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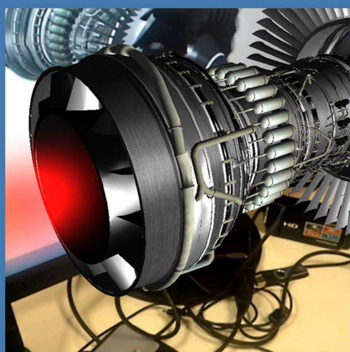
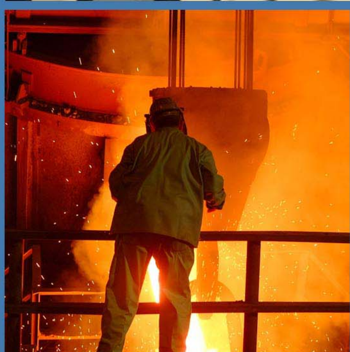
ENGINEERING THE FUTURE

# Monthly Economic Bulletin





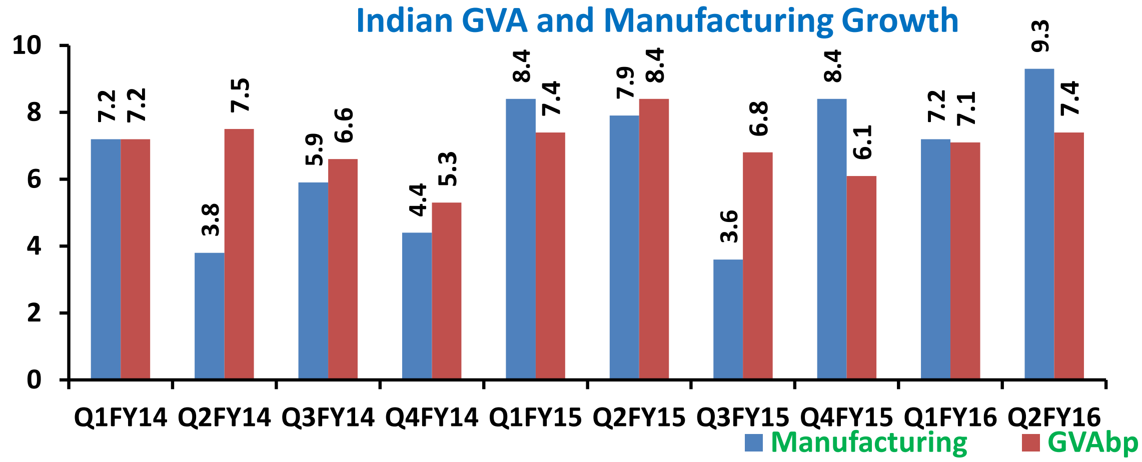



November 2015

# Indian Economy

## Economic Growth

### Indian economy grew at an accelerated pace during the second quarter of 2015-16




India is probably back to growth path as evident from the latest data on economic activities published by the govt. Real GDP was estimated at RS. 25.57 lakh crore during the second quarter of fiscal 2015-16, registering a growth of 7.4% y-o-y (year-on-year, i.e., over the same period last fiscal). The new method of National Account estimation also recorded that GVA (Gross value Added) at basic prices grew by 7.4% y-o-y during the said quarter. This overall GVA growth was boosted by manufacturing and financing & business activities. Firm sector also performed better with 2.2% growth as against 1.9% over the previous quarter and 2.1% over the same period last year. Industry also saw a better growth at 6.8% as against 6.5% during the previous quarter but growth of services declined marginally to 8.8% from 8.9% during the previous quarter.

Manufacturing sector achieved 9.3% growth y-o-y during the second quarter of 2015-16 which was noticeably higher than 7.2% registered a quarter ago and 7.9% in the year ago period. Apart from manufacturing, two other sectors namely 'trade, hotel, transport, communication & services related to broadcasting' and 'financial, insurance, real estate & professional services' outpace the overall GVA growth with 10.6% and 9.7% growth respectively. On the flipside, construction registered a dismal 2.6% growth y-o-y as against a much better 6.9% growth during the previous quarter and a robust 8.7% growth during the same quarter last fiscal.

The most optimistic sign in this growth figure was surge in manufacturing. However, the growth in current prices came lower than the growth in constant prices due to negative inflation leading to a negative GDP deflator.

