

## INDIA

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## India Economics

### Jan Industrial Production – Beats Expectations again, Up 10.9% YoY

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

Event	Actual	Citigroup Forecast	Consensus	Previous Data (Dec)	Previous Data (Nov)
Jan Industrial Production	10.9	9.1	10.1	12.5	15.4

Source: CSO, Bloomberg, and Citigroup\* Dec Data revised up from 11.1% to 12.5%

- **Industrial production continues to surprise on the upside:** Industrial growth rose 10.9% in Jan – lower than the Nov and Dec data but higher than ours as well as consensus expectations and the 8.5% growth seen in the same period last year. This is positive and bodes well for the govt's 9.2% GDP estimate for FY07.
- **Key Highlights in Jan Data:** (1) **Growth on a sectoral basis** was led by manufacturing up 11.6%, continued buoyancy in both electricity and mining up 8.5% and 6.0% (2) Continued buoyancy across the **use-based classification** – led largely by basic goods (11.6%), intermediate goods (12.7%) and consumer goods – especially non-durables. (3) However, capital goods production came in at 8.6% which partially can be attributed to the base effect (27% in Jan06).
- **Interest Rate Implications:** On the back of strong IIP data coupled with the fact that we expect inflation to remain in 5.5%-6.5% range till March/April, we expect policy rates to rise by 25bps in the April. While concerns on overheating in sectors remains, we do not anticipate policy rates to rise much further as significantly higher rates could result in more dollar inflows and thus make currency management difficult.
- **Maintaining our Macro Forecasts:** We are maintaining our FY08 GDP estimate of 9.3% led by services (11%), industry (10.4%) and agriculture 2.8%. Besides the continuation of the key drivers, the growth story is supported by an uptrend in both savings and investment both touching new highs of 32.4% and 33.8% of GDP respectively. Key risks remain unchanged – infrastructure, the human resource paradox (creating more jobs coupled with the talent shortage), inclusive growth, politics and much further monetary tightening.

#### KEY DATA REVISIONS

Dec IIP revised upward from 11.1% to 12.5%

Key revisions include:

Manf from 11.9% to 13.4%

Mining from 3.8% to 5.9%

Consumer Goods- from 7.4% to 10.2%

Non Durables from 8.7% to 12.4%

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

	WTS							Apr-Jan FY07	Apr-Jan FY06	
	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Jan-05			
<b>Sectoral Classification</b>										
Mining	10.5	-1.7	4.3	5.9	8.0	5.9	6.0	2.0	4.5	0.6
Manufacturing	79.3	11.9	12.7	3.8	16.7	13.4	11.6	9.4	11.9	9.0
Electricity	10.2	4.1	11.3	9.7	8.7	9.3	8.5	6.4	7.6	5.0
<b>General</b>	<b>100</b>	<b>10.3</b>	<b>12.0</b>	<b>4.5</b>	<b>15.4</b>	<b>12.5</b>	<b>10.9</b>	<b>8.5</b>	<b>11.0</b>	<b>8.0</b>
<b>Use-based Classification</b>										
Basic goods	35.5	4.8	11.5	10.5	11.9	12.3	11.6	7.5	10.0	6.2
Capital goods	9.7	16.6	9.5	6.5	29.2	20.9	8.6	27.0	16.8	16.8
Intermediate gds	26.4	8.7	13.8	5.9	17.5	12.2	12.7	3.6	11.4	2.4
Consumer gds	28.4	15.0	12.1	-2.8	12.8	10.2	9.9	8.0	9.9	11.9
Durables	5.1	19.0	11.8	0.2	10.3	3.1	6.8	15.9	10.9	14.2
Non-durables	23.3	13.6	12.2	-4.1	13.7	12.4	10.9	5.7	9.4	11.2

