



Will India Emerge as the New China and Trigger the Next Commodity Boom?

Description

There has been considerable conjecture that India is on the cusp of a massive decades-long process of modernization and economic development that will transform its economy, thereby driving global growth in the way that China once did. The promise held by India's spectacular economic growth offers considerable hope for beaten-down commodity miners as the massive commodities boom triggered by China's own meteoric rise has come to an end.

In fact, there are a range of indicators that India's economy is set to expand rapidly over the next decade, and this will certainly improve the outlook for the struggling commodities mining sector.

Now what?

Firstly, India's economy is growing at a startling rate.

For the first quarter 2016 India's GDP grew by an astounding 7.9%, which was an impressive 60-basis-point increase over the 7.3% year-over-year growth reported for 2015. Such impressive economic growth now sees India on track to exceed the 7.5% forecast by the IMF for 2016.

This highlights that India's economy is growing at a faster rate than China's. For 2015 China's GDP growth slowed to 6.9%, which was its lowest level in 25 years. Then on top of this, its GDP growth for the first and second quarters 2016 fell even further to only 6.7%, its slowest rate of quarterly growth since the global financial crisis.

Secondly, the lack of investment in India's mining sector, along with a shortage of vital commodities such as coking coal, is expected to drive significantly higher demand for imports.

You see, steel—just like copper and zinc—is a vital element used in the manufacture of the infrastructure that is required to support economic growth and the housing necessary to accommodate a rapidly expanding urban population.

However, India is experiencing considerable shortages of a range of commodities such as coking coal and copper, which will force it to rely on imports to meet the rising demand. In fact, the U.S. Energy

Information Administration estimates that India lacks sufficient coking coal reserves to meet demand from its steel industry.

This explains **BHP Billiton Ltd.'s** plan to expand its coking coal output by 8% over next two years. It also bodes well for Canada's largest producer of coking coal, **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), which earned 37% of its gross profit from coal in the second quarter 2016.

Finally, India is well on its way to becoming the world's third-largest consumer of crude.

Whereas China's demand for oil is waning, which is one of the causes of the protracted downturn in crude, demand for oil in India continues to rise significantly. This sharp up-tick in demand is reflected in India's voracious consumption of petroleum products, which rose by 11% for the year ending June 2016 compared to the previous year.

More significantly for oil companies, India's nascent oil industry is incapable of meeting demand, and this in combination with the sharp up-tick in consumption saw petroleum imports increase by a staggering 33%.

This strong growth in demand for oil and metals will continue for some time.

You see, a key indicator of economic development, growing urbanization, and expanding wealth within a country is the volume of car sales. For 2015 India's car sales surged to a record of just over two million units, a staggering 10% higher than the previous year. When considering that India has the world's sixth-largest car industry, it bodes well for increased demand for steel, copper, and other metals.

So what?

After decades of demonstrating considerable promise and many false starts, India is emerging as an economic powerhouse that will grow rapidly in the coming decade. While this is a promising sign for coking coal, base metals, and other commodities, it doesn't necessarily foreshadow a return to the heady days of the commodity boom that accompanied China's meteoric growth.

India's contribution to global economic growth remains quite small. Estimates from a report authored by global bank HSBC indicate that it will take India another 11 years to find itself in the same position as China in 2005 when its own economic growth took off.

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1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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