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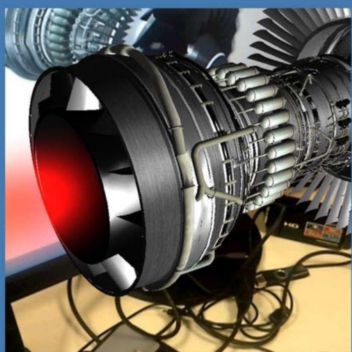
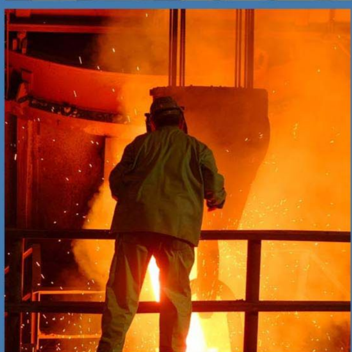
ENGINEERING THE FUTURE

Monthly Economic Bulletin





February 2016

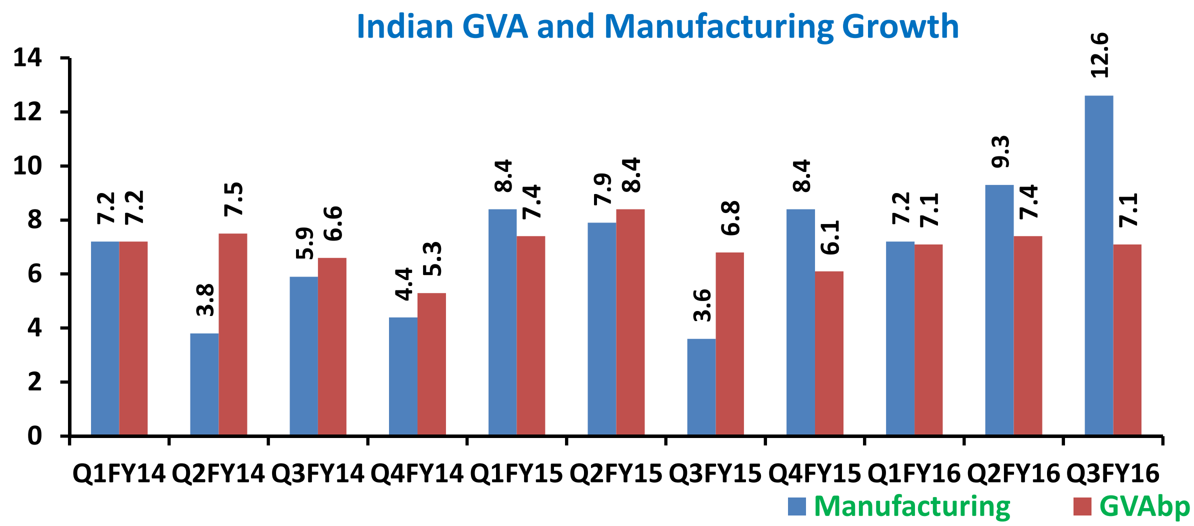
Indian Economy

Economic Growth

India is projected to grow faster in 2015-16 but real GDP growth in the third quarter declined

India is projected to grow faster in the current fiscal. Govt. of India estimated real GDP to grow by 7.6% during fiscal 2015-16. Anticipated growth of real GVA at basic prices in 2015-16 is 7.3% as against 7.1% in the previous fiscal.

The International Monetary Fund (IMF) last month kept its growth forecast for India unchanged at 7.5% in 2016-17 while it lowered its global growth projection in an update to the World Economic Outlook released in October.



Latest calculation of growth during the third quarter of 2015-16 showed that real GVA growth declined to 7.1% from 7.4% in the previous quarter. Lower growth was basically attributed to decline in agricultural output by 1% and slower growth of 'Electricity, gas and water supply' and financial services over the same period last year. However, manufacturing sector recorded a double digit growth at 12.6% year-on-year during the reported quarter led by a significant fall in inputs costs following the collapse of global commodity prices.

Growth also declined when calculated on a GDP basis. Data from Central Statistical office (CSO) showed that real GDP growth in the third quarter came at the lowest of the current fiscal. Real GDP growth recorded at 7.3% in the third quarter as against 7.7% in the second and 7.6% in the first quarter. The reason, once again was the decline in firm production.

