Indian Economy

Industrial Production

IIP plunged 0.1 per cent in March 2016

The Index of Industrial Production (IIP) rose at a cowed pace in March 2016, largely losing the momentum generated in February when it had risen by 2 per cent, after declining in previous three months. Factory output measured in terms of IIP was 2.5 per cent in March last year. This stagnation of the IIP is mainly due to the poor performance of manufacturing sector, which constitutes roughly three-fourth of the index and which in turn contracted by 1.2 per cent as against 0.7 per cent growth in February 2016. Mining sector contracted by 0.1 per cent in March, which is extremely contradictory considering the 5.1 per cent growth witnessed in February. The IIP was boosted solely by electricity generation, which rose by 11 per cent as against 9.6 per cent seen in the previous month.

Use-based classification – IIP is rather disappointing on account of capital goods and non-durable goods. 15.4 per cent contraction in capital goods sector indicate the continued weakness of investment demand and it reflects that growth is extremely vulnerable. The growth rates of basic goods and intermediate goods are 4.0 percent and 3.7 percent respectively in March, 2016. On the demand side, decline in consumer non durables accelerated to 4.4 per cent from the 4.2 per cent fall in the previous month. Growth in consumer durables however increased by 8.7 per cent after growing by 9.7 per cent in February.

Cumulative IIP growth slowed down in 2015-16: Cumulatively IIP grew by 2.4 per cent in the 2015-16 financial year, which is less than the growth of 2.8 per cent in the previous year. A better-than-expected growth in core sector output had raised hopes of a decent growth in IIP. Manufacturing cumulatively grew by 2 per cent in 2015-16, down from 2.3 per cent in the previous fiscal. Growth in mining increased by 2.2 per cent in the last financial year as compared to 1.4 per cent rise in 2014-15. Annual growth in electricity generation however moderated to 5.6 per cent from the 8.4 per cent growth seen in last fiscal. Capital sector growth went down by 2.9 per cent after a 6.3 per cent rise in the previous financial year. This contraction consistently acted as the big drag on the performance of the IIP Index.
Industry group-wise analysis of engineering products during March 2016

In March, 13 out of the top 25 products within manufacturing registered growth while in February the number of sectors were 19. The output of electrical machinery & apparatus continued to witness double-digit contraction for the fifth consecutive month in March 2016. However, the pace of contraction narrowed to an extent of 36.2% in March 2016 from 46.7% in February 2016. The output of radio, TV & communication equipment & apparatus expanded by a robust 36.5% in March 2016, led by the substantial 60.2% increase in the production of telephone instruments including mobile phone & accessories. Office, accounting & computing machinery, Medical, precision & optical instruments, watches and clocks; Electricity, and commercial vehicles also contributed positively in the growth of IIP.

**Outlook:**

Stagnating industrial growth is probably indicating a dim chance for the RBI to act in its June review because of the uncertainty in monsoon. The numbers are disappointing and indications of a turnaround are shattered. It is opined that government’s focus on Make in India has not created significant improvement in industrial output over the two quarters.
Inflation

Retail inflation accelerated to 5.39 per cent in April 2016

The new fiscal 2016-17 started with a spike in retail inflation for the first time since January. The retail inflation measured by the Consumer Price Index (CPI) jumped to a higher-than-expected 5.4% in year-on-year (y-o-y) terms in April 2016 from a six-month low of 4.8% in March 2016. Food inflation, with nearly 50% weightage in CPI inflation scaled up to 6.32% in April against 5.2% a month ago. Within the food category, pulses registered the sharpest rise at 34.1% in April 2016 that was similar to that of the previous month at 34.2%. This is followed by rise in prices of Sugar by 11.2% in April 2016 in comparison to 4.2% in March 2016. Food categories like Pulses and Sugar saw the double digit inflation during the first month of the new fiscal 2016-17. The provisional inflation rate for rural area and urban area stood at 6.1% and 4.7% respectively in April 2016 as against 5.7% and 3.95% in March 2016. The Core-CPI inflation (excluding food & beverages and fuel & light) rose to 4.9% in April 2016 from 4.7% in March 2016, while remaining lower than headline CPI inflation for the eighth consecutive month. Core-CPI rose by a considerable 0.6% in m-o-m terms in April 2016, as compared to 0.4% in April 2015.

The Wholesale Price Index (WPI) on the other hand, ended their deflationary trend in April 2016 and moved up to 0.3% during the month compared to a deflation of 0.9 per cent in March 2016. Wholesale prices recovered after a y-o-y fall for 17 straight months. Here also inflation for primary food articles rose to 4.2% in April 2016 from 3.7% in March 2016.

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

Outlook: The growth in CPI inflation in April 2016 has reduced the likelihood of a rate cut in the upcoming June 7 policy review. Some economists are of the opinion that RBI will be cautious of the monsoons, its spread and its effect on crops. It is premature for a rate cut to be announced. Despite the government’s focus on Make in India, the ground reality is different and any real and sustainable turnaround in industrial output is not visible over the two quarters.
Non-food credit disbursal declined over the month in March but grew over the year

Non-food bank credit growth was increased by 9.1 percent in March 2016 over the same month last year as against a higher 9.9 percent during Feb 2016. However, the growth was a bit higher than that of recorded in March 2015 at 8.6 percent. However, credit growth to industry just halved to 2.7 percent in March 2016 from 5.4% year-on-year in Feb 2016 and an even higher 5.6 percent during the same month last year. Credit growth continues to decelerate or decline for most sub-sectors, some of which include petroleum, coal products and nuclear fuels, construction, infrastructure and food processing. manufacturing sector this time recorded a dip in disbursement in credit by 2.3 percent as against a growth of 1.7% in February 2016. Credit growth was much higher at 9.1 percent during the last month of fiscal 2014-15.

Indian Rupee appreciated for the second straight month during Mar 2016

Indian rupee strengthened over the US Dollar for the second month in a row during April 2016 after two months of depreciation earlier. Like the previous month, the appreciation of rupee was mainly driven by selling of US dollars by banks and exporters in view of sustained foreign capital inflows. Weakness of dollar in the overseas market also boosted the rupee value against the dollar.

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

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<th>USD</th>
<th>GBP</th>
<th>EURO</th>
<th>YEN</th>
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<tbody>
<tr>
<td>Change (%) in Apr 2016</td>
<td>0.28%</td>
<td>2.43%</td>
<td>0.85%</td>
<td>4.91%</td>
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<tr>
<td>Direction</td>
<td>Depreciation</td>
<td>Depreciation</td>
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<tr>
<td>Change (%) in 2016</td>
<td>0.29%</td>
<td>-0.96%</td>
<td>4.45%</td>
<td>12.47%</td>
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<td>Direction</td>
<td>Depreciation</td>
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Source: RBI Reference Rates

Outlook for rupee is weak – Despite the appreciation of rupee during the last couple of months, broader weakness in Rupee still exists. The main driving force against rupee is the possibility of further interest rate tightening by the US Federal Reserve that will strengthen dollar.

Outlook for RBI Policy: No Rate Cut is Expected on June 7

RBI is likely to keep the policy repo rate and CRR unchanged on 7th June 2016 as inflation is expected to slowdown going forward and RBI is likely to wait for some more time to see th trend in inflation during the monsoon season.

During its April 2016 policy meet, the RBI reduced its policy repo rate by 0.25 per cent to 6.5 per cent, for the first time after six months. The apex bank has lowered the policy rate by 1.5 per cent cumulatively since January 2015.

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