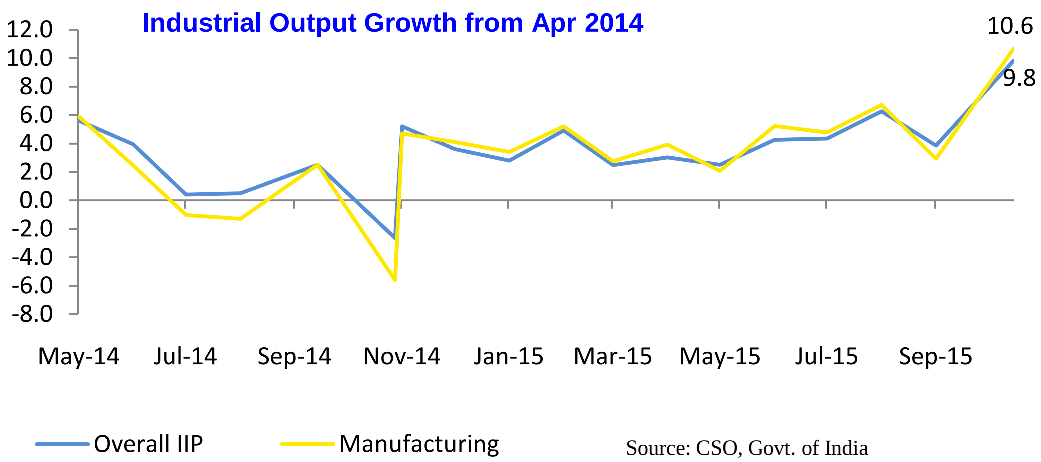
**Outlook:** Despite the gradual rise in GDP numbers, some analysts believe that India is not likely to see 8% - 9% growth anytime soon. However, it is quite evident that the rise in growth is the reflection of steps taken by the government to boost public investment and push projects approval and the full effect is yet to come.

# Industrial Production

## Industrial production growth jumped to five-year high in Oct 2015 on festive demand

After a slump in during Sep 2015, Industrial output growth in India, measured by the Index of Industrial production (IIP) jumped to five-year high of 9.8% in Oct 2015 backed by the festive demand as the festive season in 2015 was shifted to Nov from Oct in the previous year. Sectoral analysis showed that this high growth was attributed to a solid double-digit growth of manufacturing sector and near double-digit growth of electricity. Manufacturing sector, with nearly 75% weightage in IIP, recorded a healthy 10.6% growth in output during Oct 2015 as against a feeble 2.9% growth in the previous month. Electricity sector also recorded an impressive 9.0% growth in Oct 2015 despite the growth being lower than the 11.4% achieved a month ago. Mining sector grew by 4.7% in Oct 2015 as against 3.0% in Sep.

**Fig1: Industrial Output Growth from April 2014**

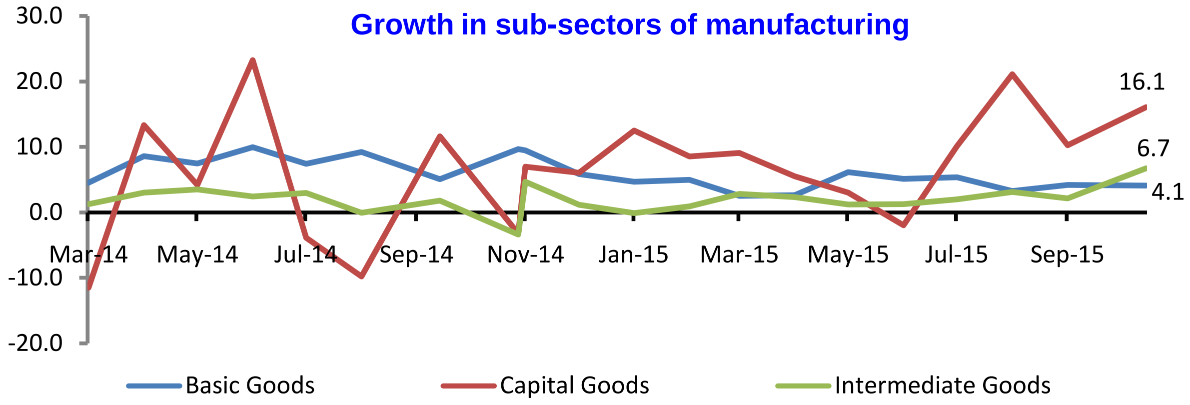



Source: CSO, Govt. of India

**Use-based classification** – Among the components of manufacturing, Capital Goods continued to achieve double-digit growth and growth accelerated in Oct 2015 at 16.1% in Oct 2015 from 10.3% in Sep 2015 while the Consumer Goods sector jumped to 18.4% from mere 1.2% in the previous month backed by a 69-month high growth in output of consumer durables sector at 42.2% during Oct 2015. Consumer non-durables also bounced back to growth path with 4.7% growth after conceding declines in the previous three months. Intermediate goods also increased to 6.7% during the month concerned but basic goods recorded a slightly lower growth in Oct 2015 at 4.2% as against 4.1% a month ago.

