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## India Economics

### April industrial production surprises on the upside – up 13.6%

#### Industrial Production Growth — Forecasts and Actual (Percent)

Event	Actual	Citigroup Forecast	Consensus	Previous Data (Mar)*	Previous Data (Feb)
Apr Industrial Production	13.6	10.0	11.0	14.5	10.8

Source: CSO, Bloomberg, and Citigroup\* March Industrial production revised up from 12.9% to 14.5%

- **April industrial production up 13.6%:** Industrial production in April 07 rose 13.6% beating expectations and higher than the 9.9% growth seen in April 06. Growth was led by manufacturing up 15.1%, electricity up 8.7% and mining up 3.4%. The numbers are positive but a bit surprising given that higher rates appear to have taken a toll on interest-sensitive sectors such as autos and retail lending. We maintain our macro forecasts of a 9.3% GDP estimate and the possibility of one more rate hike later this year.
- **Data points to mull over:** While trends in the use based classification are in line with past trends with capital and consumer goods up 17.7% and basic and intermediate goods up 8.9% and 12.6%, what remains a mystery is growth in wood products sustaining in the 80%-125% range for the last four months. Food products also registered a more than disproportionate growth coming in at 55%.
- **Maintaining our 9.3% GDP estimate for FY08:** We are maintaining our 9.3% GDP estimate for FY08 led by agriculture (+3%), industry (+10%) and services (+11%). Our numbers have incorporated a deceleration in industrial growth from 11% in FY07 to 10% in FY08 due to higher rates. The growth story remains unchanged - the continuation of the key growth drivers, an uptrend in savings and investment and productivity gains. *(If monsoons fail and agri growth is flat, overall GDP will likely come in at 8.7%. see pg 4)*
- **Interest Rate Implications:** Our views on this remain unchanged. With inflation now below 5%, but with the RBI having lowered its medium-term target for inflation from 5.0%-5.5% to 4.0%-4.5%, we believe that it has kept a window open for one more rate hike in FY08. Though we expect policy rates to peak soon, we believe that the RBI will continue to use the Cash Reserve Ratio to absorb liquidity arising due to capital flows. However, not wanting to upset the growth momentum, we could see a reduction in the SLR in 2H FY08.

#### KEY DATA REVISIONS

Mar IIP revised upward from 12.9% to 14.5%

Manf revised from 14.1% to 15.9%

Electricity from 6.2% to 7.9%

Capital Goods from 13.2% to 18.2%

Consumer non-durables from 18.5% to 20.7%

#### Trends in Industrial Production (% YoY)

	WTS	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	Apr-06	FY07	FY06
<b>Sectoral Classification</b>										
Mining	10.5	8.8	6.1	7.7	7.1	7.3	3.4	3.4	5.3	1.0
Manufacturing	79.3	17.2	14.5	12.3	11.9	15.9	15.1	11.0	12.5	9.1
Electricity	10.2	8.7	9.1	8.3	3.3	7.9	8.7	5.9	7.2	5.2
<b>General</b>	<b>100</b>	<b>15.8</b>	<b>13.4</b>	<b>11.6</b>	<b>10.8</b>	<b>14.5</b>	<b>13.6</b>	<b>9.9</b>	<b>11.5</b>	<b>8.2</b>
<b>Use-based Classification</b>										
Basic goods	35.5	12.1	12.4	12.0	10.6	11.7	8.9	9.3	10.3	6.7
Capital goods	9.7	29.4	26.2	16.3	18.5	18.2	17.7	19.6	18.3	15.8
Intermediate gds	26.4	17.9	12.7	13.7	12.2	14.3	12.6	8.5	11.9	2.5
Consumer gds	28.4	13.5	10.7	8.2	7.6	16.0	17.7	8.9	10.1	12.0
Durables	5.1	10.1	1.8	5.3	1.3	3.3	5.3	7.4	9.1	15.3
Non-durables	23.3	14.8	13.5	9.1	9.7	20.7	21.9	9.4	10.5	11.3

