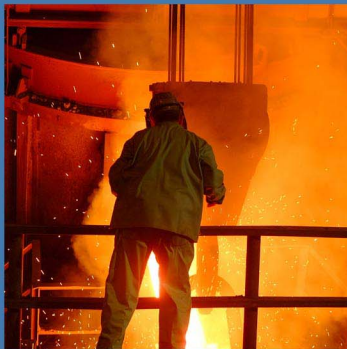
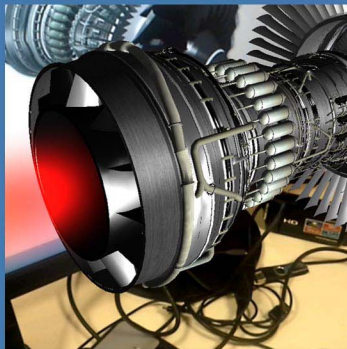


Monthly Economic Bulletin



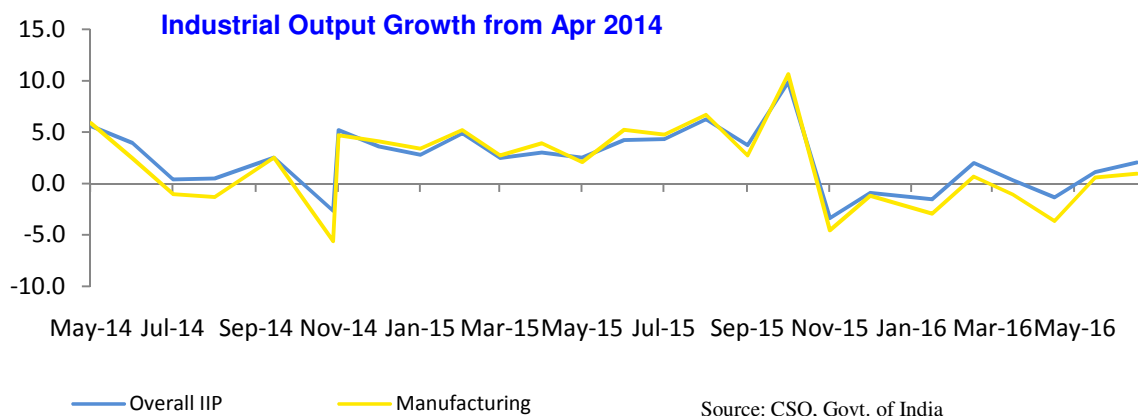
Indian Economy

Industrial Production

Industrial production slowed down in June 2016 on a year-on-year basis

Despite a rise in industrial production growth to 2.1% in June 2016 from 1.1% (revised downward from 1.2%) in May 2016 due to rise in production across the board, it actually slowed down from 4.2% achieved in June 2015. The deceleration in y-o-y growth was due to substantial slowdown in manufacturing driven by dismal performance of capital goods sector. Mining and electricity however showed much higher growth over June 2015. Manufacturing growth slowed down to a meagre 0.9% in June 2016 from 5.2% a year ago but mining and electricity grew by 4.7% and 8.3% respectively in June 2016 as against their corresponding growth of (-)0.4% and 1.2% in the year ago period.

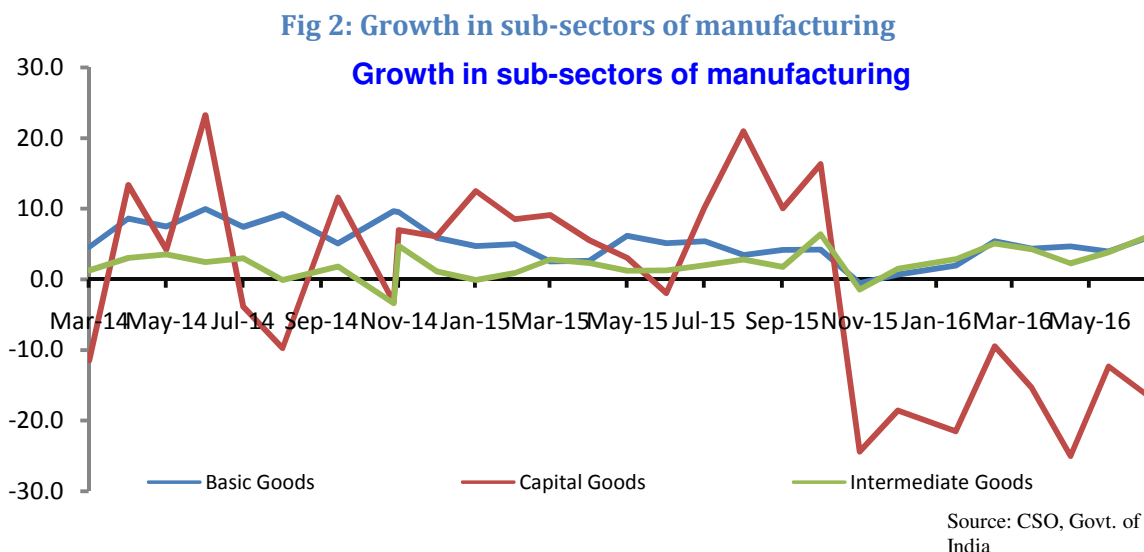
Fig1: Industrial Output Growth from May 2014



