



Ecoreview

Weekly Economic Overview

March 29th 2008

The Index of Industrial Production (IIP) data released by the Centre for Statistical Organization (CSO) for the month of January 2008 presents a very disturbing trend in the secondary sector of the economy. The index is showing a sharp moderation in the industrial sector growth in January this year vis-à-vis same month in the previous year. The General index grew by just 5.3 per cent showing a sharp dip from the height of 11.6 per cent a year ago. The more disturbing fact is a highly dismal performance of the Six Core Infrastructure Industries, which means that the trouble is more than skin-deep. But, at the same time, the cumulative ten-month figures depict an impressive close to nine per cent (8.7 per cent) growth in the general index. Then, do the current data show merely a monthly blip or some sharp changes in the fundamentals?

IIP movement in the current year

Economists disagree on the issue that whether the latest IIP figures are just an aberration or a trend? Though, the moderation in the economy looks obvious, the views differ on the degree of malaise the economy might be suffering with. Let us now look at the data set released and try to read between the lines.

The growth figures look subdued, especially when looked in comparison with that of the month of January 2007. Let us now look at the comparative rates of growth for both the year in the month of January.

Table I: Growth Rate Comparison: January '08 vis-à-vis January '07

Sector	Jan. '06	Jan. '07	Jan. '08	Growth (%)	
				Jan. '07	Jan. '08
Mining	168.6	181.5	184.8	7.65	1.82
Manufacturing	252.0	282.9	299.5	12.26	5.87
Electricity	199.4	215.9	223.0	8.27	3.29
General	237.9	265.5	279.7	11.60	5.35

Source: CSO

(Base : 1993-94=100)

Looking at Table I, the situation looks alarming as the growth in General Index got more than halved in current year (from 11.60 per cent in Jan. '07 to 5.35 per cent in Jan. '08). Similarly, manufacturing (from 12.26 per cent in Jan. '07 to 5.87 per cent in Jan. '08) and electricity (from 8.27 per cent in Jan. '07 to 3.29 per cent in Jan. '08) sectors also grew by almost half the rate in Jan. '08 vis-à-vis Jan. '07. But the laggard amongst all was the mining sector (from 7.65 per cent in Jan. '07 to 1.82 per cent in Jan. '08), which grew almost one-fourth the rate when compared with the previous year.

But, at the same time, we must also take note that these are the **comparisons based on one month's performance only**. Secondly, **figures for Jan. '08 are only 'Quick estimates'** and the final figures may be better. For example, the quick estimate for mining sector was 178.8 in Jan. '07, which got stabilized only after three months to the final one (181.5). Of course, there may be some downward revisions too. And lastly, we must also consider the major role of **'lower base-effect' in the case of Jan. '07**.



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So, it is better to look at the cumulative figure for the whole ten months of the current fiscal year. This would normalize the data set to a great extent. The Table III below shows the ten months' cumulative Sectoral performance figures:

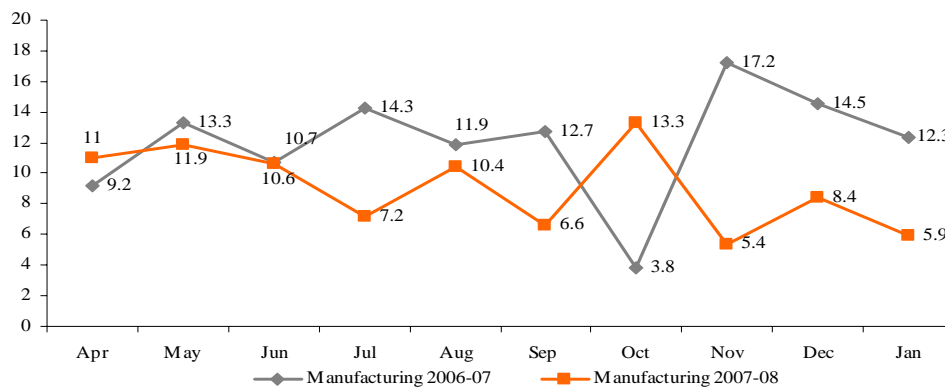
Table II: Cumulative Growth: April to January

Sector	Weight (In %)	Growth (%)	
		2006-07	2007-08
Mining	10.47	4.8	4.6
Manufacturing	79.36	12.1	9.2
Electricity	10.17	7.6	6.3
General	100.00	11.2	8.7

