Indian Economy

Industrial Production

Industrial production rebounds in Feb 2016

India’s industrial output rose by 2% in February after falling continuously for three consecutive months, since November 2015. Growth in IIP during February was mainly boosted by a 9.6% rise in electricity generation and a 5% rise in mining output. However, manufacturing which constitutes roughly three-fourths of the index showed marginal growth of 0.7% in February. The month of February definitely broke the spell of contraction in industrial output which persisted for three successive months.

![Fig1: Industrial Output Growth from April 2014](image)

**Use-based classification** – Capital goods which is considered as a proxy of investment demand, declined again in February by 9.8% after a 20.4% drop in the last month. This regular contraction in capital goods from November 2015 has proved to be the big drag on the performance of the IIP Index. Both basic goods and Intermediate goods improved significantly over the last three months registering growth of over 5 per cent. On the demand side growth in consumer goods improved marginally to 0.8 per cent. Consumer non-durables declined again by 4.2% from 3.1% in January. It is opined by some that an above-normal monsoon forecast is likely to boost the outlook for rural demand, which will offset the negative growth in consumer non-durables in the coming months. On the contrary, consumer durables growth increased by 9.7% from 5.8% in January.

**Cumulative IIP growth for Apr - Feb 2015-16 slowed down:** The cumulative industrial growth for April-February 2015-16 over the corresponding period of the previous year registered at 2.6% which is slightly lower than 2.8% growth registered for the same period in 2014-15. It is only in case of mining where we observe the cumulative growth have increased from 1.5% in April-February 2014-15 to 2.4% in April-February 2015-16. Manufacturing
cumulatively grew by 2.3% in the April-February 2015-16, which was the same as that of the previous year.

Industry group-wise analysis of engineering products during Feb 2016

In Feb 2016, only 'Electrical machinery and apparatus' out of 9 engineering product group recorded decline in production while rest achieved growth. Among the engineering product groups, 'Office, accounting & computing machinery' registered the highest growth at 37.9%. Other engineering groups which registered positive growth includes machinery and equipment (11.1%), medical precision & optical instruments, watches and clocks (20.4%), motor vehicles, trailers and semi trailers (5.8%), and other transport equipments (11.8%).

Outlook: In a recent report by the UNIDO, India ranked sixth among the world’s 10 largest manufacturing countries, improving from 9th rank. It was found that India’s Manufacturing Value Added (MVA) grew by 7.6% in 2015 compared to the previous year. But even though the economy is recovering, the process is volatile. The industrial growth figures are not strong enough to predict growth in the first quarter of the new fiscal.
Retail inflation further eases to six-month low of 4.83 per cent in March 2016

The Retail inflation measured by the Consumer Price Index (CPI) eased to a six-month low of 4.83% in March 2016 from 5.26% a month ago. Food inflation, with nearly 50% weightage in CPI inflation decreased to 5.21% in March against 5.3% a month ago. Within the food category, pulses registered the sharpest rise at 34.15% in March 2016 in comparison to a higher 38.3% in February. It was the only category that saw double digit inflation. This is followed by rise in prices of Spices by 9.6% in March 2016 compared to 9.9% rise in February 2016. The provisional inflation rate for rural area and urban area stood at 5.70% and 3.95% respectively in March 2016 as against 6.05% and 4.30% in February 2016.

The Wholesale Price Index (WPI) on the other hand, continued to show a deflationary trend for the 17th month in a row by standing at -0.85% in March 2016, dropping marginally from -0.91% in the previous month. Here also food inflation came down to 3.73% in March as against 3.35% in February.

**Fig 6: WPI and CPI Inflation from April 2013**

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

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

**Outlook:** The easing of CPI inflation might retain our expectation of another 25 basis point rate cut by the RBI post the recent policy rate cut in its first bi-monthly monetary policy review. This step will increase liquidity and facilitate transmission of the past rate cuts boosting the falling industrial production. But some economists are also of the opinion that the easing of policy rates in the coming fiscal 2016-17 will probably depend on the likely variation in distribution of monsoon, the low reservoir levels by historical averages, and the strength of the recent upturn in commodity prices, especially oil.
Non-food credit disbursal improved slightly but growth still in single digit

Non-food bank credit growth was largely flat at 9.9% year-on-year during Feb 2016 as against 9.8% in Jan 2016. However, it improved over that rate of growth in Feb 2015 at 9.4%. Credit growth to industry moderated slightly to 5.4% year-on-year in Feb 2016 from 5.6% a month ago and an even higher 5.9% during the same month last year. Credit growth continues to decelerate or decline for most sub-sectors, some of which include petroleum, coal products and nuclear fuels, beverage and tobacco and food processing. Credit growth in manufacturing was quite dismal at 1.7% during Feb 2016 as against 2.4% in Jan 2016 and a much higher 9.5% in Feb 2015.

Indian Rupee Bounced back to strength vis-à-vis the US Dollar during Mar 2016

After two months of depreciation, the Indian rupee strengthened over the US Dollar during Mar 2016. Indian rupee depreciated over the US Dollar during Mar 2016. The appreciation of rupee was mainly driven by persistent selling of US dollars by banks and exporters in view of sustained foreign capital inflows. Weakness of dollar in the overseas market also boosted the rupee value against the dollar. Continuous strengthening of rupee in the last five days of the month aided the gain of rupee.

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>Change (%) in Mar 2016</th>
<th>Direction</th>
<th>Change (%) in 2016</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>-3.33%</td>
<td>Appreciation</td>
<td>-2.83%</td>
<td>Appreciation</td>
</tr>
<tr>
<td>GBP</td>
<td>-0.12%</td>
<td>Appreciation</td>
<td>-3.31%</td>
<td>Depreciation</td>
</tr>
<tr>
<td>EURO</td>
<td>0.02%</td>
<td>Depreciation</td>
<td>3.58%</td>
<td>Appreciation</td>
</tr>
<tr>
<td>YEN</td>
<td>-2.83%</td>
<td>Appreciation</td>
<td>7.21%</td>
<td>Depreciation</td>
</tr>
</tbody>
</table>

Source: RBI Reference Rates

Outlook for rupee is weak – Despite the appreciation of rupee during Mar 2016, broader weakness in Rupee still exists. The main driving force against rupee is the possibility of interest rate tightening by the US Federal Reserve that will strengthen dollar.

RBI opted for softening of monetary measures in its First Bi-monthly Monetary Policy of 2016-17 and narrowed the policy rate corridor

The RBI softened policy repo rate in its First Bi-monthly Monetary Policy Statement for 2016-17 on 5th April 2016. The apex bank reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.75% to 6.5%. Consequently, the reverse repo rate under the LAF stands adjusted to 6.0%, and the marginal standing facility (MSF) rate to 7.0%. The Bank Rate which is aligned to the MSF rate also stands adjusted to 7.0%.

Most importantly, RBI in its latest policy narrowed the policy rate corridor from +/-100 basis points (bps) to +/- 50 bps by reducing the MSF rate by 75 basis points and increasing the reverse repo rate by 25 basis points, with a view to ensuring finer alignment of the weighted average call rate (WACR) with the repo rate;

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