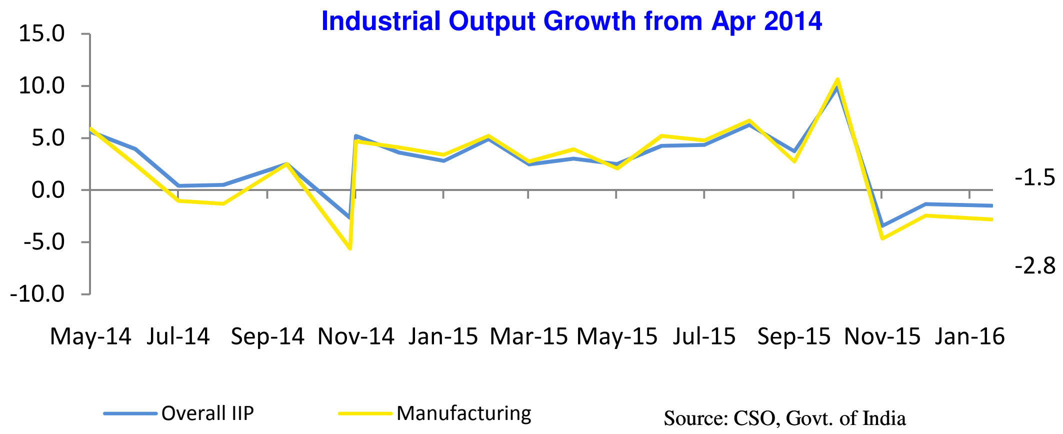
Outlook: The domestic economy may need some support to revive its rural demand and to invigorate public sector banks, as per an eminent economist from CRISIL. The spurt in manufacturing is a good sign. Growth is not expected to fall in next fiscal.

Industrial Production

Industrial production shrunk for the third straight month in Jan 2016

India's industrial production (or factory output) dipped again in January 2016 for the third consecutive month mainly due to the fall in manufacturing output. IIP in Jan 2016 contracted by 1.5% after a 1.3% (revised) decline in Dec 2015. Manufacturing sector, with nearly 75% weightage in IIP, declined by 2.8% during Jan 2016 that mainly led the dismal performance of industrial production. Drop in manufacturing production in Jan 2016 has been higher than the 2.4% drop in Dec 2015 and 4.7% in Nov 2015. Among the sub-sectors of IIP, mining and electricity bucked the trend and recorded higher growth on a month-on-month basis. Mining production grew by 1.2% while electricity advanced by 6.6% in Jan 2016 as against 2.7% and 3.2% respectively in the previous month.

Fig1: Industrial Output Growth from April 2014

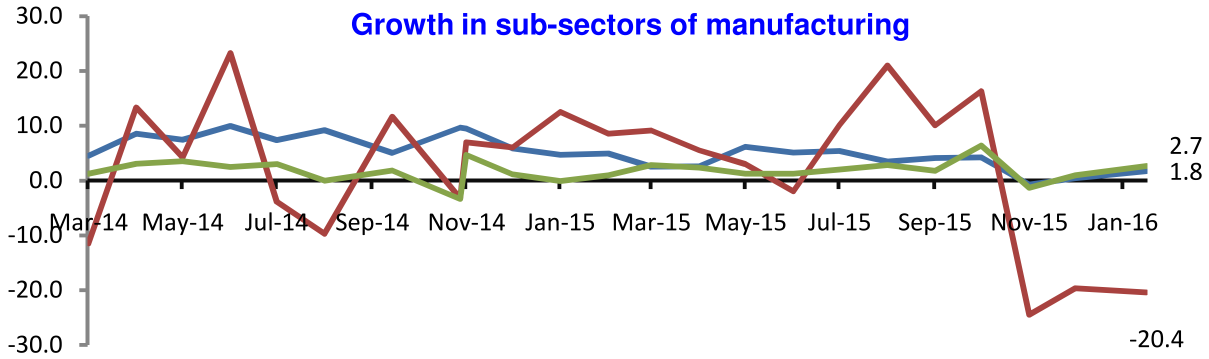


Source: CSO, Govt. of India

Use-based classification – Within manufacturing, capital goods output, an indicator of investment demand in the economy, plummeted by 20.4% in January 2016. This came on top of 12.4% growth witnessed in the year-ago month. Even the decline in January 2016 has been more than that of the previous month at 19.1%. However, both basic goods and intermediate goods retained positive growth for the second straight month, after declining in the last fiscal. Consumer goods, on the other hand, remained stagnant in Jan 2016 (0% growth) over the previous month as the consumer non-durables declined by 3.1% and the growth in consumer durables cooled down considerably from 16.5% in December 2015 to 5.8% in January 2016.