Use-based classification: All segments recorded growth except capital Goods – Capital goods like previous months was the spoilsport. This sector, which is considered as a barometer for investment trend conceded its eighth straight monthly decline in production and in double digit barring only Feb 2016. However, all other use-based sectors ended the month with higher production over the same month last year. Consumer goods production recorded a growth of 2.8% in June 2016 as compared to 7.2% a year ago. The break up showed deceleration of growth in consumer durables output to 5.6% in June 2016 from 16.1% a year ago. The non-durable segment grew by only 1% in the month concerned as against 2.3% in the same month last year. basic goods performed well with higher growth while Intermediate goods, which is recognized as an early sign of investments, recorded an impressive 6.1% growth in June 2016 as compared to a weak 1.3% in June 2015. In terms of industries, 18 out of 22 industry groups in the manufacturing sector showed positive growth during the month of June 2016.

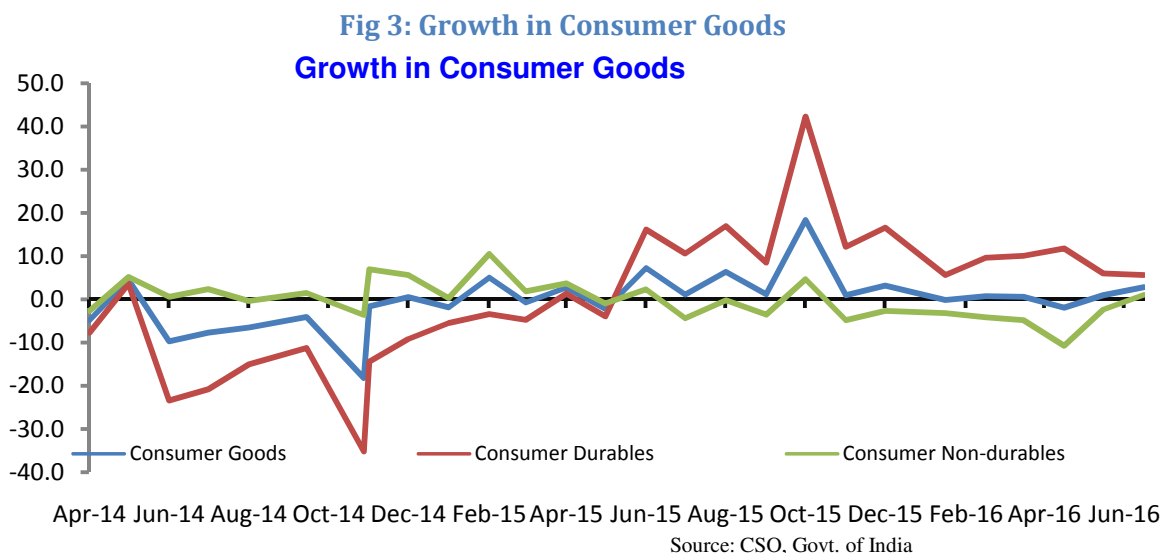
Cumulative IIP growth during Apr - Jun 2016 was much lower over the year: Cumulative industrial growth was just 0.6% in the first quarter of fiscal 2016-17 as against 3.3% in the same period last fiscal. Again it was the manufacturing sector that ruined the show with 0.7% decline in production from 3.7% growth in Apr - Jun 2015 while mining and electricity performed better.

Production of capital goods declined by a massive 18.0% in the first quarter of 2016-17 as against 2.0% during the same quarter last fiscal.



Industry group-wise analysis of engineering products during Apr - June 2016

Among the nine industry groups fall under engineering, only 'Electrical machinery & apparatus n.e.c.' recorded decline in production at 48.0% in the first three months of fiscal 2016-17 while all other groups achieved growth. Highest growth was seen in the production of 'Radio, TV and communication equipment & apparatus' which was 13.3% followed by ' Office, accounting & computing machinery' with a growth of 10.1% during Apr - Jun 2016.



Outlook: Dismal performance of capital goods, a signal of investments and weak growth of consumer non-durables, a sign of consumption demand, cast shadow on any near term recovery of industrial production. However, measures from the govt. backed by improved infrastructure spending may push industrial production up in the last peg of fiscal 2016-17.

