



INDIA

India Econ Flash

January Industrial Production Slows to 5.3% with Capital Goods Disappointing Big Time

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Industrial Production Growth — Forecasts and Actual (Percent)

Event	Actual	Citi Forecast	Consensus	Previous Data (Dec)	Previous Data(Nov)
Jan Industrial Production	5.3	7.5	8.0	7.7	5.1

** Dec Production revised from 7.6% to 7.7%. Source: CSO, Bloomberg, and Citi

- **Jan Industrial Production** slowed to 5.3%, below expectations as well as the 11.6% growth seen last Jan. Growth was lower across the board with only non-durables posting better numbers in Jan08 v/s Jan07. On a cumulative basis, industrial growth during Apr-Jan08 was 8.7% v/s 11.2% recorded last year
- **Key Highlights:** (1) The huge disappointment was the 2.2% growth seen in **capital goods** – the lowest growth since April 02 and significantly lower than the 20%+ growth during the first few months of this fiscal (2) A continuation of negative growth in the rate sensitive **consumer durable** segment (3) While **manufacturing** output halved to 5.9% in Jan08 v/s 12.3% last Jan, the outliers were (i) **wood** products contracting 4.6% v/s 55% growth seen earlier this year and (ii) **jute** products up 281%.
- **Monetary Policy Implications:** While we maintain our view that there is a clear case for easing and expect a 50bps easing in FY09, with inflation currently being given priority over growth, there is a risk of an extended pause in rates.
- **Outlook for FY09:** Although one month is too early to call a trend, the low capital goods number is a worry, as it indicates that the slowdown currently being seen in the consumption side of the economy could spill over to the investment side of the growth story. While the budget and the upcoming Pay Commission recommendations would give consumption a boost, continuation of a high domestic rate environment coupled with tight ECB norms and the low appetite for public offerings could dampen investment demand. This would pose a risk to our 8.3% GDP estimate.

Trends in Industrial Production (% YoY)

	WTS	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Jan-06	Apr-Jan 08	Apr-Jan07
Sectoral Classification										
Mining	10.5	14.7	4.9	5.1	5.5	5.0	1.8	7.7	4.6	4.8
Manufacturing	79.3	10.7	7.4	13.8	5.0	8.3	5.9	12.3	9.2	12.1
Electricity	10.2	9.2	4.5	4.2	5.8	3.8	3.3	8.3	6.3	7.6
General	100	10.9	7.0	12.2	5.1	7.7	5.3	11.6	8.7	11.2
Use-based Classification										
Basic goods	35.5	12.7	6.5	6.7	5.2	3.6	3.5	12.0	7.4	10.0
Capital goods	9.7	30.8	20.9	20.9	24.3	16.6	2.1	16.3	18.3	18.3
Intermediate gds	26.4	13.8	10.1	13.9	5.7	7.4	7.0	13.7	9.3	11.6
Consumer gds	28.4	0.0	-0.2	13.7	-2.4	8.4	7.0	8.2	5.9	9.7
Durables	5.1	-6.2	-7.3	9.0	-4.7	1.2	-3.1	5.3	-1.7	10.6
Non-durables	23.3	2.4	2.6	15.8	-1.7	10.3	10.1	9.1	8.6	9.4

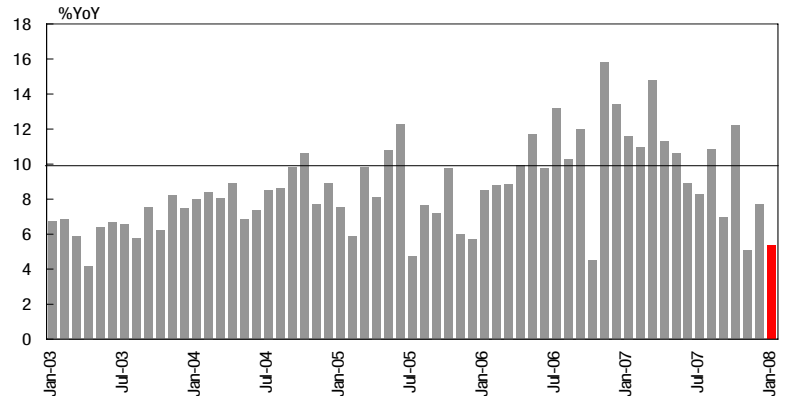
Source: CSO

Charting Trends in Industrial Production

Industrial Production surprises on the downside

- Industrial production slowed to 5.3% in Jan08, lower than the 11.6% growth seen in Jan07 as well as the 7.7% growth in Dec07. On a cumulative basis, growth during Apr-Jan08 was up 8.7% from 11.2% during the same period last year.
- Going forward, trends in industrial production are likely to remain in the single-digit range given the deteriorating global environment and the continuation of high domestic interest rates.