**Cumulative IIP growth for the first half of 2015-16 is still higher -** Industrial production growth during Apr – Oct 2015 was recorded at a much higher 4.8%, driven by the sudden surge in Oct 2015 as compared to 2.2% during the same period last year. Manufacturing, needless to say was the key driver of growth. As mentioned in the last month, the growth in IIP is based on selected sector 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 months to see the trend more clearly.

Fig 2: Growth in sub-sectors of manufacturing

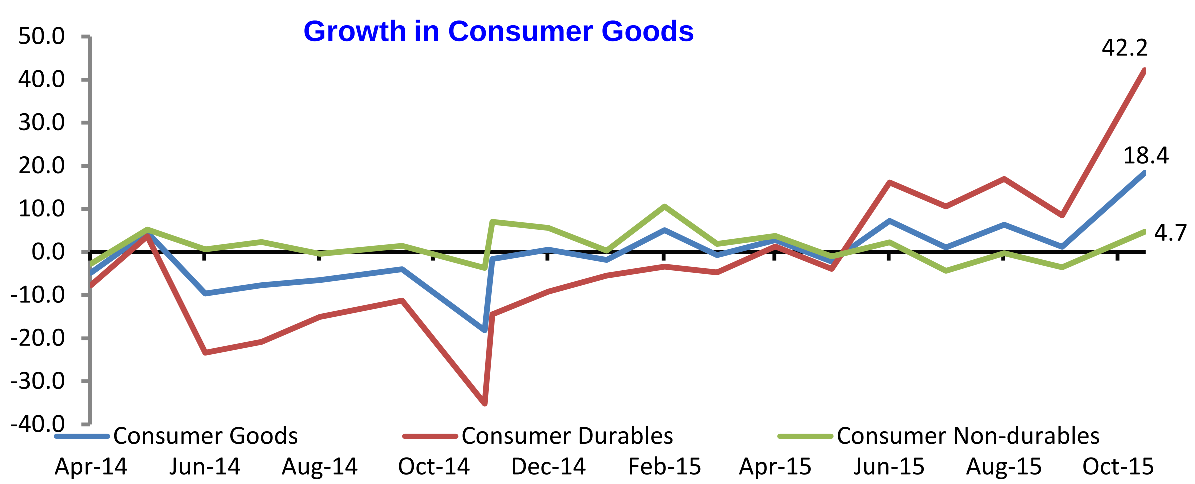



Source: CSO, Govt. of India

**Industry group-wise analysis of engineering products during Nov 2015**

The scenario was much better this month. Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, only two conceded negative growth y-o-y during Oct 2015 while the rest seven were in green. Six out of this seven industry groups achieved double-digit growth in Oct 2015 with 'Office, accounting & computing machinery' being the fastest growing group with 48.4% growth. On the flipside, 'Medical, precision & optical instruments, watches and clocks' recorded highest decline at 6.8% during Oct 2015. Cumulative growth figures for Apr – Oct 2015 reflected the short term trend that showed three industry group conceded decline in output during this time while the rest six registered positive growth. 'Electrical machinery & apparatus' was the best performer with 14.7% growth followed by 'Motor vehicles, trailers & semitrailers' with 9.2% growth. On the other hand, 'Radio, TV and communication equipment & apparatus' was the worst hit in 2015-16 with 7.2% decline in output.

Fig 3: Growth in Consumer Goods




Source: CSO, Govt. of India

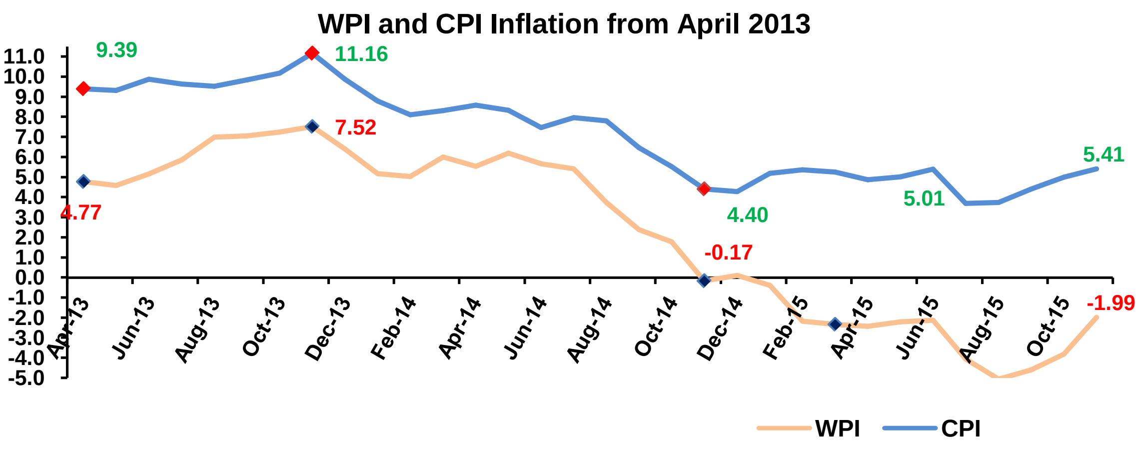
**Outlook:** The abnormally high growth in Oct is not liekly to sustain but industry is expected to see modest recovery in this fiscal.