Source: CSO

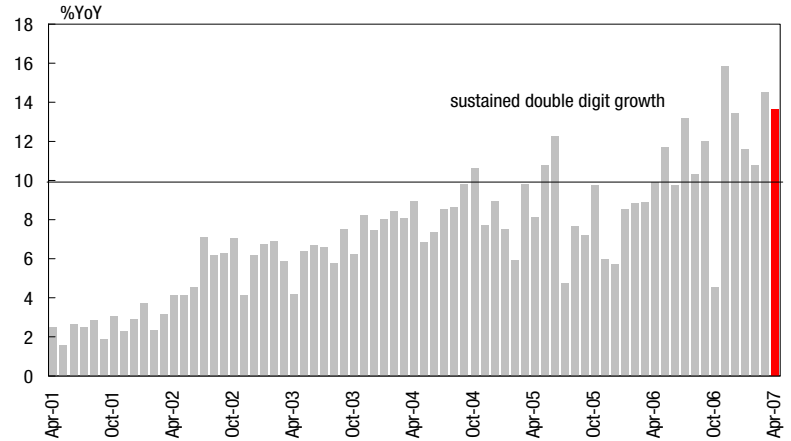


## Charting Trends in Industrial Production

### Industrial Production – continues to surprise on the upside

- Industrial Production was up 13.6% in Apr07, beating ours as well as consensus expectations, and higher than the 9.9% growth seen in Apr06.
- Similar to previous trends, double-digit growth in April has been led by an uptrend in manufacturing (+15.1%); while capital and consumer goods also posted strong growth.
- We are maintaining our 9.3% GDP estimate for FY08 led by agriculture (+3%), industry (+10%) and services (+11%). Our numbers have incorporated a deceleration in industrial growth in FY08 due to higher rates.

### Monthly trends in Industrial Production (%YoY)



### Sectoral Trends- Auto Sector Splutters

- In the **autos** segment, the current scenario of rising interest rates has begun to hurt growth, with sales of two-wheelers continuing to report a contraction and CV sales indicating moderation. Our autos analyst believes that this, coupled with intense competition and a challenging cost environment remain key concerns.
- Cement** dispatches have slowed from 10% range to 6% range primarily due to capacity constraints rather than a demand slow-down.

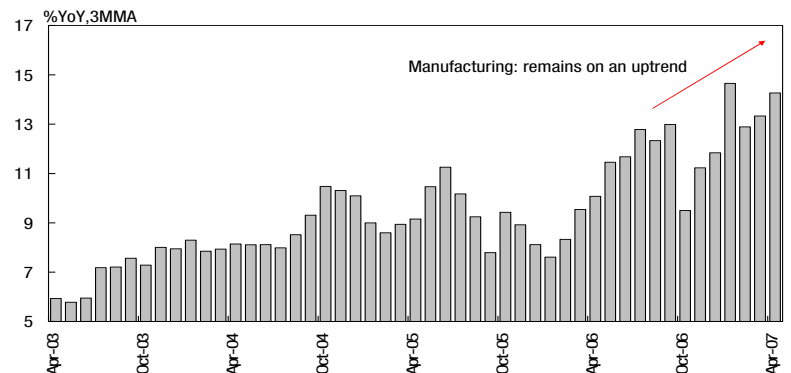
### Sectoral Trends (%YoY)

	Nov06	Dec-06	Jan07	Feb07	Mar07	Apr07	FY06	FY07
CV sales	44.3	42.9	33.6	22.3	10.9	9.1	12.5	35.5
Two-wheelers sales	14.5	6.9	10.9	4.9	-0.2	-4.0	15.3	12.2
Car Sales	25.8	25.7	24.2	37.2	6.0	8.4	6.8	21.7
Cement Dispatches	13.5	8.1	8.0	5.9	5.9	6.1	11.3	9.9
Diesel consumption	10.8	7.0	8.2	1.3	11.6	8.5	1.9	6.9
Infrastructure index	9.5	8.5	8.2	7.2	10.0	7.4	6.1	8.5
<b>Overall IP</b>	<b>15.8</b>	<b>13.4</b>	<b>11.4</b>	<b>10.8</b>	<b>10.8</b>	<b>12.9</b>	<b>8.2</b>	<b>11.1</b>

### Manufacturing – Double Digit growth continues

- Manufacturing continued to post double-digit growth, +15.1% in Apr07 vs. 11% in Apr06.
- A breakup of manufacturing indicates that growth in April was led by food products (+55%); beverages (12.2%), textiles (10.5%), basic chemicals (10.8%), and basic metals and alloys both up (+18% each). What remains puzzling is a continued uptrend in wood and wood products, up 92.2%; which have a weightage of 27%.

