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India Econ Flash

Aug Industrial Production Beats Expectations – Up 10.7%, with Mining the Surprise Up 17%

Industrial Production Growth — Forecasts and Actual (Percent)

Event	Actual	Citigroup Forecast	Consensus	Previous Data (Jul)	Previous Data(Jun)
Aug Industrial Production	10.7	8.6	8.5	7.5	9.0

Source: CSO, Bloomberg, and Citi.* July Industrial production revised up from 7.1% to 7.5%.

- **Aug Industrial production rose 10.7%** higher than our as well as consensus expectations. While trends in manufacturing (+10.4%) and electricity (+9.2%) were broadly in line with trends, mining was the surprise up 17.1% as compared to the 3% growth seen earlier this year. On a cumulative basis, industrial growth during April-August was up 9.8% v/s 11% last year.
- **Key Highlights:** (1) Growth continues to be investment-led with **capital goods** up 30% while the interest-sensitive **consumer side** remains weak with durables down 6.2% (2) **Electricity** – a key input remained buoyant at 9.2% (3) The 17.1% rise in **mining** is partially attributed to the base effect. However, production data for Sterlite, Sail and JSW indicate that volumes were up 10-20% during 2QFY08 (4) **Wood products** which had come off to more reasonable levels last month once again rose 62% in August
- **Monetary Policy Implications:** While we maintain our view the **repo rate** (lending rate) could be eased early next year, given the surfeit liquidity conditions – a result of dollar inflows, we expect a cut in the **reverse-repo rate** (liquidity absorption rate) as well as a hike in the CRR this year.
- **Maintain our 9.3% GDP estimate** led by an increase of 10% in industry, 11% in services and 3% in agriculture. Though our numbers are higher than consensus of 8.6%, we remain comfortable due to (1) the downtrend seen in market interest rates (autos, housing etc) bodes well for industrial growth in the coming months (2) agriculture could surprise given the favorable monsoons (3) the upturn in telecoms, insurance, tourism bodes well for service sector growth. Key risks remain politics and a US recession.

KEY DATA REVISIONS for July

Overall IP revised up from 7.1% to 7.5%

Mining revised from 4.9% to 3.7%

Manufacturing revised from 7.2% to 7.9%

Intermediate goods revised from 4.7% to 6.5%

Consumer durables revised from -3.2% to -2.5%

Trends in Industrial Production (% YoY)

	WTS	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Aug-06	Apr-Aug FY08	Apr-Aug FY07
Sectoral Classification										
Mining	10.5	8.0	2.6	3.8	1.5	3.7	17.1	-1.7	5.4	3.0
Manufacturing	79.3	16.0	12.4	11.3	9.9	7.9	10.4	11.9	10.3	12.2
Electricity	10.2	7.9	8.7	9.4	6.8	7.5	9.2	4.1	8.3	5.7
General	100	14.8	11.3	10.6	9.0	7.5	10.7	10.3	9.8	11.0
Use-based Classification										
Basic goods	35.5	11.9	8.6	10.3	9.1	8.8	13.3	4.8	10.0	8.3
Capital goods	9.7	18.1	10.9	22.4	30.0	11.9	30.0	16.6	21.3	19.5
Intermediate gds	26.4	15.3	10.6	8.8	8.5	6.5	12.3	8.7	9.3	10.4
Consumer gds	28.4	15.8	14.7	8.7	1.7	5.7	0.5	15.0	6.2	11.4
Durables	5.1	3.8	2.4	-0.7	-3.9	-2.5	-6.2	19.0	-2.3	16.1
Non-durables	23.3	20.2	18.7	12.1	3.8	8.7	3.2	13.6	9.3	9.8