# Inflation

## Retail inflation jumped further to 5.41% in Nov 2015

India's retail or consumer price index (CPI) based inflation continued to move northward and hit its 14-month high at 5.41% during Nov 2015 from 5% in the previous month because of rise in food prices. Food inflation for the retail segment surged to 6.07% during Nov 2015 from 5.25% in the previous month. The high base effect of the previous year started waning off in line with our expectation. Prices of vegetable and pulses eased towards the end of Nov 2015 but upside pressures witnessed in oilseeds and sugar. Rise in food prices had also been reflected in the trend of Wholesale Price number that showed a lower 1.99% deflation in Nov 2015 from 3.81% a month ago. The rise in food inflation after the poor monsoon session followed by the impact of the recommendations of pay commission emerged as upside risks to inflation even as the crude prices continued to slide in the international market.

**Fig 6: WPI and CPI Inflation from April 2013**




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

**Outlook:** The waning of base effect may keep retail inflation higher for the rest of the fiscal and it is unlikely to came back to below 5% level as the uptrend in food prices are likely to continue in the next quarter. Upside risk on onflation is apprehended to stay for sometime now. CPI inflation undershoot the Jan 2016 target of 5.8% set by the RBI.

**Non-food credit disbursal remained poor -** Non-food bank credit growth deccelerated marinally to 8.3% in Oct 2015 from 8.6% a month ago. However, the year-on-year compasrison showed that it slowed down from 11.1% during the same month last year. Credit to industry increased only by 4.6% in Oct 2015 as compared with the increase of 7.8% in Oct 2014. Deceleration in credit growth to industry was observed in all major sub-sectors barring barring chemical and chemical products and vehicles, vehicle parts and transport equipment. Credit situation in manfacturing sector continued to remain dismal. Credit disbursal towards manufacturing sector in Oct 2015 grew by 4.9% as against a much higher 16.5% during the year ago month.

## Indian Rupee deppreciated vs. the US dollar during Nov 2015

After two months of appreciation, Indian rupee again weakened vis-à-vis the US Dollar during the month of Nov 2015 and crossed 66 per US Dollar level again during the month. Strong possibility of exit of US Federal Reserve from 'zero' interest rate policy and uncertainty in the domestic capital market led to strengthening of dollar that made rupee weaker in turn.

**Table1: Performance of Indian Rupee vs. Major Traded Currencies**

| | USD | GBP | EURO | YEN |
|---|---|---|---|---|
| **Change (%) in Nov 2015** | 2.44% | 0.43% | -1.37% | 0.91% |
| **Direction** | Depreciation | Depreciation | Appreciation | Depreciation |
| **Change (%) in 2015** | 5.50% | 1.81% | -8.21% | 2.80% |
| **Direction** | Depreciation | Depreciation | Appreciation | Depreciation |

Source: RBI Reference Rates

**Outlook for rupee is weak –** Tightening of benchmark interest rate in the US and Devaluation of Yuan may continue to keep Rupee under pressure going forward.

### 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 unchnaged 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 unchnaged at 4.0% of their net demand and time liability (NDTL);

# Global Economy

**US Federal Reserve Finally Exit 'zero interest rate' policy** – Months of global speculation came to an end finally. The Federal Open Market committee (FOMC) of US Federal Reserve on 16th Dec 2015 raised its benchmark Federal Fund rate by 25 basis points (bps) from the 0% - 0.25% range to a target of 0.25% - 0.5%. As per the US central bank, some latest macroeconomic data pointed out to a speedier and steady recovery of the largest economy. The unemployment rate recently hit a seven-year low while jobs growth, too, has been steady. However, the Fed assured that the tightening of interest rate will only be gradual so that the pace of economic recovery does not get hampered. The post- meeting statement said: "The committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run."

**Impact of Fed rate hike on Indian economy –** US has tightened its interest rate while India has started moving towards the lower interest rate regime. It is expected that the interest rate differential between these two countries will be narrowing with time. This may lead to some pull out of dollars from the Indian market. There is a possibility that rupee will weaken marginally in terms of US Dollar. However, robust stockpile of foreign exchange reserves and improving macro-economic environment alongside policy reforms by the incumbent government is likely to help Indian economy to withstand the pressure of rate hike in the largest economy of the world.

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