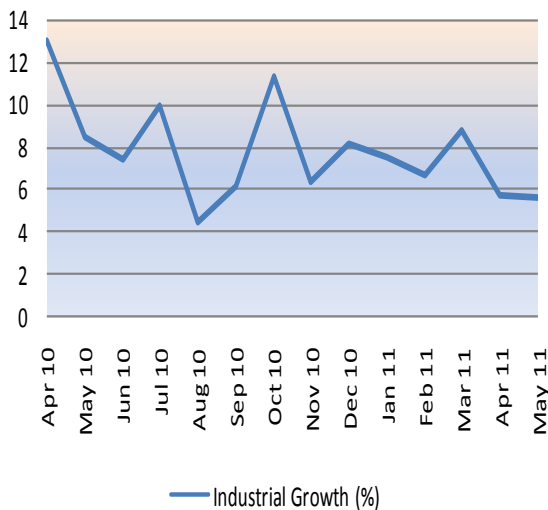


THE WEEKLY BUZZ

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A Downward Trend



INDUSTRIAL GROWTH DIPS TO 5.6% IN MAY

India's industrial growth slipped in May, reflecting cooling economic activity and raising expectations that the RBI's monetary tightening cycle is drawing to a close. However, that seems unlikely since the headline inflation rate moved up to 9.44% in June from 9.06% in May.

Industrial growth dipped to 5.62% in May, the lowest in 9 months, with manufacturing activity in general exhibiting neither any buoyancy nor marked slowdown. The Central Statistics Office has also revised downwards the growth rate for April, with the year-on-year increase in the Index of Industrial Production (IIP) now placed at 5.8%, compared with the earlier 6.3% estimate.

The cumulative IIP growth rate for the first two months of the current fiscal works out to 5.7%. This is almost half of the cumulative IIP growth rate in the first two months of the last fiscal year of 10.7%.

Despite the latest industrial growth figures offering further evidence of weakness in key sectors, analysts are of the opinion that the Reserve Bank of India (RBI) may still go ahead and raise policy rates in its first-quarter monetary policy review on July 26 as inflation remains the core concern.

According to Samiran Chakraborty, regional head of research at Standard Chartered Bank "The downward trend in intermediate goods and loss of momentum in industrial activities are disturbing and confirms a soft patch in economic growth. The slowdown in the growth of intermediate goods—which mostly consists of raw materials—usually impacts growth in final goods with a lag."

However, no less a person than the RBI governor, D. Subbarao had criticized IIP data last week over sharp revisions from month to month, especially in capital goods, terming it "analytically bewildering". While addressing the Statistics Day Conference, he had remarked that the quality of data on unemployment and wages does not inspire confidence and the Index of Industrial Production (IIP) too has shown counter-intuitive trends "It is important for policy purposes to determine whether the root cause of such behaviour is the production decisions in the wake of uncertainty or whether it is due to the compilation process," he said.

If the input data is flawed, then the output will obviously be flawed. Therefore, given that the veracity of the IIP numbers do not inspire too much confidence, we believe it is best not to give too much weightage to these numbers to determine the state of the Indian economy.

URBAN POPULATION GROWS FASTER THAN RURAL POPULATION IN 2001-11 PERIOD

For the first time since Independence, India's urban population has registered a higher increase than the numbers added in rural areas. The second set of data from the 2011 Census shows that the country's urban population grew by 90.99 million during 2001 to 2011. This is more than the absolute increase of 90.47 million in the rural population over this period. In percentage terms, the urban population grew by 31.8%, which was 2.6 times the corresponding decadal rise of 12.18% for the rural population.

The 12.18% rural population growth during 2001-2011 represents a sharp dip from the 18.09% increase over 1991-2001, whereas the growth rate for the urban population has seen a marginal rise from 31.47% to 31.8% over these two periods.

According to the Census data, out of the country's total population of 1,210.19 million in 2011, 377.11 million or 31.16% is living in urban areas. In 2001, the share of the urban population was 27.82% (286.12 million out of 1,028.61 million).

The biggest trend towards urbanization is in southern India, where all states except Andhra Pradesh have more than 35% of the population in urban centres. While by the earlier census in 2001 more than 35% were already living in urban areas in Tamil Nadu, the latest census has added Karnataka and Kerala to the list, while more than 30% of the population lives in urban areas in Andhra Pradesh.

These figures are significant since they confirm the rapid process of urbanization taking place as economic activity and creation of jobs becomes increasingly urban-focused. The trend, if sustained, say some experts, will redefine the political economy of the country, forcing a shift in public policy focus towards urban India. Further, the fact that urbanization has gained momentum in the South also opens up new opportunities for the consumer economy.