Source: CSO

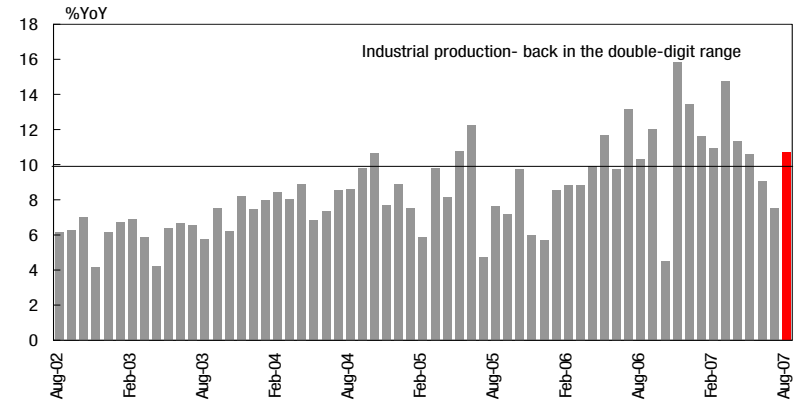


Charting Trends in Industrial Production

Industrial Production – Back to the Double-Digit Range

- Industrial production was up 10.7% in August, higher than our as well as consensus expectations. On a cumulative basis, industrial growth during Apr-Aug was up 9.8% v/s 11% last year.
- Similar to the past, trends were led by manufacturing (+10.4%) and electricity (+9.2%) but growth in mining was the surprise up 17.1%
- Looking ahead, we maintain that the repo rates could be eased early next year, given excess liquidity; we could see a CRR hike as well as a cut in the reverse repo rate this year. Our GDP estimate remains unchanged at 9.3% for FY08.

Monthly trends in Industrial Production (%YoY)



Sectoral Trends – The decline in rates begins to help

- Automobiles** present a more positive picture as compared to previous months, with car sales picking up in Aug, and the contraction seen in two-wheelers narrowing. With interest rates on a downtrend, our autos analyst has noted that high credit quality clients are reporting bulk CV deals at 10-10.25% (400bps lower than peak in Apr-May). For the broader industry, rates have fallen by 200- 250bps.
- Cement** dispatches have also been on an uptrend. Higher production coupled with strong capacity levels even during the monsoon months indicate that demand trends are unabated.

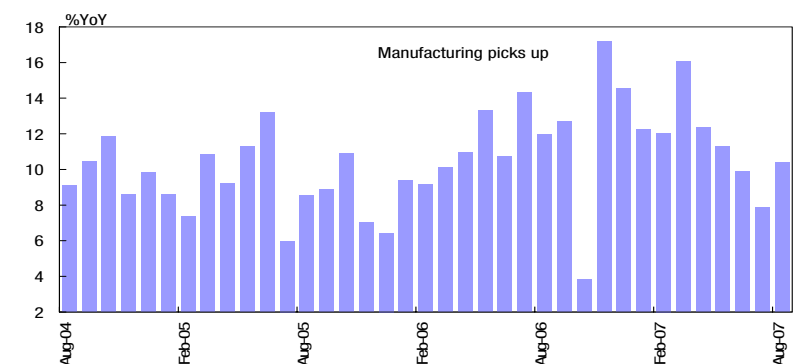
Sectoral Trends (%YoY)

	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Apr-Aug FY08	Apr-Aug FY07
CV sales	10.9	9.1	0.3	4.5	-1.4	0.5	2.6	43.3
Two-wheelers sales	-0.2	-4.0	-7.4	-8.1	-7.5	-1.2	-5.7	16.0
Car Sales	6.0	8.4	4.8	11.1	10.4	14.1	9.7	21.1
Cement Dispatches	6.2	6.0	10.7	4.6	11.3	13.8	9.3	9.7
Diesel consumption	11.6	8.5	1.0	19.9	14.0	N.A	10.8	5.1
Infrastructure index	10.0	6.7	8.7	5.3	6.3	9.0	6.6	8.3
Overall IP	14.8	11.3	10.6	9.0	7.5	10.7	9.8	11.0

Manufacturing – 15 of the 17 industries show positive growth

- Trends in manufacturing remained slightly lower than last year up 10.4% in August v/s 11.9% last August. On a cumulative basis, growth was up 10.3% during Apr-Aug FY08, v/s 12.2% seen during the same period last year.
- On a sectoral basis, as many as 15 of the 17 industry groups showed positive growth. Similar to the past, trends were led by basic metals and alloys (+19.1%), petroleum and coal products (+19%), and non-metallic mineral products. Wood- and wood products continue to remain an outlier, up 62.2% in the month.