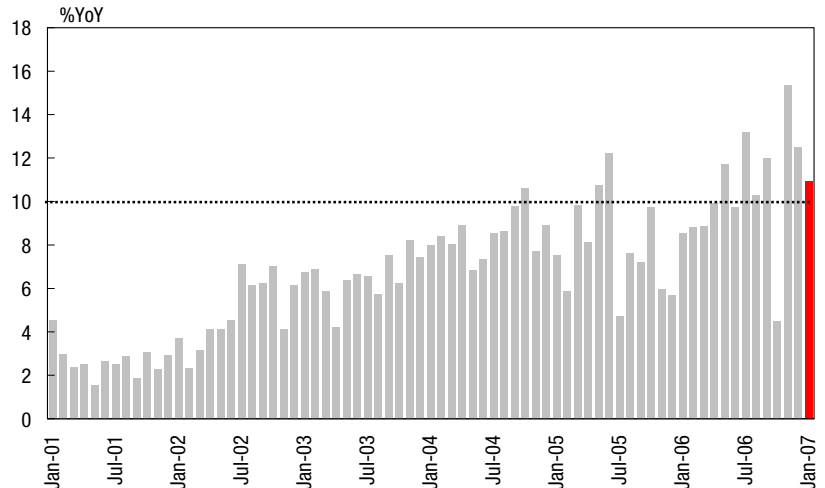
Source: CSO

## Charting Trends in Industrial Production

### Industrial Production – Double-Digit Growth Continues

- Industrial Production in January was up 10.9%yoy. On a cumulative basis, growth during April-Jan was up 11% as compared with 8.1% seen during the same period last year
- On a sectoral basis, growth was led basic metals and alloys (+28.7%), cotton textiles (+22.4%), transport equipment (13.2%) and food products (12.1%)
- The January industrial production numbers bodes well for the government's 9.2% GDP estimate for FY07. We maintain our view of one more rate hike this fiscal.

### Trends in Industrial Production (%YoY)



### Sectoral Trends – Cement, Autos Drive Growth

- Our cement analyst expects a steady ramp-up in capacity due to a steady rise in domestic **cement** consumption (up 10% yoy) as compared with an 8% average over the last 10 years, coupled with the impetus from infrastructure.
- In the **autos** segment, our analyst expects that trends in the CV segment are likely to remain buoyant post the Supreme Court order on overloading, while exports will be one of the drivers of 3- wheeler sales

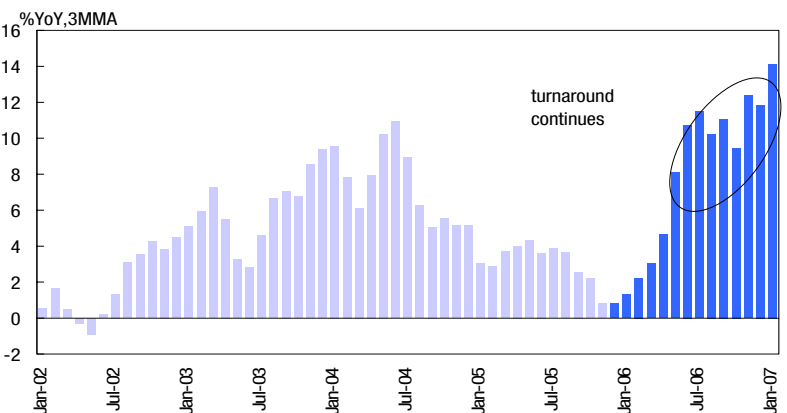
### Sectoral Trends (%YoY)

	Aug-06	Sept-06	Oct-06	Nov-06	Dec-06	Jan07	Apr-Jan05	Apr-Jan06
CV sales	28.9	33.1	22.6	44.3	42.9	33.6	10.4	39.3
Two-wheelers sales	3.5	19.1	10.3	14.5	6.9	10.9	14.9	14.2
Car Sales	13.9	19.8	15.9	25.8	25.7	24.2	5.5	21.7
Cement Dispatches	3.2	17.4	8.0	13.1	10.8	7.7	10.5	10.5
Diesel consumption	-1.2	15.0	3.5	10.8	7.0	8.2	1.3	6.9
Infrastructure index	4.9	9.6	9.0	9.5	8.3		5.7	7.9
<b>Overall IP</b>	<b>10.3</b>	<b>12.0</b>	<b>4.5</b>	<b>15.4</b>	<b>12.5</b>	<b>12.5</b>	<b>8.1</b>	<b>11.2</b>

### Intermediate Goods- Uptrend Continues

- The uptrend in intermediate goods continued in Jan up 12.7%yoy, as compared to just 3.6% last year. On a cumulative basis, growth during Apr-Jan was up 11.4% as compared with 2.4% the previous year.
- While higher growth is a result of the base effect, the uptrend also indicates a pick up in the components of intermediate goods, which include cotton yarns, filaments, pipes, auto ancillaries, LPG and natural gas, and polyester fibers, paints and varnishes