GROWTH REMAINS ROBUST IN CHINA

China's economy, the world's second largest after that of the United States, grew 9.5% in the 2nd quarter (April-June) of 2011, slightly lower than the 9.7% growth achieved in the 1st quarter and the 9.8% growth in the 4th quarter of 2010. Although growth has moderated slightly, it is still well above what developed economies like those of the United States, Japan and Europe are managing.

It should also be noted growth in China has cooled a bit only because much of the cooling has been deliberately engineered by the Chinese authorities and is by no means unwelcome. Over the past year, Beijing has progressively tightened the spigot on the ample bank lending that has fueled growth but also contributed to the sharp increase in property prices and overall consumer prices. The Chinese central bank has already raised interest rates 5 times since October 2010. However, inflation continues to remain stubbornly high. At 6.4% in June, inflation has become a major concern for policy makers in Beijing who worry that high prices could fuel discontent among ordinary Chinese.

The successive economy-cooling steps taken so far have already caused some concern in the rest of the world that the Chinese economy could slow more rapidly than intended. Any sharp weakening in China, which has become a key engine for global growth, would be unwelcome news for the rest of the world, especially at a time when the United States and Europe are struggling with heavy debt loads and high unemployment levels and as Japan is still grappling with the aftermath of the earthquake and tsunami.

However, most economists believe that China is headed for a soft landing and the robust GDP figures for the 2nd quarter appear to support these expectations.

HIGHEST NPAs IN SMALLEST HOME LOAN BRACKET

High inflation and the sharp rise in interest rates by banks after the Reserve Bank of India's (RBI) monetary tightening has taken a toll on small borrowers' ability to repay loans. According to recent finance ministry data that captures the performance of public sector banks, instances of home loan defaults contributing to gross non-performing assets (NPAs) was the highest in the category of loans up to Rs 2 lakhs. The figure stood at 6% in 2010-11, slightly lower than 6.4% in 2009-10.

As loan amounts rose, instances of defaults declined. For Rs 2-5 lakhs, gross NPAs (as a percentage of the home loan portfolio) were 4.84%. In the Rs 5-10 lakhs bracket, it was 3.68%. At 1.56%, it was the lowest for loans above Rs 25 lakhs, according to the data.

The margin money requirement relative to earning capacity is comparatively higher among borrowers in the lower-income brackets. As a result, borrowers resort to private sources, including moneylenders to meet their requirement. In times of crises like job loss or a bad crop, private creditors are able to exercise greater pressure for recovery, compared to banks. This directly impacts borrowers' repayment commitment to banks. Loans of above Rs 25 lakhs are taken by borrowers who are salaried employees or run established businesses, indicating a greater ability to absorb a rise in easy monthly installments.

Did You Know?

The National Stock Exchange launched the CNX Consumption Index on July 12. This index comprises 30 stocks listed on the NSE representing sectors such as consumer non-durables, healthcare, auto, telecom services, pharmaceuticals, hotels and media among others.

Weekly Spotlight

	July 8	July 15	% change	
			Weekly	YTD
Sensex	18,858.04	18,561.92	↓ (1.57)	↓ (9.49)
Nifty	5,660.65	5,581.10	↓ (1.41)	↓ (9.02)
US	12,657.20	12,479.73	↓ (1.40)	↑ 7.79
China	2,797.77	2,820.17	↑ 0.80	↑ 0.43
Japan	10,137.73	9,936.12	↓ (1.99)	↓ (2.86)
Hong Kong	22,726.43	21,875.38	↓ (3.74)	↓ (5.04)
Germany	7,402.73	7,220.12	↓ (2.47)	↑ 4.42
UK	5,990.58	5,843.66	↓ (2.45)	↓ (0.95)
Brazil	61,513.24	59,478.01	↓ (3.31)	↓ (14.18)
NYMEX Crude (\$ per barrel)	96.20	97.20	↑ 1.04	↑ 6.35
Gold (\$ per oz)	1,541.50	1,587.00	↑ 2.95	↑ 12.91
Weekly DII Inflow (Rs.cr)	(1,898.76)	470.17		
Weekly FII Inflow (\$ mn)	1,292.58	163.74		
Cumulative DII Inflow - YTD (Rs.cr)	11,797.11	12,267.28		
Cumulative FII Inflow - YTD (\$ mn)	1,924.20	2,087.94		
Food Inflation (%)	7.61	8.31		

Deliberate with caution, but act with decision; and yield with graciousness, or oppose with firmness.
- Charles Caleb Colton

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