Indian Economy

Industrial Production

Industrial production surged to 13-month high in Nov 2016

After several months of subdued or negative growth, industrial production in India jumped to 5.7% year-on-year during the month of Nov 2016. This is the highest growth of IIP, the measure of industrial production as adopted by the govt. since Oct 2015. Needless to say, the overall growth was attributed to a solid 5.5% growth of the manufacturing sector over the same month last year as the later carried around 75% weightage in overall IIP. Mining sector bounced back to growth path after 3 months with 3.9% growth and electricity recorded an even higher 8.9% year-on-year increase in production during the reporting month.

Use-based analysis showed growth in capital goods after 12 months: The most cheering news is substantial growth of capital goods sector after 12 months of consecutive decline. Capital goods, an early sign of investments, recorded a whopping 15% year-on-year growth in Nov 2016 for the first time after Oct 2015. Basic goods and intermediate goods grew by 4.7% and 2.7% respectively. Consumer non-durable achieved 2.9% growth in Nov 2015, the highest since Oct 2015 while durable segment surged by 9.8% in the reporting month. Consumer goods as a whole witnessed 5.6% rise in production in Nov 2016.

Cumulative IIP during Apr - Nov 2016 came back to growth path but still remained much lower than that of the previous fiscal: Cumulative Industrial production during the first eight months of fiscal 2016-17 recorded a marginal 0.4% growth as against a much higher 4.8% growth during the same period last year mainly due to dismal manufacturing that witnessed 0.3% decline in output during this time period as against 3.9% growth in the same period last fiscal. Mining output grew by a meagre 0.3% during Apr - Nov 2016 as against a growth of 2.1% during Apr - Nov 2015-16. Only electricity achieved a higher 5.0% growth during Apr - Nov 2016 as compared to 4.6% during the same period last fiscal. The reason behind the decline in manufacturing output was depressing capital goods sector conceding 18.9% fall in output as against 4.7% growth during the first eight months of the previous fiscal.
Industry group-wise analysis of engineering products during Apr - Nov 2016

Eight out of nine industry groups fall under engineering enjoyed growth in output during Nov 2016 while the number came down to six when growth is measured on a cumulative basis for Apr - Nov 2016. 'Office, accounting & computing machinery' was the only sector to concede a decline in production during Nov 2016. Output of 'Electrical machinery & apparatus' tumbled by 47.3% on a cumulative basis during the first eight months of fiscal 2016-17 but managed to grow by a substantial 23.2% during Nov 2016. 'Office, accounting & computing machinery' witnessed 5.2% decline in Nov 2016 and 7.1% drop in production during Apr - Nov 2016. Among the leading sectors, 'Radio, TV and communication equipment & apparatus' registered highest cumulative growth at 12.8% among the nine industry groups during Apr - Nov 2016 driven by a solid 32.2% growth in Nov 2016. 'Machinery and equipment' also recorded a decent 8.4% growth on a cumulative basis.

Outlook: This sudden surge in Nov IIP growth is good news for industry but that may not be the trend setter. Overall trend is not likely to see a sudden reversal during the rest of the fiscal as
capital goods, a reflection of weak investments and consumer non-durables, a sign of consumption demand are likely to remain weak.

**Inflation**

**Retail inflation declined to three-year low in Dec 2016**

India's retail or Consumer Price Inflation (CPI) softened for the fifth straight month and recorded at a three-year low of 3.41% in Dec 2016 as against 3.63% in the previous month. Decline in food prices due to availability of winter vegetable in the market led the downfall in headline numbers while suppressed demand following the demonization of high denomination currency notes by the union govt. was considered as another factor for low inflation. The consumer food price index dropped to a 15-month low of 1.34% in Dec 2016 from 2.03% cent the previous month. Core inflation however was over 4%.

Wholesale Price Inflation on the other hand surged to 3.39% in Dec 2016 from 3.15% in the previous month and food inflation, with around 15% weightage in the wholesale commodity basket declined by 2.2% year-on-year during the month.

**Fig 6: WPI and CPI Inflation from April 2014**

**Outlook -** CPI moved in line with our expectation during Dec 2016. Economists say that outlook on inflation is somewhat uncertain at this stage but retail inflation may again go up to around 5% by the end of the ongoing fiscal on account of the waning of the base effect and the impact of higher consumer demand on prices. However, CPI is not likely to go far beyond the comfort level of RBI.

**Non-food credit disbursal to industry contracted further in Nov 2016**

Non-food bank credit increased by 4.8% in Nov 2016 as compared with an increase of 8.8% in Nov 2015. Credit to industry contracted by 3.4 per cent in November 2016 in contrast with an increase of 5.0 per cent in November 2015. Major sub-sectors which witnessed deceleration/contraction in credit include infrastructure, food processing, chemical and chemical products, all engineering, textiles and basic metal and metal products. Disbursement of bank credit to manufacturing sector contracted by 7.7% in Nov 2016 as against 4.1% in the same month last year. (RBI Press Release)
Indian Rupee appreciated vis-à-vis the US Dollar in Dec 2016 after two months

The Indian rupee again appreciated over the US Dollar after weakening in the previous two months. In fact, the last month of the year saw Indian rupee strengthened over its other major traded currencies like Euro, GBP and Yen. However, Rupee depreciated over the Greenback during year 2016 mainly due to interest rate tightening by the US Federal Reserve.

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

<table>
<thead>
<tr>
<th>% Change in Dec 2016</th>
<th>% Change in 2016</th>
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<tbody>
<tr>
<td>USD  -0.83%</td>
<td>2.46%</td>
</tr>
<tr>
<td>GBP  -2.47%</td>
<td>-15.18%</td>
</tr>
<tr>
<td>EURO -1.68%</td>
<td>-1.22%</td>
</tr>
<tr>
<td>YEN  -4.23%</td>
<td>5.68%</td>
</tr>
</tbody>
</table>

**Direction**: Appreciation, Depreciation

Source: RBI Reference Rates

**Outlook for rupee is weak** – We stick to our view on rupee that it is likely to remain weak in the near term mainly due to the possibility of rate tightening by the US Federal Reserve and uncertainly on the economic activity following demonetization of high denomination currency notes.

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