Monthly Economic Bulletin

August 2016
Indian Economy

Economic Growth

GDP growth slowed down but remained above the comfortable 7%

Domestic economy witnessed 7.1% GDP growth during the first quarter (Apr - Jun) of fiscal 2016-17 (Q1FY17) as against 7.5% during the same quarter last fiscal. This 7.1% growth was at its lowest in last six quarters. However, Gross Value Added at Basic Prices (GVAbp) recorded a marginally better 7.3% growth during Q1FY17 as against 7.2% during the same quarter last fiscal. Manufacturing growth accelerated to 9.1% during the quarter from 7.3% that pushed the growth higher despite poor performance by some other sectors.

The economic activities which registered growth of over 7% in Q1 of 2016-17 over Q1 of 2015-16 are 'manufacturing, electricity, gas, water supply & other utility services,' ‘trade, hotels, transport & communication and services related to broadcasting', 'financial, insurance, real estate and professional services' and ‘public administration, defence and other services’. On the flipside, growth in 'agriculture, forestry and fishing', ‘mining and quarrying’, and ‘construction’ is estimated to be 1.8 per cent, (-) 0.4 percent, and 1.5 per cent respectively during this period.

Expenditure side analysis of GDP reflected that India remained a consumption-driven economy with no indication of pick-up in private investment activities in the economy. Private consumption grew by 6.7% in the reporting quarter contributing 55% of GDP while Gross Fixed Capital Formation, an early signal for investment demand, conceded a higher 3.1% decline in the quarter ended June 2016 as against 1.9% in the previous quarter.

Outlook: This year the domestic economy has seen a normal monsoon that is likely to drive agricultural output from the next quarter. Pay hike of central govt. employees and pensioners is also expected to give a push to urban expenditure. Moreover, the effect of a series of structural reform measures adopted by the government over the last two years is now beginning to be felt. Growth is expected to be higher in the coming quarters as a combined effect and may get closer to 8% this fiscal.
Poor Industrial show after April 2016, IIP declined in July 2016

After two months of growth, Industrial Production surprised the policymakers on the downside by shrinking 2.4% during Jul 2016 against the consensus forecast of 1.3% growth. Dismal performance of the manufacturing sector conceding 3.4% drop in production mainly led the decline of overall industrial output. Mining and electricity sector recorded 0.8% and 1.6% growth respectively in July 2016 but that was much lower than the growth achieved in the previous month. Overall IIP growth was also revised marginally downward to 2.0% from the primary estimate of 2.1%.

Use-based performance showed weakness in almost all sectors: The downturn of the industrial production during the month of July was broad-based, with a weaker performance of all the use-based categories except consumer durables. The massive 29.6% contraction of the capital goods sector as against 16.3% in June 2016 and 1.7% fall in consumer non-durables in July 2016 from a 0.9% growth in the previous month weighed on the overall production. Although, basic goods, intermediate goods and consumer goods recorded 2.0%, 3.4% and 1.3% increase in output, growth slowed down over the previous month. Only consumer durables performed better than the growth achieved in the previous month registering 5.9% growth as against 5.6% in June 2016.

Cumulative IIP growth during Apr - Jul 2016 dropped to negative territory: Cumulative industrial output growth declined by 0.2% during the first four months of fiscal 2016-17 as against 3.5% growth during Apr - Jul 2015-16 due to sudden decline in the month of July 2016. Manufacturing recorded a negative 1.4% growth on a cumulative basis as against 4.0% growth during the same period last year. Use based analysis showed that Capital goods was the biggest spoilsport with 21.3% decline during the first four months of fiscal 2016-17 in comparison to 4.2% increase in the same period last year. Consumer non-durables also added to the poor performance of IIP by conceding 3.6% decline during Apr - Jul 2016-17 as against 0.1% growth in the same period last year. Only consumer durables recorded a higher 7.3% growth during Apr - Jul 2016-17 as against 5.3% recorded during the same period last fiscal.
Industry group-wise analysis of engineering products during Apr - July 2016

Among the nine industry groups fall under engineering, only 'Electrical machinery & apparatus n.e.c.' recorded decline in production by 51.3% in the first four months of fiscal 2016-17 while all other industry groups achieved growth. Highest growth was seen in the production of 'Radio, TV and communication equipment & apparatus' which was 12.6% followed by 'Machinery and equipment' that registered 8.9% growth during Apr - Jul 2016-17. However during Jul 2016, four industry groups recorded negative growth over the same month last year reflecting the overall trend of industrial production.

