Indian Economy

Industrial Production

Industrial production declined in Nov 2015 for the first time in last 13 months

Industrial growth dropped to negative in Nov 2015 after 12 successive months of increase, albeit sporadic. After a near double-digit growth (9.9% revised) in Oct 2015 driven by lower statistical base, industrial production fell by 3.2% in Nov 2015. Manufacturing, with around 75% weightage in the Index of industrial production (IIP), conceded 4.4% fall in production during the month after a staggering 10.6% growth in the previous month that pulled down the overall industrial production despite growth in the other two sectors namely mining and electricity. Mining grew by 2.3% while electricity registered a feeble 0.7% growth during Nov 2015.

**Fig 1: Industrial Output Growth from April 2014**

Use-based classification – Among the sub-sectors of manufacturing, the most dismal was capital goods this time with 24.4% decline during Nov 2015 after achieving double-digit growth in the previous four months. Production of basic goods and intermediate goods also declined by 0.7% during the month concerned while both recorded positive growth a month ago. Consumer goods however fared well with 1.3% growth in Nov 2015 driven by a decent 12.5% growth in the durable sub-segment. Non-durable segment conceded 4.7% drop in production this time after witnessing the same percentage of growth in the previous month.

**Cumulative IIP growth for Apr - Nov 2015-16 is still higher** - Despite the shock in Nov, the cumulative industrial growth for April-November 2015 over the corresponding period of the previous year stands at 3.9%, compared with the 2.5% growth registered in the same period in 2014-15. As mentioned in the earlier months, the growth in IIP is based on selected sectors and not at all broad based. Therefore, the underlying weakness of the broader industrial scenario cannot be ruled out and we need to wait for a couple of more months to see the trend.
Industry group-wise analysis of engineering products during Nov 2015

The industry group-wise picture turned gloomy in Nov 2015 in line with the broader industrial scenario. Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, seven conceded negative growth y-o-y during Nov 2015 while only two were in green. 'Office, accounting & computing machinery' continued to remain the fastest growing group but with much lower 11.1% growth in Nov 2015 as against 48.4% growth a month ago. 'Radio, TV and communication equipment & apparatus' was the other group that recorded positive growth at 9.7% during the month concerned. On the flipside, 'Electrical machinery & apparatus' was the worst hit in Nov with 46.5% decline while 'Medical, precision & optical instruments, watches and clocks' recorded 10.1% drop in production over the same month last year. However, cumulative growth figures for Apr – Nov 2015 showed the reverse where 'Electrical machinery & apparatus' recorded fastest growth at 7.3% followed by 'Motor vehicles, trailers & semitrailers' with 7.1% growth. On the other hand, 'Medical, precision & optical instruments, watches and clocks' conceded highest decline during the first 8 months of the current fiscal.
Outlook: Despite a decline in production in Nov 2015, Indian industry is expected to see modest recovery in this fiscal.

Inflation

Retail inflation continued to harden for the fifth straight month to Dec 2015

India’s retail or consumer price index (CPI) based inflation continued to move northward and hit 5.61% in Dec 2015 from 5.41% during Nov 2015. Food prices were the main spoil sport here as food inflation rose to 6.40% in Dec 2015 from 6.07% a month ago. The high base effect of the previous year started waning off in line with our expectation and retail inflation surged continuously from around 3.7% in July 2015. Core retail inflation also went up to 4.5% in the reporting month. Retail prices continued to show negative inflation but price level started climbing up as wholesale inflation climbed up to -0.73% in Dec 2015 from around 2% of deflation a month ago.

![Fig 6: WPI and CPI Inflation from April 2013](image)

Source: CSO, Office of the Economic Advisor, Govt. of India

Outlook: Some of the economists expects headline CPI to come down slowly over the next couple of months, particularly on the back of lower oil prices that drives the prices of almost all commodity baskets.

Non-food credit disbursal remained poor - Non-food bank credit growth quickened to 8.8% in Nov 2015 from 8.3% in Oct 2015. However, the year-on-year comparison showed that it slowed down from 10.5% during the same month last year. Credit to industry increased by a higher 5.0% in Nov 2015 from 4.6% a month ago but was much lower as compared to 7.3% during the same month last year. Deceleration in credit growth to industry was observed in all major sub-sectors barring chemical and chemical products and basic metal and metal products. Credit situation in manufacturing sector however failed to revive. Credit disbursal towards manufacturing sector in Nov 2015 recorded only 4.1% growth as against a much higher 14.7% growth during the same month last year.
Indian Rupee depreciated vs. the US dollar during Dec 2015

Despite a 0.7% appreciation vis-a-vis the US Dollar during Dec 2015, the Indian rupee conceded its fifth consecutive year of depreciation against the greenback during 2015. The rupee weakened by 4.73% (as per the reference rate of RBI) vis-a-vis the US dollar during the last calendar year. Outflow of foreign fund from Indian capital market following the expectation of interest rate hike by the US central bank, that actually started in the last peg of 2015, was the reason for weakening of rupee.

Table 1: Performance of Indian Rupee vs. Major Traded Currencies

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
<th>GBP</th>
<th>EURO</th>
<th>YEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change (%) in Dec 2015</td>
<td>-0.73%</td>
<td>-2.01%</td>
<td>2.57%</td>
<td>1.25%</td>
</tr>
<tr>
<td>Direction</td>
<td>Appreciation</td>
<td>Appreciation</td>
<td>Depreciation</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Change (%) in 2015</td>
<td>4.73%</td>
<td>-0.24%</td>
<td>-5.85%</td>
<td>4.08%</td>
</tr>
<tr>
<td>Direction</td>
<td>Depreciation</td>
<td>Appreciation</td>
<td>Appreciation</td>
<td>Depreciation</td>
</tr>
</tbody>
</table>

Source: RBI Reference Rates

Outlook for rupee is weak – We stick to our view that possibility of further tightening of benchmark interest rate in the US and Devaluation of Yuan may continue to keep Rupee under pressure going forward. Rupee is expected to stay in the range of 66.5 - 67.5 against the US Dollar during the first two months of 2016.

RBI kept policy Repo rate unchanged in its fifth bi-monthly policy review meet

The RBI in its fifth bi-monthly policy review meet for 2015-16 on 1st Dec 2015 kept the policy repo rate unchanged at 6.75%. Consequently the reverse repo rate under the LAF stood unaltered at 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate at 7.75%. The cash reserve ratio (CRR) of scheduled banks was kept unchngaged at 4.0% of their net demand and time liability.

Global Economy

Slowdown in China induced IMF to cut global growth forecast: IMF reduced the forecast of global growth in 2016 by 0.2 percentage points to 3.4% in Jan 2016. This is the third time in less than a year the IMF cut its forecast on global growth as economic activity in china slowed down to below expected level. China reported that growth for 2015 hit 6.9% after a year in which the world’s second biggest economy endured huge capital outflows, a slide in the currency and a summer stock market crash. IMF said that a steeper slowing of demand in China remained a risk to global growth.

Source: RBI, Govt. of India Websites, ICRA, Newspapers & Periodicals