma)



Sectoral Trends Still Buoyant

- Although trends indicated a moderate slowdown in October as compared to earlier months, long-term CV and car sales should remain supported by the on-going investment cycle
- Rising construction spend coupled with the focus on infrastructure development and high capacity utilization levels should continue to drive cement sales.

Sectoral Trends (%YoY)

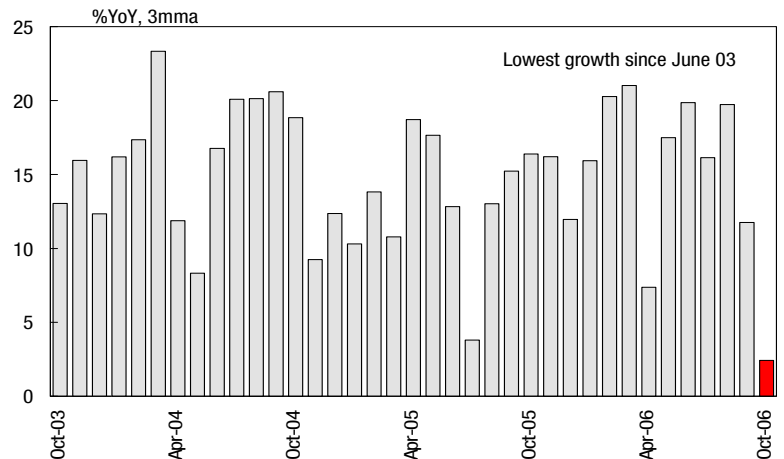
	May-06	Jun-06	Jul-06	Aug-06	Sept-06	Oct-06	Apr-Oct05	Apr-Oct06
CV sales	41.2	30.9	38.6	28.9	33.1	22.6	11.7	38.9
Two-wheelers sales	20.4	23.6	19.7	3.5	19.1	10.3	18.3	15.6
Car Sales	25.8	25.4	20.5	13.9	19.8	15.9	6.8	20.2
Cement Dispatches	7.6	12.1	15.4	2.1	17.0	9.0	10.1	10.7
Diesel consumption	15.1	-2.9	3.9	-1.2	15.0	3.5	-0.6	6.3
Infrastructure index	6.0	6.4	9.0	5.8	9.9		5.9	7.3
Overall IP	11.7	9.7	13.2	9.9	11.4	6.2	10.3	8.6

Source: NCAER, CSO, Citigroup, SIAM, Oil and Gas Monitor

Consumer Durables – Lowest since June 03

- Consumer durables reported growth of just 2.4% in October as compared with 12% in prior month. This is the lowest since June 03, and could possibly be due to an inventory build-up in September given the anticipation of festival demand during October.
- Key components of consumer durables include two-wheelers, bicycles, passenger cars, tyres, television sets

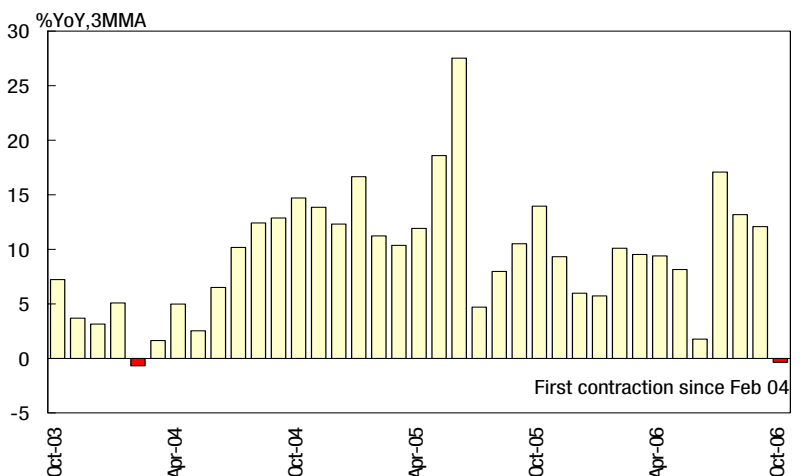
Trends in Consumer Durables (% YoY, 3mma)



Consumer Non-Durables – First contraction since Feb 04

- Key components of consumer non-durables include tea, sugar, wheat flour, cigarettes, leather goods, soaps, detergents, biscuits, soft-drinks, coconut/ground-nut oil and hair oil
- The contraction in non-durables is a surprise. Our conversations with major consumer non-durable companies seem to suggest that growth is still buoyant.