Cumulative IIP growth for Apr - Jan 2015-16 slowed down - Cumulative industrial growth for April-January 2015-16 over the corresponding period of the previous year stands at 2.7% compared with a similar 2.7% growth registered in the same period in 2014-15. However, manufacturing witnessed a higher 2.5% growth during the first 10 months of 2015-16 as against 1.9% during the same period last fiscal.

Fig 2: Growth in sub-sectors of manufacturing

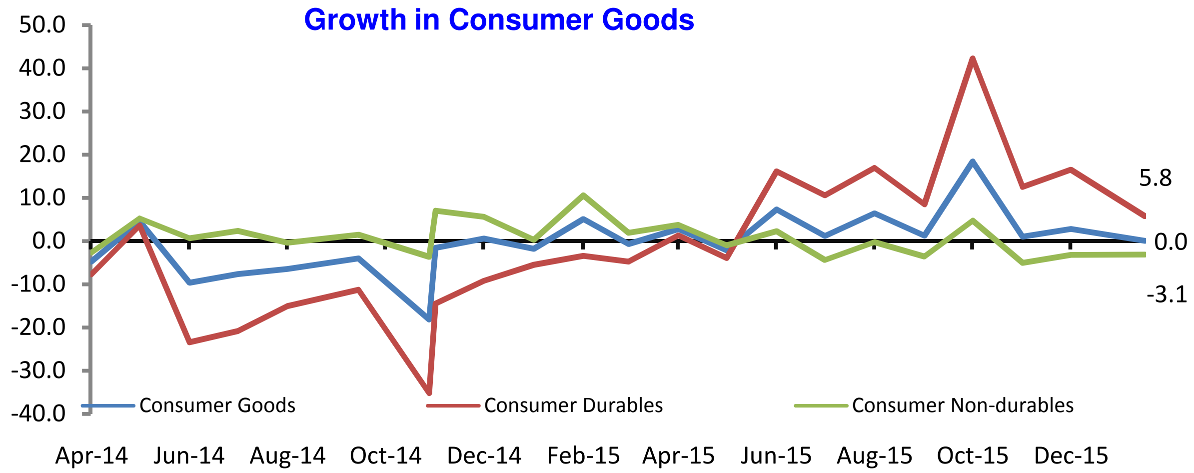


Source: CSO, Govt. of India

Industry group-wise analysis of engineering products during Jan 2016

The industry group-wise picture has been consistently in the negative phase for the last three months from November 2015 in tandem 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, only three conceded negative growth y-o-y during Jan 2016 while six segments achieved growth. Among the growing sectors, 'Office, accounting & computing machinery' showed maximum growth at 41% during the month concerned while on the flipside, 'Electrical machinery & apparatus' was the worst hit once again in Jan 2016 with 50.3% decline However, cumulative growth figures for Apr – Jan 2016 witnessed that 'Motor vehicles, trailers & semitrailers' achieved highest growth at 7.1% among the nine sectors. On the other hand, 'Medical, precision & optical instruments, watches and clocks' conceded biggest decline at 6.9% during the 10 months of the current fiscal.

Fig 3: Growth in Consumer Goods



Source: CSO, Govt. of India

Outlook: Growth in core industrial output remained sluggish. Weak global demand is impacting our exports and vehicle sales dropped across categories. Therefore, industrial production is likely to remain around sub-zero level in the next few months.

