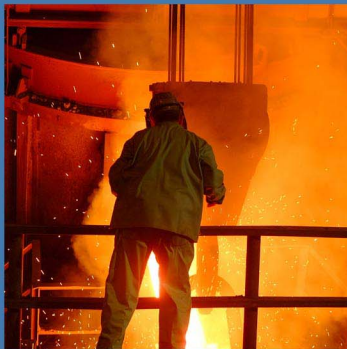
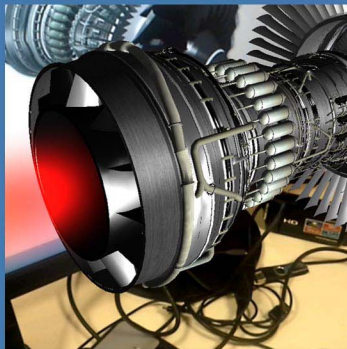


# Monthly Economic Bulletin



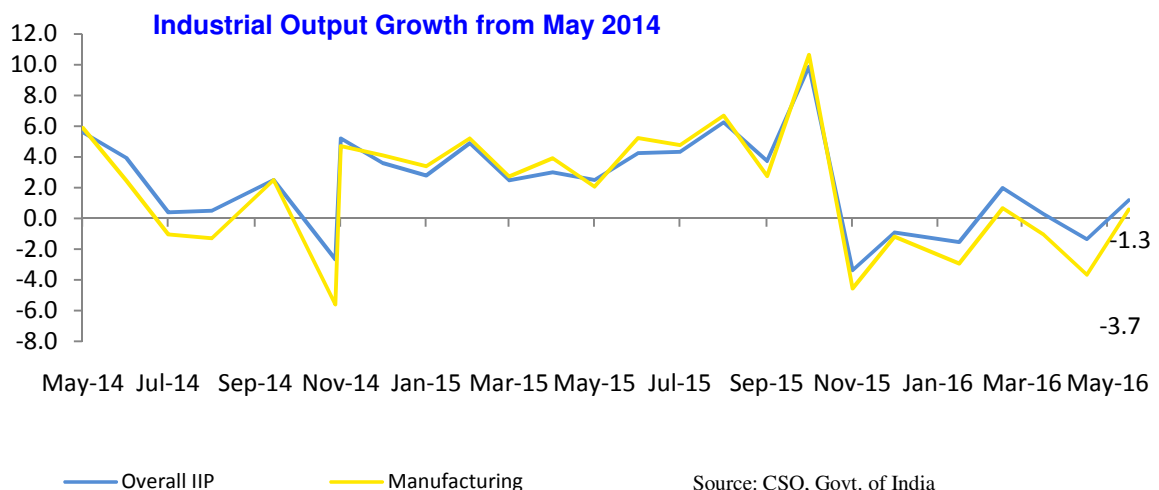
# Indian Economy

## Industrial Production

### Industrial production bounced back to growth path in May 2016

Industrial production came back to growth path registering 1.2% growth in May 2016 snapping 1.4% (revised downward from 0.8%) decline a month ago. The growth in February 2016 was also revised marginally downward to 1.9% at the final revision from 2% at first revision. The biggest relief for the policymakers came with 0.7% growth of manufacturing after two months of decline that brought the overall IIP to growth path as manufacturing constituted three-fourth of the IIP index. However, mining and electricity production also increased in May 2016. Mining output rose 1.3%, the highest in last three months but electricity generation growth eased to five-month low of 4.7% during May 2016.

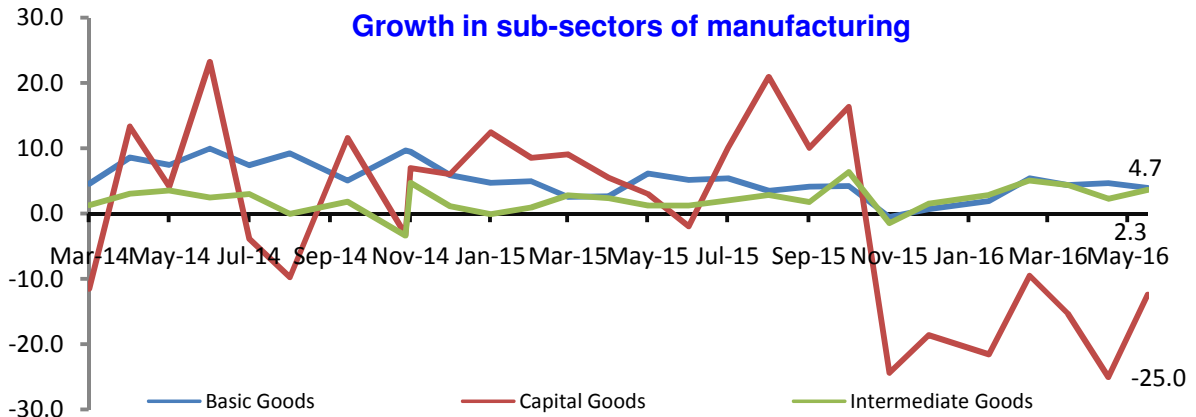
Fig1: Industrial Output Growth from May 2014