### Monthly trends in Manufacturing (%YoY)



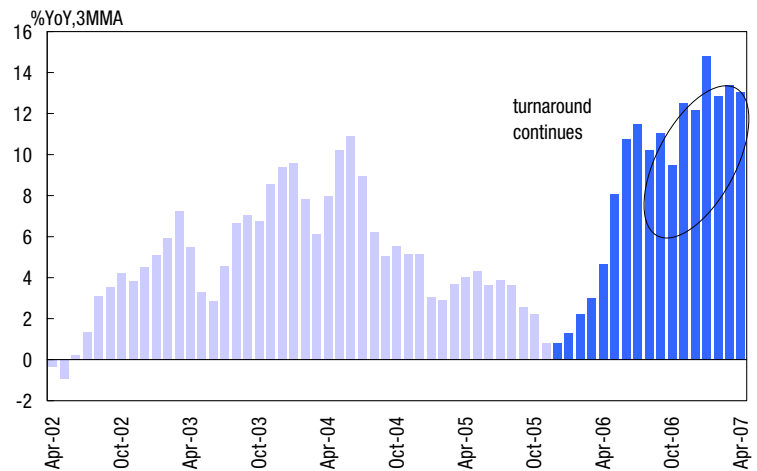
Source: NCAER, CSO, Citigroup, SIAM, Oil and Gas Monitor



### Capital and Intermediate Goods- A Sustained Uptrend

- On the back of 15.3% growth in FY06 and 18.3% in FY07, capital goods production remained strong, at 17.7% in Apr07. This coupled with the pick-up in non-oil imports, indicates the upturn in the capex cycle.
- Also encouraging is the pick-up in intermediate goods. Growth was up 12.6% in Apr07 vs. 8.5% in Apr06. The sustained turnaround in intermediate goods is suggestive of an uptrend in its components: which include cotton yarns, filaments, pipes, auto ancillaries, LPG and natural gas, and polyester fibers, paints and varnishes

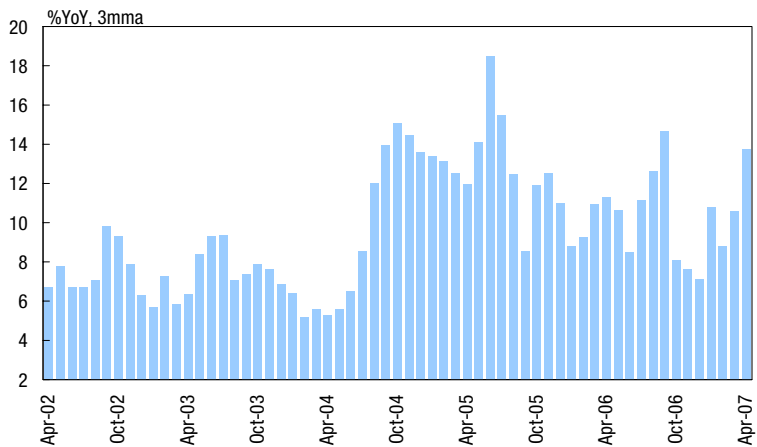
### Monthly trends in Intermediate Goods (% YoY)



### Consumer Goods – Buoyant trends continue

- Consumer goods production\* came in at 17.7% in April led by durables up 5.3% and non-durables up 21.9%.
- While spending on discretionary products could get impacted in a high rate environment, what could partially offset this is a pick up in rural demand on the back of more government spending/focus on the agri sector in the run-up to the general elections

### Monthly Trends in Consumer Goods – Durables and Non-Durables (%YoY)



### Maintain our Macro Forecasts for FY08

- On the back of strong trends in key growth drivers, and an uptrend in savings and investment, we expect GDP growth to sustain at 9% levels in FY08.
- The govt has predicted that monsoons this year will be at 95% of the Long Period Avg (classified as 'near-normal'); with July being the crucial month for sowing.
- However, in a worse case scenario if monsoons fail and agri growth remains stagnant, we expect GDP growth to come in at 8.7%yoy in FY08.