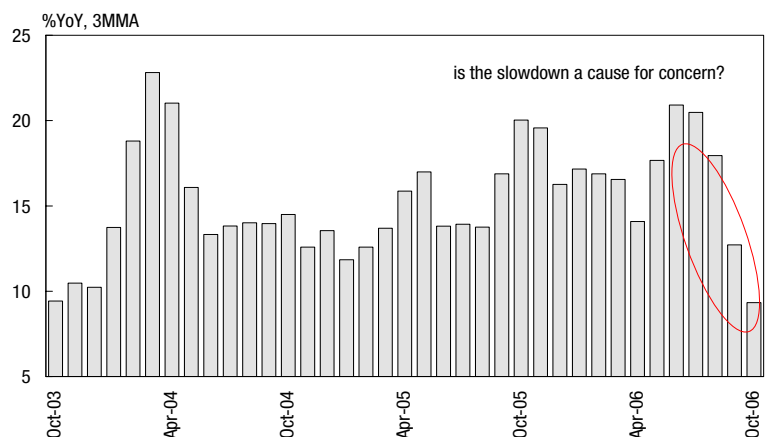
Trends in Consumer Non-Durables (%YoY, 3mma)



Capital Goods: Single Digit Growth continues in October

- Following 19 months of double-digit growth in capital goods, production slowed to 6% in September. This trend continued in October as well with growth coming in at 8.2%.
- What is important to note is that capital goods data has seen revisions in the past - for instance, September production was revised from 2.2% to 6%yoy.
- We believe strong order backlogs, an uptrend in construction, and a focus on infrastructure development and SEZs should continue to drive capital goods production

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



Source: CSO

Appendix: Manufacturing Classification- Detailed Breakdown

Break-up of Manufacturing (% YoY)

	Wts	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Apr-Oct06	Apr-Oct07
Manufacturing	79.4	13.3	10.7	14.3	11.4	12.0	6.0	9.7	11.2
Food Products	9.1	-5.3	-2.4	27.1	2.0	10.0	-9.7	0.1	-5.8
Beverages, Tobacco & Related	2.4	11.8	10.7	11.8	16.4	19.8	11.5	13.9	18.1
Cotton Textiles	5.5	2.3	0.0	13.1	12.2	14.5	10.8	12.4	11.4
Wool, Silk, Manmade fibres	2.3	11.0	-6.2	0.0	4.6	8.3	0.0	5.3	-1.1
Jute, Vegetable, and Fibre Textiles	0.6	2.5	3.6	-5.1	4.9	-0.1	-1.0	-0.4	2.4
Manf of Textile Prod	2.5	7.5	14.1	29.3	11.2	5.6	9.3	14.1	22.5
Wood, Wood Products	2.7	-24.9	-24.2	3.0	-14.6	19.6	10.6	1.5	-3.4
Paper, Prod, Printing, Pub.	2.7	16.6	9.9	7.1	-2.5	8.4	7.2	7.9	6.6
Leather and Leather Products	1.1	-1.2	-5.5	-6.8	-2.6	0.3	-8.3	-5.5	2.6
Basic Chemicals, Chemical Products	14.0	14.6	4.0	9.6	10.4	13.0	1.9	9.3	12.7
Rubber, Plastic, Petroleum, Coal Products	5.7	11.5	10.1	9.5	12.9	15.3	8.2	10.3	3.0
Non-Metallic Mineral Products	4.4	9.9	18.7	12.8	6.5	16.7	12.5	13.3	8.6
Basic Metal and Alloy Industries	7.5	21.2	19.8	19.7	13.6	19.8	20.8	19.5	15.9
Metal Products and Parts	2.8	-10.8	6.8	4.4	8.1	9.6	25.6	7.8	-3.1
Machinery and Equipment	9.6	16.1	16.5	14.2	21.8	11.6	6.4	14.1	10.9
Transport Equipment and Parts	4.0	27.0	20.5	22.3	11.0	11.9	5.4	15.6	12.8
Other	2.6	37.4	24.5	22.0	7.3	-10.9	-17.2	9.3	23.6
Mining	10.5	2.9	4.7	5.1	-1.2	4.3	4.0	0.9	3.3
Electricity	10.2	5.0	4.9	8.9	4.1	11.5	9.7	5.3	7.2
General	100	11.7	9.7	13.2	9.9	11.4	6.2	8.6	10.3

Source: CSO

Disclosure Appendix

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