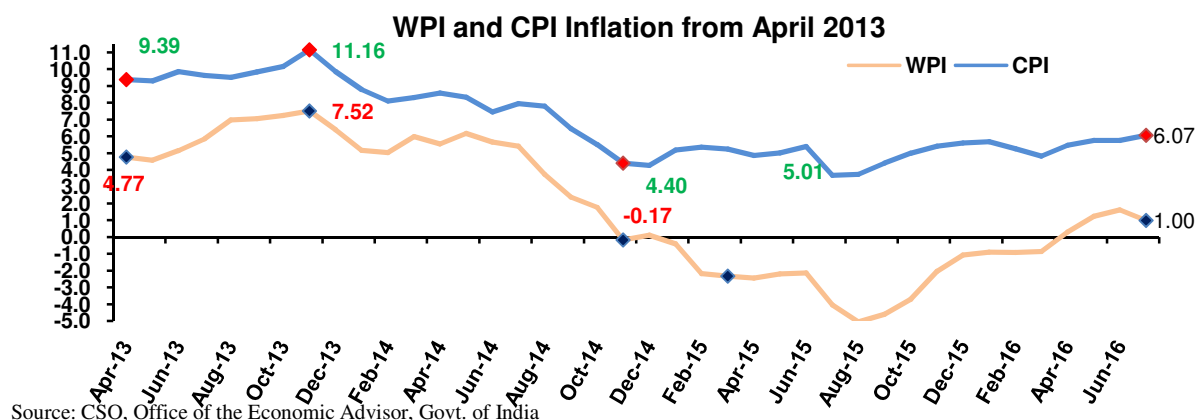
Inflation

Retail price inflation crossed 6% in July 2016 for the first time after Sep 2014

CPI or retail inflation in India rose to 6.07% in July 2016 from 5.77% a month ago raising the eyebrow of the policymakers as it was above the comfort level of RBI (at 6%) for the first time in 2016. The rise in inflation was attributed to spark in the price of food and beverage as it contributes 50% in commodity basket. Food price index surged to 8.35% in July 2016 from 7.79% in June 2016. Within the food items, the inflation on sugar and confectionery galloped by 21.91% and for pulses and products by 27.53%. On the other hand, inflation declined for vegetables to 14.06% in July 2016. Another reason to ponder was the rise in 'Core Inflation' to 4.52% in July 2016 from 4.39% a month ago. The inflation for clothing and footwear inched up to 5.23% while that on fuel and light declined to 2.75% in July 2016. The inflation for housing was flat at 5.42%.

Wholesale (WPI) inflation inched up by 1% in July 2016 but that was lower than 1.62% in the previous month.

Fig 6: WPI and CPI Inflation from April 2013



Outlook - tough to meet target for central bank: The monsoon rain was above average till date this summer that may lead to boost in farm output and an ensuing drop in food inflation. Early signs are already seen with the downtrend of vegetable prices. However, the outlook for core inflation remains uncertain due to a shrinking output gap and an expected pickup in demand-driven price pressures, following full implementation of a major hike in government pay packages. Any substantial easing of headline CPI numbers are unlikely in the near term.

Non-food credit growth declined further and disbursement to industry was dismal

Non-food bank credit growth declined to 7.9% in June 2016 from 8.4% in both May 2016 as well as June 2015. Credit growth to industry also slowed down noticeably to 0.6% in June 2016 from 0.9% a month ago and from a much higher 4.8% in the same month last year. Major sub-sectors which witnessed contraction of credit, were food processing, infrastructure, gems & jewellery and vehicles, vehicle parts & transport equipment. Credit disbursement in manufacturing sector continued to decline for the fourth consecutive month to June 2016 but this time it was a bit better at 3.8% as against 6.5% a month ago. However, the growth was at 6.0% in June 2015.

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

After three months of downward trend, Indian rupee registered gain over the US Dollar due to a month-end rally. Optimism rose as 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. This also encouraged the rally in emerging market currencies including Rupee.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in July 2016	-0.86%	-2.45%	-0.98%	-1.85%
Direction	Appreciation	Appreciation	Appreciation	Appreciation
Change (%) in 2016	1.07%	-10.22%	2.45%	17.43%
Direction	Depreciation	Appreciation	Depreciation	Depreciation

Source: RBI Reference Rates

Outlook for rupee is weak – Despite the strength seen in July 2016, we stick to our view that Rupee is likely to remain weak in the near term as withdrawal of foreign fund from Indian debt market is apprehended to be continued following Rajan's exit from RBI that raised concern on continuity of policies aimed at targeting inflation and stabilizing the currency.

Urjit Patel to succeed Rajan as RBI Governor, expected to continue Rajan's tradition

The Appointments Committee of the Cabinet (ACC) announced the appointment of Reserve Bank of India Deputy Governor Urjit Patel as successor to Governor Raghuram Rajan on 20th August 2016. The choice of Dr. Patel is a reflection of govt.'s preference to continue with the Rajan's tradition as Urjit worked closely with Rajan during his tenure and is one of the thinker of new monetary policy regime.

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