### Trends in Intermediate Goods (%YoY)

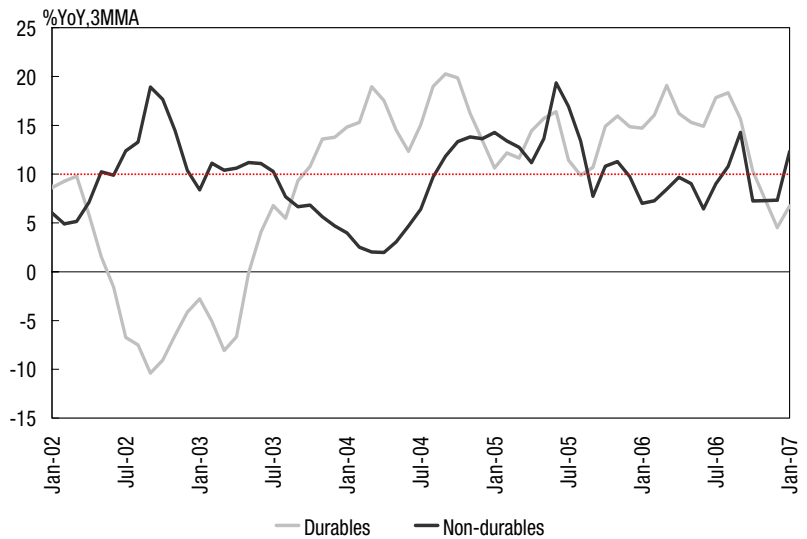


Source: NCAER, CSO, Citigroup, SIAM, Oil and Gas Monitor

### Consumer Goods – Holding Up

- Consumer Goods continued to post good numbers, up 9.9%yoy, though lower than the 10.2% growth seen in the previous month. On a cumulative basis, growth during Apr-Jan was up 9.9%, as compared with 11.9% the previous year
- Growth in **Consumer Durables** came in at (+6.8% as compared with 15.9% last yr). Key components include two wheelers, bicycles, passenger cars, etc. However this comprises only 5% of the overall index.
- However, growth in **Consumer Non-Durables**, up 10.9% v.s 5.7% last yr has remained strong. Key components include tea, sugar, wheat flour, cigarettes, biscuits, etc.

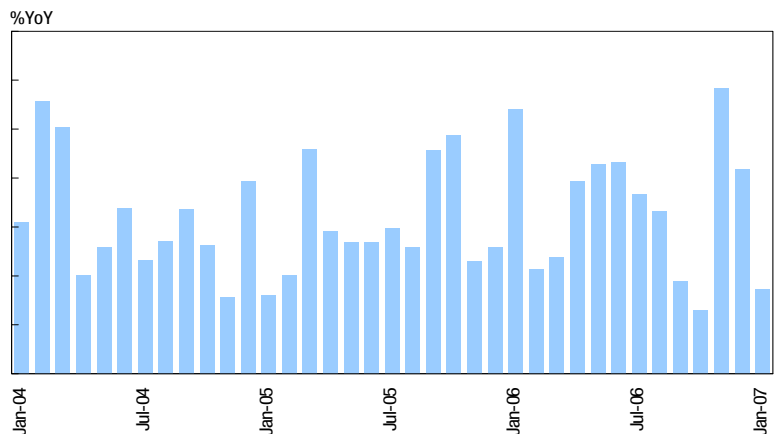
### Trends in Consumer Goods – Durables and Non-Durables (%YoY)



### Capital Goods: Base effect impacts Jan numbers

- Capital goods witnessed a slowdown, at 8.6%yoy in Jan07 as compared with 27%yoy in Jan06.
- While trends have been erratic, this is largely on account of a base effect, coupled with the occurrence of one-off orders.
- Cumulative growth during April-Jan07 came in at 16.8% similar to trends last year