### GDP: Scenario Analysis (%YoY)

	Wts	FY06	FY07	FY08E		
				Base	Bad Monsoon	Good Monsoon
Agriculture	18.5	6.0	2.7	3.0	0.0	5.0
Industry	26.6	9.6	10.9	10.0	10.0	10.0
Services	54.9	9.8	11.0	11.0	11.0	11.0
GDP	100.0	9.0	9.4	9.3	8.7	9.6

Source: CSO ; Citigroup Estimates; Office of Economic Advisor

\*Consumer non-durables include tea, sugar, wheat and cigarettes, while durables comprise of two-wheelers, cars, tyres, etc



## Appendix: Manufacturing Classification – Detailed Breakdown

### Break-Up of Manufacturing (% YoY)

	Wts	Dec-06	Jan-07	Feb-07	Mar-07	Apr07	Apr-06	FY07	FY06
<b>Manufacturing</b>	<b>79.4</b>	<b>14.5</b>	<b>12.3</b>	<b>11.9</b>	<b>15.9</b>	<b>15.1</b>	<b>11.0</b>	<b>12.5</b>	<b>9.1</b>
Food Products	9.1	5.7	12.1	11.6	23.7	55.0	-7.4	8.7	2.0
Beverages, Tobacco & Related	2.4	1.0	7.4	10.4	4.8	12.2	13.9	11.3	15.7
Cotton Textiles	5.5	18.3	22.4	16.1	21.2	10.5	9.3	14.8	8.5
Wool, Silk, Manmade fibres	2.3	9.0	11.6	15.0	12.6	2.0	12.7	8.1	0.0
Jute, Vegetable, and Fibre Textiles	0.6	1.0	-89.2	-88.0	-37.0	17.7	-6.6	-15.8	0.5
Manf of Textile Prod	2.5	3.1	4.9	8.6	11.9	7.1	12.6	11.5	16.4
Wood, Wood Products	2.7	29.3	81.5	128.9	113.9	92.2	-7.9	29.1	-5.7
Paper, Prod, Printing, Pub.	2.7	7.8	9.5	8.9	4.8	0.3	9.0	8.4	-0.9
Leather and Leather Products	1.1	14.2	14.9	7.9	-11.1	14.7	-24.4	0.4	-4.8
Basic Chemicals ,Chemical Products	14.0	12.4	6.9	5.7	14.3	10.8	14.5	9.4	8.3
Rubber, Plastic, Petroleum, Coal Products	5.7	12.7	13.9	12.2	16.4	14.1	4.3	12.7	4.3
Non-Metallic Mineral Products	4.4	13.6	10.6	10.4	9.2	10.0	18.5	12.8	11.0
Basic Metal and Alloy Industries	7.5	28.9	28.7	27.4	23.3	18.0	21.4	22.9	15.8
Metal Products and Parts	2.8	24.0	5.2	-2.2	47.5	3.4	4.6	11.4	-1.2
Machinery and Equipment	9.6	8.0	7.4	12.8	11.4	19.2	8.8	14.2	11.9
Transport Equipment and Parts	4.0	9.6	13.2	12.4	11.9	5.5	13.8	15.0	12.7
Other	2.6	16.1	2.5	6.8	-21.1	-5.4	33.8	7.7	25.2
<b>Mining</b>	<b>10.5</b>	<b>6.1</b>	<b>7.7</b>	<b>7.1</b>	<b>7.3</b>	<b>3.4</b>	<b>3.4</b>	<b>5.3</b>	<b>1.0</b>
<b>Electricity</b>	<b>10.2</b>	<b>9.1</b>	<b>8.3</b>	<b>3.3</b>	<b>7.9</b>	<b>8.7</b>	<b>5.9</b>	<b>7.2</b>	<b>5.2</b>
<b>General</b>	<b>100</b>	<b>13.4</b>	<b>11.6</b>	<b>10.8</b>	<b>14.5</b>	<b>13.6</b>	<b>9.9</b>	<b>11.5</b>	<b>8.2</b>

Source: CSO

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