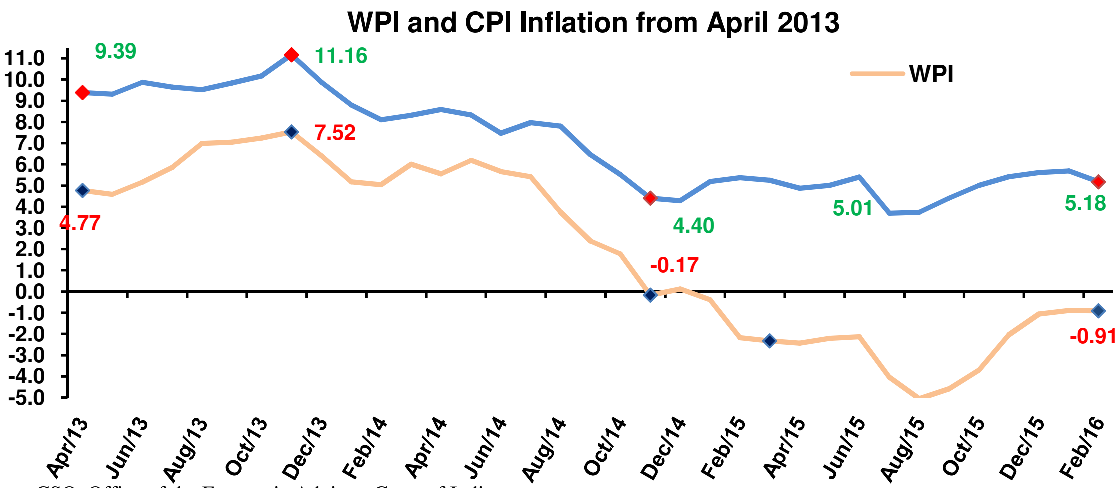
Inflation

Retail inflation dipped to four months low of 5.18per cent in Feb 2016

The Consumer Price Index (CPI) based inflation dropped to 5.18% in February 2016 from 5.69% in January 2016. Food inflation, with nearly 50% weightage in CPI inflation decreased to 5.30% in February against 6.85% a month ago. Inflation of food and beverages contributed to the dip by declining to 5.52% in February 2016 from 6.66% in January 2016. The provisional inflation rate for rural area and urban area stood at 5.97% and 4.30% respectively in February 2016 as against 6.48% and 4.81% in January 2016. However, there was an increase in core CPI inflation from 4.50% in January 2016 to 4.77% in February 2016 .

The Wholesale Price Index (WPI) based deflation continued for the 16th month in a row by standing at -0.91% February, rising marginally higher from -0.90% in the previous month. Here also food inflation came down to 3.35% in February as against 6.02% in January.

Fig 6: WPI and CPI Inflation from April 2013



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

Outlook: The easing of CPI inflation might provoke the central bank to cut down its policy rate at its next annual policy review. This step if taken will surely boost the falling industrial production. But some economists are also of the opinion that the easing of policy rates in the first month of the coming fiscal 2016-17 will probably depend on the impact of the Seventh Pay Commission's award on inflation, monsoon and the global situation.

Non-food credit disbursal improved slightly but growth still in single digit

Non-food bank credit growth accelerated to 9.8% in Jan 2016 from 9.3% in Dec 2015, which was a tad higher than that of Jan 2015 at 9.7%. However, credit growth to industry increased by a higher 5.6% from 5.3% in Dec 2015 but was lower at 6.4% during Jan 2015. Deceleration in year-on-year credit growth to industry was observed across most major sub-sectors, barring mining and quarrying, textiles, paper and paper products, basic metal and metal products, chemicals and chemical products and gems and jewellery. Credit growth in manfacturing sector however decelerated in Jan 2016. Credit disbursal towards manufacturing sector in jan 2016 recorded mere 2.4% growth as against a substantial 12.7% growth during the same month last year.

Indian Rupee weakened over the US Dollar for second month in a row

Indian rupee depreciated over the US Dollar during Feb 2016 for the second month in a row in 2016. Strengthening of US Dollar following the tightening of interest rate, outflow of dollar from Indian capital market continued to weigh on the Indian currency.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in Feb 2016	1.09%	-2.62%	1.37%	8.03%
Direction	Depreciation	Appreciation	Depreciation	Depreciation
Change (%) in 2016	3.45%	-3.20%	3.56%	10.33%
Direction	Depreciation	Appreciation	Depreciation	Depreciation

Source: RBI Reference Rates

Outlook for rupee is weak – Our view on rupee did not change much. Rupee may continue to remain under pressure as the impact of aforesaid factors are not likley to wane off anytime soon and economic activities in the developed region wil take time to see a decent growth and create demand for Indian commodities. Rupee may touch 70 per US Dollar in the near term despite assurance from RBI to intervene in currency market.

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

The RBI in its fifth bi-monthly policy review meet for 2015-16 on 2nd Feb 2016 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.

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