**Use-based classification** – Capital goods, a sign of investment in the economy conceded its seventh straight monthly decline in output during May 2016 but the pace of decline halved to 12.4% from 25.0% in the previous month. However, production of intermediate goods, an early sign of investment, rose 3.6% over the year in May 2016. Basic goods, with highest weightage in IIP as per use-based classification, advanced by 3.9% in the month concerned. Growth of consumer goods rebounded to growth, however low and saw its best performance in last five months with 1.1% rise over the same month last year. The non-durable sector pulled down the growth of consumer growth with 2.2% decline while durable segment recorded a decent 6.0% growth. Performance of non-durable was somehow better over the month but that of the durable one worsened comprehensively.

In terms of industries, fourteen (14) out of the twenty two (22) industry groups in the manufacturing sector have shown positive growth during the month of May 2016 as compared to the corresponding month of the previous year. The industry group 'office, accounting & computing machinery' has shown the highest positive growth of 18.8% while 'electrical machinery & apparatus' has shown the highest negative growth of (-) 41.1%.

**Fig 2: Growth in sub-sectors of manufacturing**

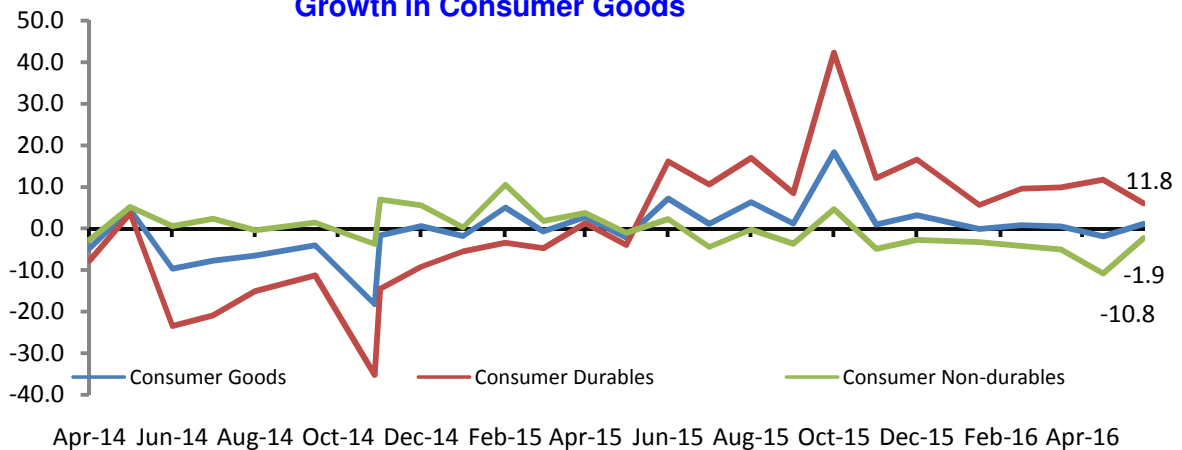


Source: CSO, Govt. of India

### Industry group-wise analysis of engineering products during May 2016

Only 'electrical machinery & apparatus' recorded decline in output during May 2016 among 9 industry groups fell under engineering segment with 41.1% decline. On the other hand, 'Office, accounting & computing machinery' achieved highest growth of 18.8% during the month followed by 'Machinery and equipment' (14.8%) and 'Medical, precision & optical instruments, watches and clocks' (10.1%). Cumulative results also showed double digit growth of these segments.

**Fig 3: Growth in Consumer Goods**



Source: CSO, Govt. of India

**Outlook:** Consumption demand is an important driver of industrial production especially the non-durable segment as that carries more weight in IIP index. Capacity utilisation is at low levels and there is no visible confidence on demand picking up. Industrial recovery will remain sluggish in the near term but once the impact of the monsoons sets in by the third quarter, along with that of the Pay Commission, there might be some improvement in consumption