Monthly trends in Industrial Production (%YoY)



Sectoral Trends – Autos could see a boost

- In the autos sector, our analyst expects the contraction seen in 2-wheelers to reverse in the coming months due to the budgetary measures—such as excise duty reductions and higher disposable incomes due to lower tax-rates

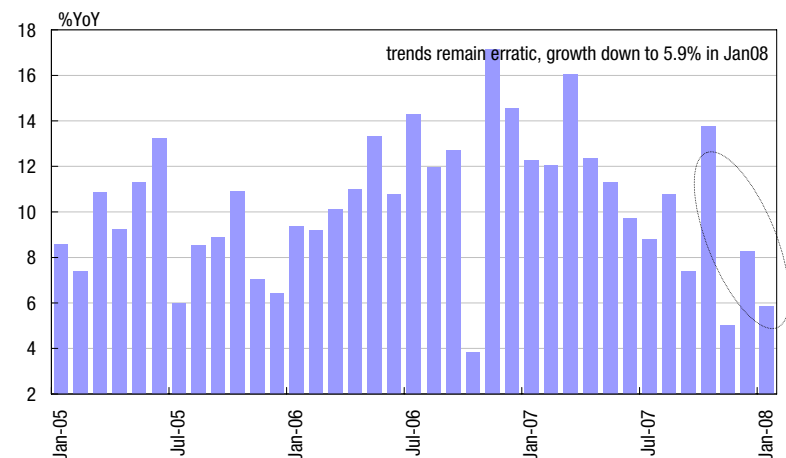
Sectoral Trends- Key Indicators

	Aug-07	Sep-07	Oct-07	Nov-07	Dec07	Jan08	Apr-JanFY07	Apr-JanFY08
CV sales	4.1	1.4	14.0	0.9	2.8	1.7	37.5	4.8
Two-wheelers sales	-1.3	-11.3	-0.8	0.9	-3.9	-6.8	14.3	-4.9
Car Sales	15.7	8.7	14.0	16.0	6.6	10.8	21.6	11.3
Cement Dispatches	13.8	3.7	8.4	3.1	4.2	4.6	10.6	7.0
Diesel consumption	5.7	3.0	17.4	10.6	11.0		6.9	10.1
Infrastructure index	9.2	5.5	4.3	5.3	4.0		8.8	5.8
Overall IP	10.9	7.0	12.2	5.1	7.7	5.3	11.2	8.7

Manufacturing – Growth Halves to 5.9%

- Growth in manufacturing halved to 5.9% in Jan08, from the 12.3% growth seen in Jan07. On a cumulative basis, growth was up 9.2% during Apr-Jan, vs. 12.1% during the same period last year.
- On a sectoral basis, 15 of 17 industry groups posted positive growth. However, trends remain erratic. Wood products, which posted a 31.3% growth in Dec07 contracted by 4.6% in Jan08, while growth in jute and vegetable fibres was up 281% from 0.2% growth last month. Other industries that posted positive growth include leather and fur products (+18.7%), basic chemicals (+13.1%), and metal products (+12.5%) (see p.4 for detailed breakdown).

Trends in Manufacturing (%YoY)



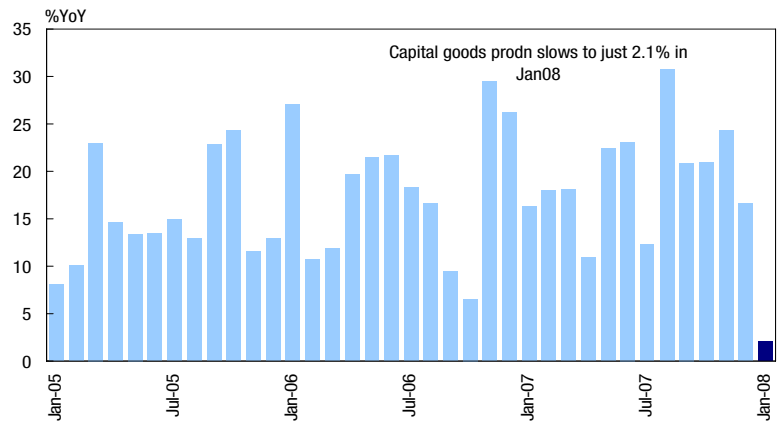
Source: CSO, SIAM, CEIC Data Company, Office of the Economic Advisor



Capital Goods – Now becoming a concern

- Capital goods were the main surprise in the Jan industrial production data. Growth in the sector was down to just 2%yoy in Jan08, from the 20%+ growth seen earlier. However, on a cumulative basis, growth during Apr-Jan08 remained up 18.3%yoy
- Continuation of lower growth in capital goods- which include diesel engines, offshore platforms, industrial machinery, tractors, and shipbuilding production- could reflect the beginning of a slowdown in the investment side of the growth story.