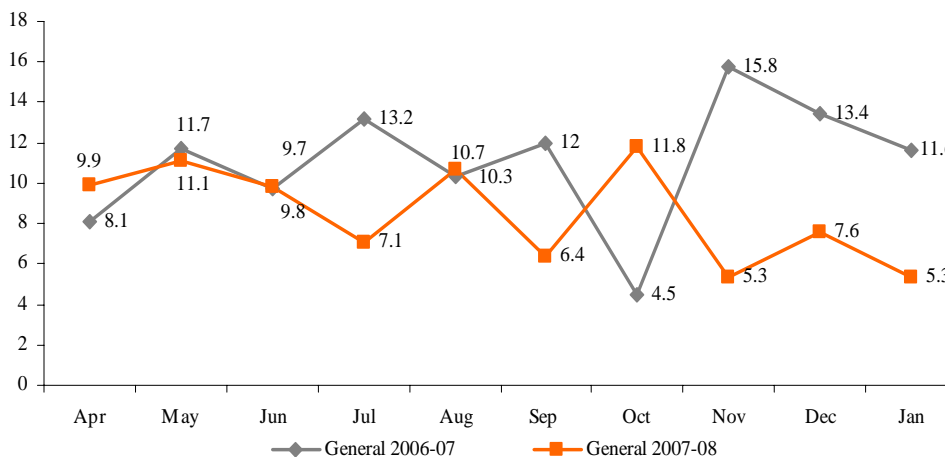
Source: CSO

(Base : 1993-94=100)

Now, the figures seem dramatically fair (if not better) especially for the mining and electricity sector. So, the January '08 performance, on a broader sense looks as a monthly blip coupled with a higher base effect of the previous year. Let us plot the monthly **per cent-age Sectoral growth rates (on Y-O-Y basis, for the first ten months)** for both the years.



The graph above clearly shows an erratic growth momentum in the manufacturing sector during both the years for the same April to January period. Growth in July to November, during the year 2007-08, was highly fluctuating due to a divergent fluctuating growth momentum for the respective months during the previous year.



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Due to a very large Weightage of Manufacturing sector (almost 80 per cent) in the entire General Index, the graph for the IIP almost mimics the graph of the manufacturing sector performance.

Performance of some critical Sectors

I. Core Infrastructure Sector

This sector consists of six basic infrastructure industries, like, Crude oil, Petroleum refinery products, Coal, Electricity, Cement and Finished steel. Performance of the whole economy depends a lot on the performance of these industries. At the same time, as they are the providers of raw materials for various other industries, their performance depends hugely on the performance of the dependant industries. And as the total Weightage that this sector carries is 26.68 per cent of the IIP, which is huge in the sense that their performance can impact the overall secondary sector performance.

Table III: Sector-wise Growth Rate (%) in Production

Sector	Weight (%)	Jan. '07	Jan. '08	Apr-Jan 2006-07	Apr-Jan 2007-08
Crude Oil	4.17	4.7	-0.2	5.9	0.3
Petroleum Refinery Products	2.00	11.2	5.3	13.0	7.3
Coal	3.22	9.9	4.8	5.2	4.8
Electricity	10.17	8.3	3.3	7.6	6.3
Cement	1.99	7.2	5.2	9.9	7.0
Finished steel (carbon)	5.13	8.5	5.5	11.1	5.1
Overall	26.68	8.3	4.2	8.9	5.5

Source: Concerned Ministries/Departments/Organization(s)

Base Year: 1993-94

The table above shows a marked decline in all the industries, indicating a moderation in the economic activity in January '08. But for the cumulative ten months period coal, electricity and cement industries have not performed that bad either. In fact, according to

Some latest data, cement industry has started growing at a healthy rate. There is also some improvement in the crude too, but it is to some extent related to lower base of the previous year. Coal production has definitely declined, but there were alternate periods of highs and lows throughout the year. One interesting correlation can be found between coal and petroleum production. To a large extent, both are inversely correlated. This might be due to changing demand pattern from the facilities requiring coal or petroleum products as energy sources. Then there is some improved performance in the steel industry. This can be attributed to the rising demand from the real infrastructure sector (as the demand of cement can also be seen started picking up off late).

II. Automobile Sector

The automobile sector is also a leading indicator of the future state of the economy. As, the economy is in an expansionary mode, the demand for automobiles increases, especially of the commercial vehicles. Also, the increasing prosperity pushes up the demand for consumer vehicles. Let us look at the performance of the auto sector in these ten months of the current year in the table given below:

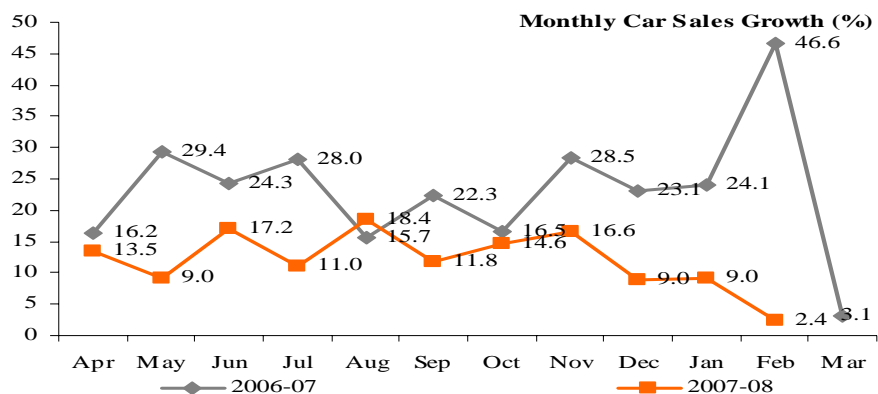


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Table IV: Cumulative Auto sales Y-O-Y growth rate (%)