Outlook: Mining and electricity production are likely to be muted during the next couple of months that may weigh upon the aggregate IIP numbers. Dismal performance of capital goods, a reflection of weak investments and decline in output of consumer non-durables, a sign of consumption demand are also likely to continue. Possibility of any sharp recovery of industrial production in the near term remains feeble.
Inflation

Retail price inflation eased in Aug 2016 from over 6% in July 2016

Consumer Price Inflation (CPI) or Retail Inflation eased substantially to 5.05% during Aug 2016 from a 22 month high of 6.07% in the previous month which was above the comfort level of RBI. Considerable softening in the inflation for food and beverages, as well as a mild easing in the print for fuel & light and housing pulled down the headline number. Growth in year-on-year inflation for food & beverages, accounting for around 50% of the retail commodity basket registered a sizable moderation to 5.9% in August 2016 from the 23-month high 8.4% in July 2016. Inflation on fuel & light eased marginally to 2.5% in August 2016 from 2.7% in July 2016. Core-CPI inflation, (inflation excluding food & beverages and fuel & light) however inched up to 4.7% in August 2016 from 4.6% in July 2016. Nevertheless, core-CPI inflation remained lower than headline CPI inflation for the twelfth consecutive month.

Wholesale Price Inflation, on the other hand surged to 3.74% in Aug 2016 from 3.55% in the previous month.

Fig 6: WPI and CPI Inflation from April 2013

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

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

Outlook - Although the monsoon turnout has been weaker than forecast, surplus rains in July 2016 have supported a healthy growth in kharif sowing, which would ease domestic price of foods and hence the overall inflation. Going forward, a favourable base effect may pull down inflation prints in the range of 4.0% - 5.0% in the remainder of 2016, with a trough in November 2016 and a gradual up-trend in the subsequent months of this fiscal. However, with domestic demand revival post pay revision warranting some caution, we continue to expect monetary easing to be limited to 25 bps in the remainder of 2016, despite the adverse IIP print for July 2016. *(Source: ICRA Analysis)*

Non-food credit growth increased over the month but still remained weak

Non-food bank credit increased by 8.3 per cent in July 2016 as compared with the increase of 8.4 per cent in July 2015. Credit to industry increased by 0.6 per cent in July 2016 as compared with
the increase of 4.8 per cent in July 2015. Major sub-sectors which witnessed contraction in credit include food processing, infrastructure, gems & jewellery and cement & cement products. Manufacturing growth remained in the negative territory with 3.3% decline in July 2016 as against a growth of 6.1% during the same month last year.

Indian Rupee appreciated marginally over the US Dollar in Aug 2016 after three months

Indian rupee was largely flat vis-à-vis the US Dollar during the month of Aug 2016 with only 0.08% of appreciation. Indian lawmakers are expected to implement a new regime of sales tax called Goods and Services Tax, which is considered as the nation's most ambitious economic reform since the 1990s. In its last policy review meet, US Federal Open Market Committee showed no hurry to raise interest rate further. Both these factors encouraged strengthening of emerging market currencies including 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 Aug 2016</td>
<td>-0.08%</td>
<td>-0.69%</td>
<td>0.47%</td>
<td>0.31%</td>
</tr>
<tr>
<td>Direction</td>
<td>Appreciation</td>
<td>Appreciation</td>
<td>Depreciation</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Change (%) in 2016</td>
<td>0.99%</td>
<td>-10.84%</td>
<td>2.93%</td>
<td>17.79%</td>
</tr>
<tr>
<td>Direction</td>
<td>Depreciation</td>
<td>Appreciation</td>
<td>Depreciation</td>
<td>Depreciation</td>
</tr>
</tbody>
</table>

Source: RBI Reference Rates

Outlook for rupee is weak – Despite the strength seen in the near term, we think that Rupee is likely to remain weak in the near term.

RBI reduced policy repo rate by 25 basis points in its fourth bi-monthly monetray policy review for 2016-17 on 4th Oct 2016

On the assessment of the current and expected macroeconomic situation, the RBI decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.5 per cent to 6.25 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.75 per cent. CRR however was kept unchanged at 4%.

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