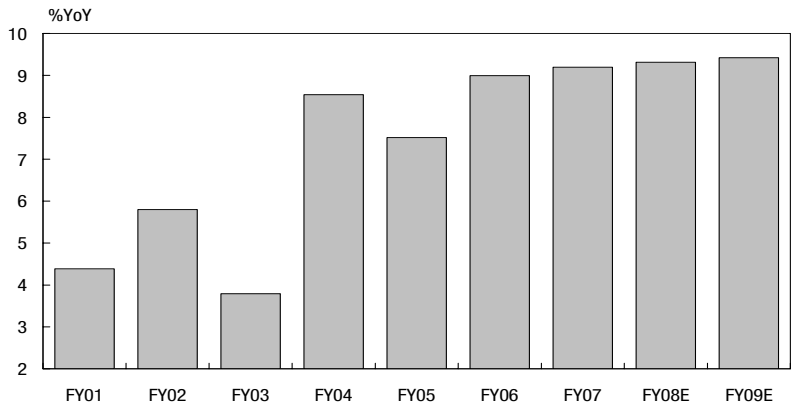
### Trends in Capital Goods Production (% YoY)



### Bottomline: Strong Trends bode well for GDP

- Recent trends of sustained, double-digit growth in industrial production are positive and bode well for the government meeting its FY07 GDP estimate of 9.2% as well as growth sustaining at 9%+ in FY08

### Trends in GDP Growth (%YoY)



Source: CSO ; Citigroup Estimates

## Appendix: Manufacturing Classification – Detailed Breakdown

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

	Wts	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Jan06	Apr-Jan FY07	Apr-Jan FY06
<b>Manufacturing</b>	<b>79.4</b>	<b>12.7</b>	<b>3.8</b>	<b>16.7</b>	<b>13.4</b>	<b>11.6</b>	<b>9.4</b>	<b>11.9</b>	<b>9.0</b>
Food Products	9.1	10.0	-9.7	11.3	5.7	12.1	9.7	6.1	-1.3
Beverages, Tobacco & Related	2.4	19.8	11.5	11.0	1.0	7.4	12.3	10.8	16.6
Cotton Textiles	5.5	14.5	10.8	18.3	18.3	22.4	2.0	14.7	9.3
Wool, Silk, Manmade fibres	2.3	8.3	0.0	18.2	9.0	11.6	-9.6	8.0	-0.6
Jute, Vegetable, and Fibre Textiles	0.6	-0.1	-1.0	9.7	1.0	-89.2	-3.9		1.9
Manf of Textile Prod	2.5	5.6	9.3	16.0	3.1	4.9	17.8	10.9	19.2
Wood, Wood Products	2.7	19.6	10.6	9.3	29.3	81.5	-2.5	13.1	-3.7
Paper, Prod, Printing, Pub.	2.7	8.4	7.2	15.6	7.8	9.5	4.6	8.8	1.2
Leather and Leather Products	1.1	0.3	-8.3	17.7	14.2	14.9	-20.7	0.1	-4.0
Basic Chemicals, Chemical Products	14.0	13.0	1.9	8.4	12.4	6.9	-0.6	9.1	9.2
Rubber, Plastic, Petroleum, Coal Products	5.7	15.3	8.2	23.3	12.7	13.9	8.9	12.3	4.4
Non-Metallic Mineral Products	4.4	16.7	12.5	17.7	13.6	10.6	16.0	13.4	9.7
Basic Metal and Alloy Industries	7.5	19.8	20.8	25.4	28.9	28.7	12.9	22.3	14.9
Metal Products and Parts	2.8	9.6	25.6	-1.5	24.0	5.2	3.0	8.5	-2.0
Machinery and Equipment	9.6	11.6	6.4	17.3	8.0	7.4	21.0	13.4	11.9
Transport Equipment and Parts	4.0	11.9	5.4	21.8	9.6	13.2	13.2	15.5	12.4
Other	2.6	-10.9	-17.2	19.8	16.1	2.5	34.0	10.5	24.7
<b>Mining</b>	<b>10.5</b>	<b>4.3</b>	<b>5.9</b>	<b>8.0</b>	<b>5.9</b>	<b>6.0</b>	<b>2.0</b>	<b>4.5</b>	<b>0.6</b>
<b>Electricity</b>	<b>10.2</b>	<b>11.3</b>	<b>9.7</b>	<b>8.7</b>	<b>9.3</b>	<b>8.5</b>	<b>6.4</b>	<b>7.6</b>	<b>5.0</b>
<b>General</b>	<b>100</b>	<b>12.0</b>	<b>4.5</b>	<b>15.4</b>	<b>12.5</b>	<b>10.9</b>	<b>8.5</b>	<b>11.0</b>	<b>8.0</b>

Source: CSO

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