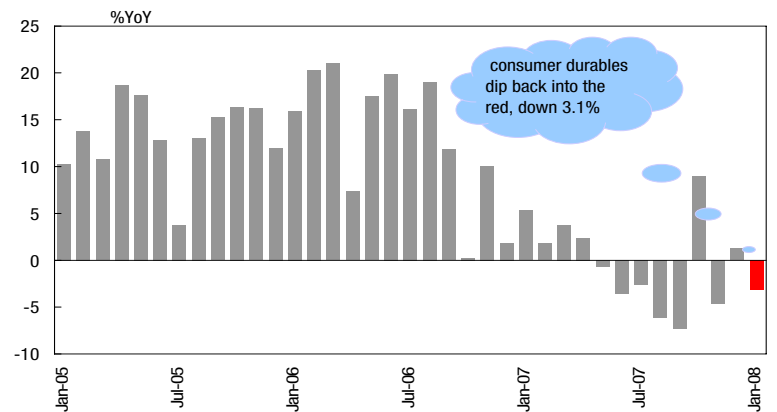
Monthly trends in Capital Goods (%YoY)



Consumer Goods – Impacted by High Rate Environment

- Higher interest rates continue to impact consumer durables. From a recovery seen in December, durables dipped back into the red with growth in Jan08 down 3.1%. On a cumulative basis, growth during Apr-Jan08 contracted 1.7% from 10.6% growth seen during the same period last year.
- Durables, have a weight of 5.1% in the overall index and include two wheelers, autos, transport equipment and certain outdated items such as telephone instruments.
- What is positive is that fiscal measures introduced in the FY09 budget- such as a reduction in excise duties for 2-3 wheelers- could boost production.

Trends Consumer Durables (% YoY)



Outlook for FY09 – Need to keep a watch on Investments

- As seen in the table, growth during the last few years has been investment led with investment rising 15%+ on a YoY basis while consumption has been lagging behind.
- Although one month is too early to call a trend, the low capital goods number is a worry as it is could indicate that the slowdown which is currently being seen in the consumption side of the economy could spill over to the investment side of the growth story.

Trends and Components to GDP (%YoY)

	FY04	FY05	FY06	FY07	FY08	FY09E
Total Consumption (% GDP)	73.0	71.0	70.2	68.4	67.1	67.0
%YoY	6.2	5.4	7.9	7.0	6.6	6.3
Pvt Consumption (% GDP)	62.0	60.3	60.0	58.6	57.6	57.3
%YoY	6.9	5.4	8.7	7.1	6.8	6.0
Public Cons (% GDP)	11.0	10.7	10.2	9.8	9.5	9.7
%YoY	2.5	5.4	3.5	6.2	5.5	8.0
Gross Fixed Capital Form (% GDP)	24.5	25.3	29.2	30.6	32.6	35.2
% YoY	13.1	11.8	26.1	15.1	15.7	15.0
GDP (%YoY)	8.5	7.5	9.4	9.6	8.7	8.3



Appendix: Manufacturing Classification – Detailed Breakdown

	Wts	Sept-07	Oct-07	Nov07	Dec07	Jan08	Jan07	Apr-Jan FY08	Apr-Jan FY07
Manufacturing	79.4	7.4	13.8	5.0	8.3	5.9	12.3	9.2	12.2
Food Products	9.1	-1.5	1.9	-15.1	1.5	9.6	7.3	6.2	5.5
Beverages, Tobacco & Related	2.4	4.8	8.8	7.5	15.7	10.3	10.1	12.0	13.0
Cotton Textiles	5.5	5.1	5.3	0.6	1.3	3.1	21.4	4.5	14.7
Wool, Silk, Manmade fibres	2.3	7.0	3.1	0.0	-2.0	4.3	8.8	3.4	7.9
Jute, Veg, and Fibre Textiles	0.6	4.7	11.8	-3.4	0.2	281.1	-72.6	20.2	-7.0
Manf of Textile Prod	2.5	1.3	1.4	4.8	1.0	6.9	4.3	4.5	11.9
Wood, Wood Products	2.7	72.5	74.4	37.7	31.3	-4.6	81.5	55.5	13.0
Paper, Prod, Printing, Pub.	2.7	3.6	2.6	1.9	3.6	4.4	7.5	2.1	9.0
Leather and Leather Products	1.1	9.0	24.0	10.8	-0.8	18.7	17.4	11.1	1.4
Basic Chem ,Chemical Prods	14.0	5.4	13.6	7.6	21.7	13.1	8.2	10.9	9.4
Rubber, Plastic, Petro, Coal Prod	5.7	7.7	7.0	7.1	5.9	1.9	14.3	9.2	12.4
Non-Metallic Mineral Prods	4.4	6.7	11.4	0.8	-1.7	3.5	10.5	6.6	13.8
Basic Metal and Alloy Ind	7.5	14.0	11.2	5.1	4.3	7.6	28.8	13.5	22.3
Metal Products and Parts	2.8	4.3	-20.3	-5.7	-23.6	12.5	6.5	-5.2	8.9
Machinery and Equipment	9.6	4.4	17.2	11.2	10.7	-3.8	12.8	10.1	14.6
Transport Equipment, Parts	4.0	-1.6	10.2	-0.7	5.8	1.5	13.4	2.9	15.6
Other	2.6	27.1	32.4	43.9	30.6	6.0	3.4	19.2	10.8
Mining	10.5	4.9	5.1	5.5	5.0	1.8	7.7	4.6	4.7
Electricity	10.2	4.5	4.2	5.8	3.8	3.3	8.3	6.3	7.6
General	100	7.0	12.2	5.1	7.7	5.3	11.6	8.7	11.2

Source: CSO

Disclosure Appendix A1

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