	Apr-Feb 2007-08
Domestic Sales	-5.31
Passenger Vehicles	12.32
Passenger Cars	11.74
Multi Purpose Vehicles	22.66
Utility Vehicles	11.21
Commercial Vehicles	2.88
Light Commercial Vehicles	12.57
Medium & Heavy Commercial Vehicles	-3.86
Three Wheelers	-9.2
Goods Carriers	-20.01
Passenger Carriers	-1.56
Two Wheeler	-8.58
Moped	17.05
Scooter	13.35
Motorcycle	-12.89
Electric Two Wheeler	-42.04
Exports	21.03
Two wheelers	31.16
Commercial Vehicles	18.55
Passenger Vehicles	7.22
Three Wheelers	-2.51
<i>Source: SIAM</i>	

The cumulative figures for domestic sales are indicating a negative growth of 5.31 per cent. It was mostly because of a very bad performance of two wheelers (motorcycle & electric two wheelers) and commercial vehicles (goods carriers, three wheelers, medium & heavy commercial vehicles and passenger carriers). Though the drop in the two wheeler segment can be attributed to a large extent on high interest rates on auto loans, the decline in almost all the commercial vehicles segments clearly indicates a moderation in the macroeconomic growth. At the same time the exports figure are very robust, and that too keeping in mind the appreciation of INR.



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According to the latest SIAM data, growth rate in passenger cars segment has declined in Feb '08 to 2.4% as against 46.6% last year. In unit terms, the sales declined from 113938 units in Jan '08 to 94808 units in Feb '08. LCV sales have come down in Feb '08 to 22040 units from 24016 units in Jan '08. On YOY basis, the sales went up by 9% in Feb '08. MHCV sales moved up marginally in Feb '08 to 27995 units from 27776 units in Jan '08. However, on YOY basis, the sales went down by -0.29% in Feb '08. Outlook is negative for mid-size and sedan cars in the mid-term.

III. Consumer Durables

A negative growth rate of -3.1% in Jan '08 was seen in the segment against 5.3% last year. Also, for the ten months period of Apr-Jan., growth rate came down drastically from 10.6% during Apr-Jan 2006-07 to -1.7% during the same period in current year.

This was mainly due to worst performance by electric meters, auto sector (motor cycles, passenger cars), utensils, refrigerators, fans, bicycles, telephone instruments, etc. However, washing machines, air conditioners, scooters & mopeds, TV, bicycle tyres & tubes, etc. performed better. Outlook looks good for the White goods but negative for the Auto sector.

IV. Consumer non-durables

This sector grew spectacularly by 10.1% in Jan '08 as against 9.1% last year. However, for the ten months period, growth rate came down marginally from 9.4% during Apr-Jan 2006-07 to 8.6% during the same period in current year.

Cotton seed oil, toothpowder, toothpaste, tea, coffee, soaps, detergents, soft drinks, foot wear, fluorescent tubes, chocolates, hair oils, malted foods, cotton hosiery, liquor, dry cells, sulphur drugs, syringes, etc. grew. While, Mustard oil, rape seed oil, vitamin A&C, beer, cigarettes, sugar, milk powder, matches, Indian made liquor, edible hydrogenated oil, blended cloth, writing instruments, etc. went down. Outlook looks fairly positive for the broader sector.

What is in store

As said earlier, the situation is grim but not that much worse. There are a number of ups for downs in other sectors. The slowdown in capital goods output growth, a lead indicator of investor activity, is worrying since investment has been the main driver of strong economic growth in recent years. But at the same time, 'genuine' capital goods (like, hydraulic machines, industrial machinery, transformers, electric generators, telecom cables, etc. have done well). Slowdown of capital goods was mainly in transport items, like, tractors, auto rickshaw, commercial vehicles and utility vehicles.

FMCG goods, like, toothpaste, tea, coffee, soaps, detergents, soft drinks, foot wear, liquor, etc., have shown better growth (on YOY). However, Consumer durables growth rate declined as electric meters, utensils, refrigerators, electric fans, etc., perform dismally.

So, we would have to wait for the February and March figures, as they are considered to be busy seasons for economic activities in the country. At the same time, if advance tax of the corporate India is considered, almost all the houses have given more estimates for the last quarter. It means better figures are being expected in this quarter.

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