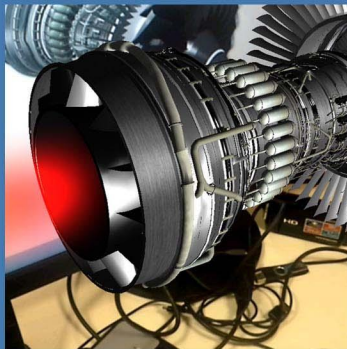


Monthly Economic Bulletin

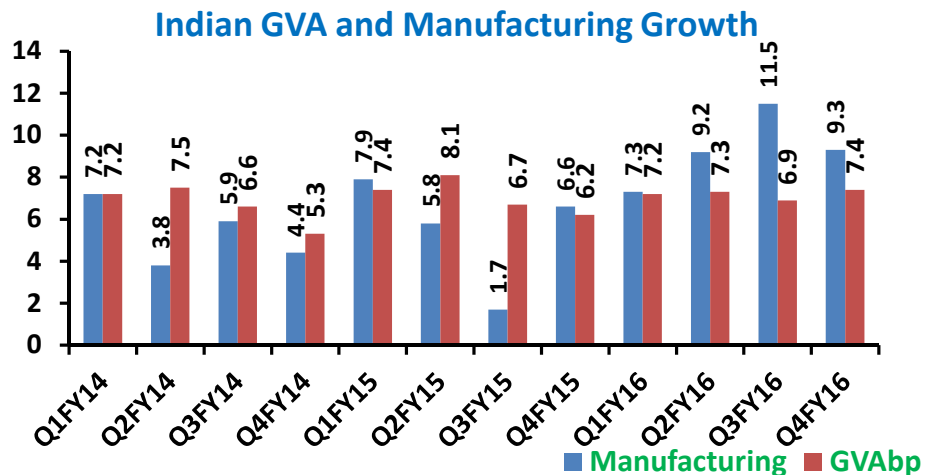


Indian Economy

Economic Growth

Indian Economy grew at its fastest pace in the last five years

India's GDP grew 7.6 per cent in 2015-16, up from 7.2 per cent in the previous fiscal. The estimates were exactly the same as projected in the advance estimate three months back. The full-year growth was attributed to 7.9 percent growth in the fourth quarter of 2015-16. India is now the fastest growing economy in the world for the January-March quarter and FY16 by outpacing China. However, growth in gross value added was 7.2 per cent in 2015-16 against the advance estimates of 7.3 per cent.



The farm sector rebounded to the growth zone this fiscal as against a contraction in the previous year, although the rate of expansion was low at 1.2 per cent in 2015-16. Mining, electricity recorded slower growth over the previous fiscal but manufacturing achieved better growth this fiscal probably as a result of lowering of borrowing rate by banks following 150 bps reduction in policy rate by the RBI. Aggressive reform measures that the government has been taking in the last couple of years are also beginning to show results. Service sector conceded slower growth in the GVA estimates but agriculture and industry contributed to higher growth

However, some shortcomings were also there. The worrisome part of the economy was that gross fixed capital formation (GFCF), a proxy for investment, contracted 1.9 per cent in the fourth quarter of 2015-16. It had risen as high as 7.1 and 9.7 per cent in the first and second quarters, respectively. However, the third quarter also saw a small increase of 1.2 per cent. Private final consumption expenditure rose 8.3 per cent in the fourth quarter, against 8.2 per cent in the third, 6.3 per cent in the second and 6.9 per cent in the first.

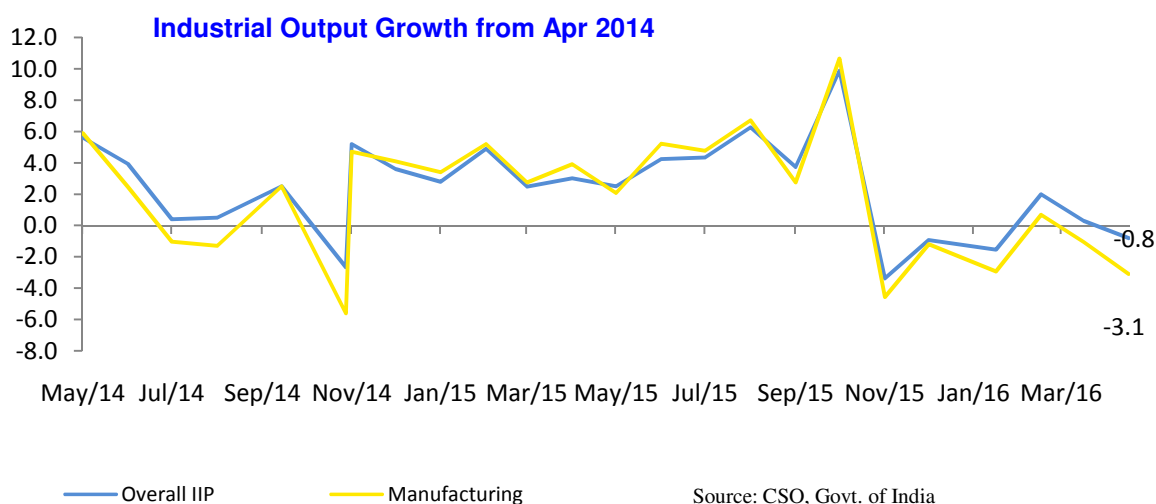
Outlook: The core sector data in Apr 2016 was at its best in the last four years indicating momentum in economic activity. Interest rate is not likely to rise in the near term, Govt. measures are yet to show full effect on the real sector and a good monsoon is predicted this year. The combination of all these supporting factors might take the growth to around 8 per cent in the ongoing fiscal.