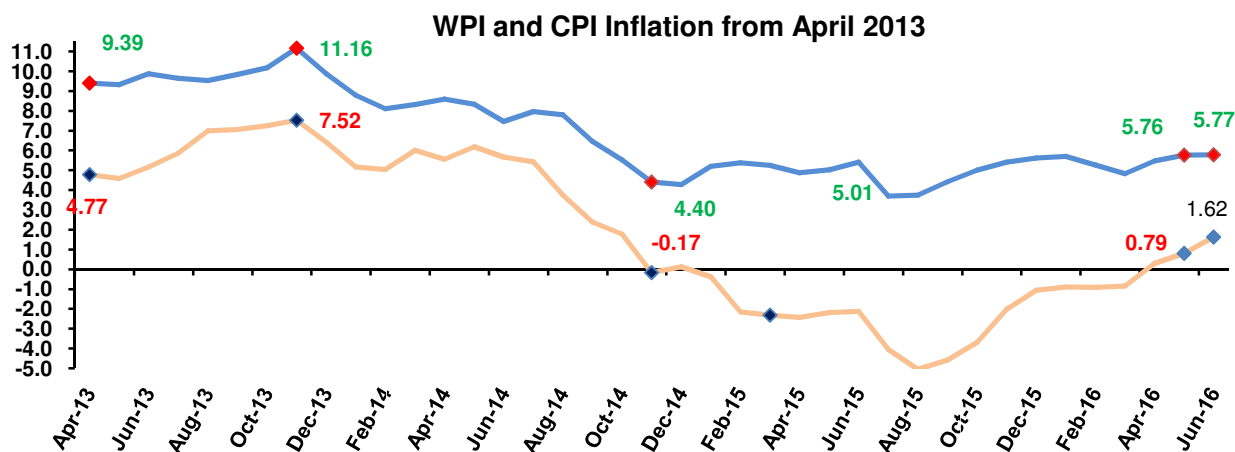
## Inflation

### Retail price inflation scaled a 22 month high in June 2016

Retail inflation, measured by the Consumer Price Index(CPI), stood unchanged at 5.77% in June 2016 compared to 5.76% in the previous month but inflation on food articles went up. With inflation remaining at an elevated level above the 5% mark, Reserve Bank's next phases monetary policy review would be keenly watched as inflation targetting has been the main objective of the apex bank. Rural areas witnessed a fall in inflation from 6.5% in May 2016 to 6.2% in June 2016. On the other hand, retail inflation in urban areas scaled up to 5.3% in June 2016 from from 4.9% in May 2016. Food inflation, which counts for nearly half of CPI, rose to 7.79% compared to 7.47% in May but inflation in the fuel and light group, remained unchanged at 2.9% in June 2016, compared to the previous month.

The trend of retail inflation is now alarming as RBI has a 5 per cent consumer inflation target by March 2017. However this target may change with a monetary policy panel set to take charge of the interest rates soon. Rise in price level was also reflected in the wholesale level inflation measured by Wholesale Price Index (WPI) as it galloped to 20-months high of 1.62% in June 2016 compared to 0.79% in the previous month. Inflation in the wholesale prices of manufactured products increased to 1.2% in June 2016 from 0.9% in the preceding month.

Fig 6: WPI and CPI Inflation from April 2013



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

**Outlook:** Monsoon rainfall was slightly above average till the middle of July 2016 that may tame the rise in prices but rise in crude prices to \$50/bbl in June 2016 in the international market is likely to drive inflation upward in the months ahead reducing the possibility of any interest rate softening by the RBI in the near term.

### Non-food credit growth continued to slowdown

Non-food bank credit growth stagnated to 8.4% in May 2016 but was somewhat lower than 9% growth observed during May 2015. Credit growth to industry in May 2016 however rose to 0.9%

as against a dismal 0.1% in Apr 2016. However, the growth was much higher at 5.2% during May 2015. Credit declined to several sub-sectors, some of which include food processing, infrastructure and vehicles, vehicle parts & transport equipment. Credit disbursement in manufacturing sector continued to decline for the third consecutive month and this time the dip was at 6.5% as against 6.7% in Apr 2016 and 9.6% during May 2016.

## Indian Rupee continued to weaken in Jun 2016 following Brexit and Rajan's Exit from RBI

After two months of strengthening, Indian rupee again depreciated vis-à-vis the US Dollar for the third month to June 2016. This was the longest losing streak for rupee in a year. This time, the reason is a bit different than dollar itself. Global funds exited local bonds amid the uncertainty created by Britain's exit from the European Union following a referendum and RBI Governor Raghuram Rajan's decision to leave the central bank in Sep 2016.

**Table1: Performance of Indian Rupee vs. Major Traded Currencies**

	USD	GBP	EURO	YEN
<b>Change (%) in June 2016</b>	0.62%	-8.25%	0.29%	9.12%
<b>Direction</b>	Depreciation	Appreciation	Depreciation	Depreciation
<b>Change (%) in 2016</b>	1.95%	-7.96%	3.46%	19.64%
<b>Direction</b>	Depreciation	Appreciation	Depreciation	Depreciation

Source: RBI Reference Rates

**Outlook for rupee is weak** – 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.

### Dr. Rajan has kept policy measures unchanged on 9th August in its last monetary policy meet

The Indian apex bank has kept the policy repo rate unchanged at 6.5% during its third bi-monthly policy meet for 2016-17 held on 9th August 2016. Consequently, the reverse repo rate under the LAF remained unchanged at 6.0%, and the marginal standing facility (MSF) rate and the Bank Rate at 7.0%. CRR was also kept unaltered at 4%. The two probable reasons for keeping policy measures unchanged were upward pressure on price level and lack of proper transmission of monetary measures by the commercial banks till date.

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