Monthly trends in Manufacturing (%YoY)



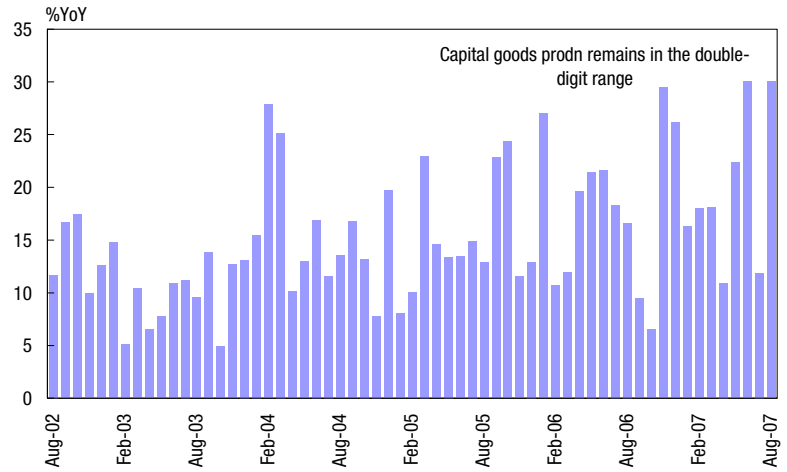
Source: NCAER, CSO, Citi, SIAM, Oil and Gas Monitor



Capital Goods – Strong Growth Continues

- Capital goods production was up 30% in Aug07 v/s 16.6% last year. On a cumulative basis, growth during Apr-Aug FY08 remained over 20% at 21.3% v/s 19.5% last year.
- We remain positive on the capex space given the sustained thrust on infrastructure coupled with corporate capex. This is reflected in strong order books of capital goods companies

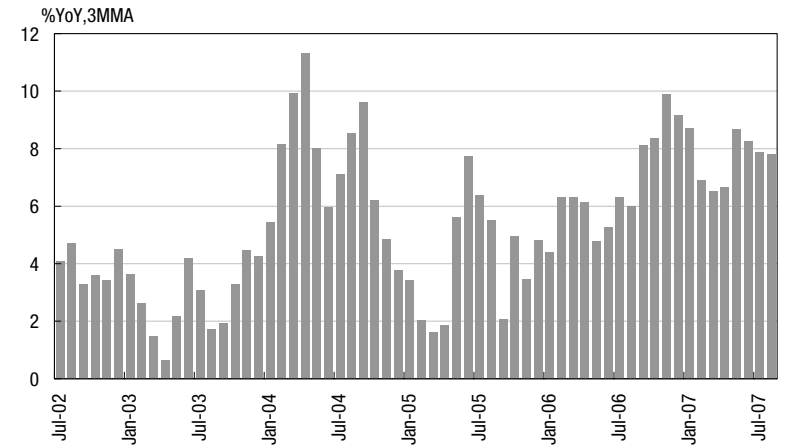
Monthly trends in Capital Goods (%YoY)



Electricity – Upturn bodes well for sustained GDP growth

- What was encouraging was the continued buoyancy in electricity - up 9.2% which bodes well for sustained growth.
- Going forward, given the power deficit in the country, coupled with government measures to bridge the deficit, we maintain our view that the current uptrend is likely to continue.

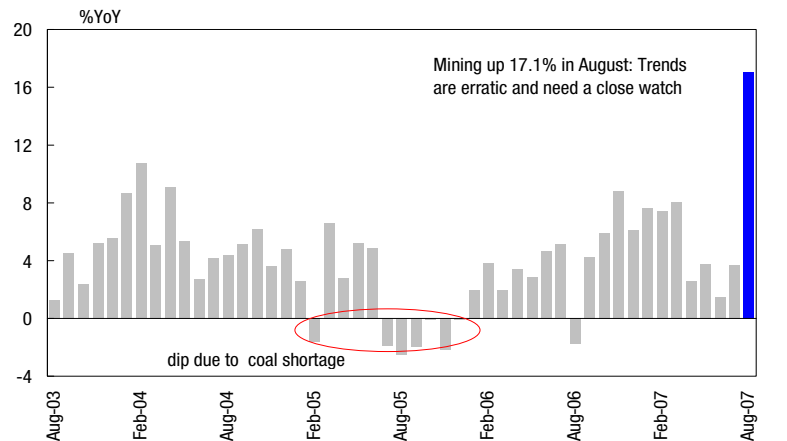
Trends in Electricity (% YoY)



Mining- the 17% number does appear on the high side!

- Mining was a surprise up 17% in Aug07 v/s -1.7% last year. On a cumulative basis, growth during Apr-Aug was up 5.4% v/s 3% growth during the same period last year
- Besides the base effect, 2QFY08 production data indicates that volumes were up 14%-25% for Sterlite, 10% for Sail and 20% for JSW

Trends in Mining (%YoY)



Source: CSO



Appendix: Manufacturing Classification – Detailed Breakdown

Break-Up of Manufacturing (% YoY)

	Wts	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Aug06	Apr-Aug FY08	Apr-Aug FY07
Manufacturing	79.4	12.4	11.3	9.9	7.9	10.4	11.9	10.3	12.2
Food Products	9.1	55.0	24.8	1.3	-4.1	1.4	-0.8	16.4	0.2
Beverages, Tobacco & Related	2.4	12.2	6.5	9.8	6.7	8.1	18.2	8.3	13.7
Cotton Textiles	5.5	10.5	6.9	8.1	5.1	3.7	13.5	6.4	12.4
Wool, Silk, Manmade fibres	2.3	2.0	10.9	5.0	6.9	4.8	9.9	4.0	7.1
Jute, Vegetable, and Fibre Textiles	0.6	17.7	40.4	35.2	16.1	9.5	5.5	22.3	-0.4
Manf of Textile Prod	2.5	7.1	9.9	14.6	3.6	-2.1	14.8	3.8	17.2
Wood, Wood Products	2.7	92.2	132.8	103.9	21.1	62.2	11.6	80.1	-2.1
Paper, Prod, Printing, Pub.	2.7	0.3	0.0	2.3	-4.6	4.2	-2.1	0.8	7.9
Leather and Leather Products	1.1	14.7	5.7	7.7	4.2	7.0	-0.3	7.8	-6.9
Basic Chem ,Chemical Products	14.0	10.8	5.9	4.3	11.7	9.2	9.9	7.9	10.4
Rubber, Plastic, Petro, Coal Prod	5.7	14.1	9.4	9.3	6.4	19.0	13.0	12.6	9.9
Non-Metallic Mineral Products	4.4	10.0	6.7	4.0	9.2	11.9	6.6	8.3	12.9
Basic Metal and Alloy Industries	7.5	18.0	21.1	21.1	17.5	19.1	14.3	19.4	19.3
Metal Products and Parts	2.8	3.4	8.4	-7.7	-5.1	-2.6	10.1	-1.7	3.6
Machinery and Equipment	9.6	19.2	22.8	18.6	7.7	10.0	23.3	13.4	16.1
Transport Equipment and Parts	4.0	5.5	-0.1	0.8	-3.0	10.6	11.2	2.3	18.9
Other	2.6	-5.4	-5.0	32.5	11.9	11.9	7.9	9.3	22.2
Mining	10.5	2.6	3.8	1.5	3.7	17.1	-1.7	5.4	3.0
Electricity	10.2	8.7	9.4	6.8	7.5	9.2	4.1	8.3	5.7
General	100	11.3	10.6	9.0	7.5	10.7	10.3	9.8	11.0

Source: CSO

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