Industrial Production

India's factory output faltered in April 2016

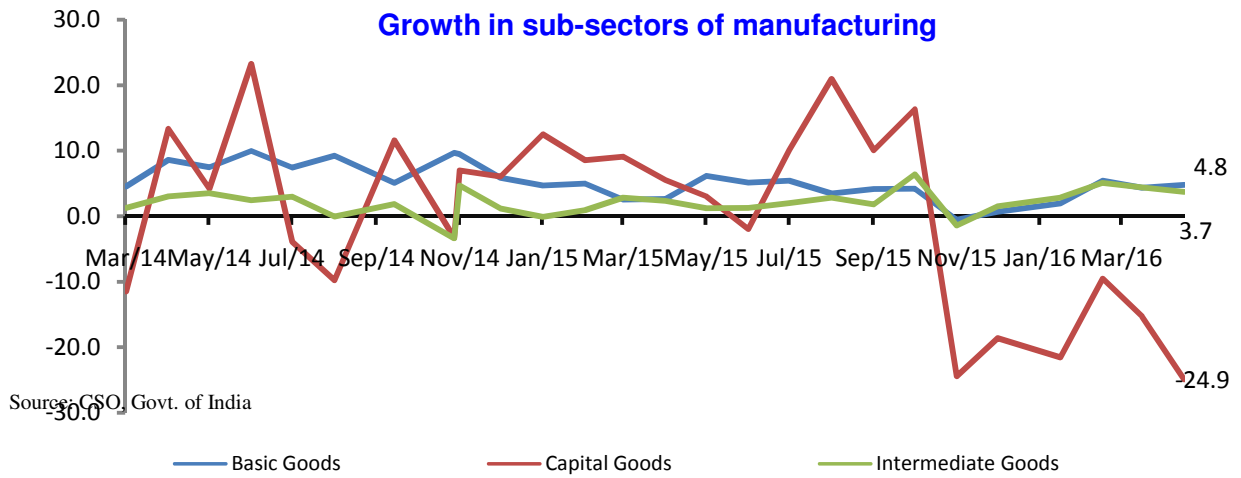
The new financial year has started on a muted note for Indian industry as industrial production shrunk by 0.8 percent in April, after expanding in the two previous months. Industrial output contracted due to drastic fall in capital goods production and manufacturing activities, prompting demands for pro-active measures by government to boost demand. The manufacturing sector, constituting over 75 percent of the index, contracted by 3.1 percent in April this year compared to a growth of 3.9 percent in same month last year. The fall in industrial output is less disheartening compared to the volume-based contraction in manufacturing output in five of the last six months. During April, the mining and electricity sectors held the fort, growing 1.4 percent and 14.6 percent respectively.

Fig1: Industrial Output Growth from April 2014



Use-based classification – The capital goods output, which is a barometer of investment, declined sharply by 24.9 per cent in April 2016 compared to a growth of 5.5 per cent during the same month last year. This is the sixth consecutive month of decline in Capital Goods production. It is opined by economists that the deep contraction in capital goods highlighted that investment activity by the private sector remained feeble and reinforced the fact that there was weakness in investment demand in Asia's third largest economy. Moreover, the prospects of consumption-driven sectors are greater than the investment-driven ones due to the monsoon. Consumer durables expanded by 11.8 percent, continuing the theme of contrasting robust urban demand. However, a fall in production of fast-moving consumer goods, or consumer non-durables, for the tenth time in the last 13 months by 9.7 percent squeezed consumer goods, which shrank by 1.2 percent over the same period last year.

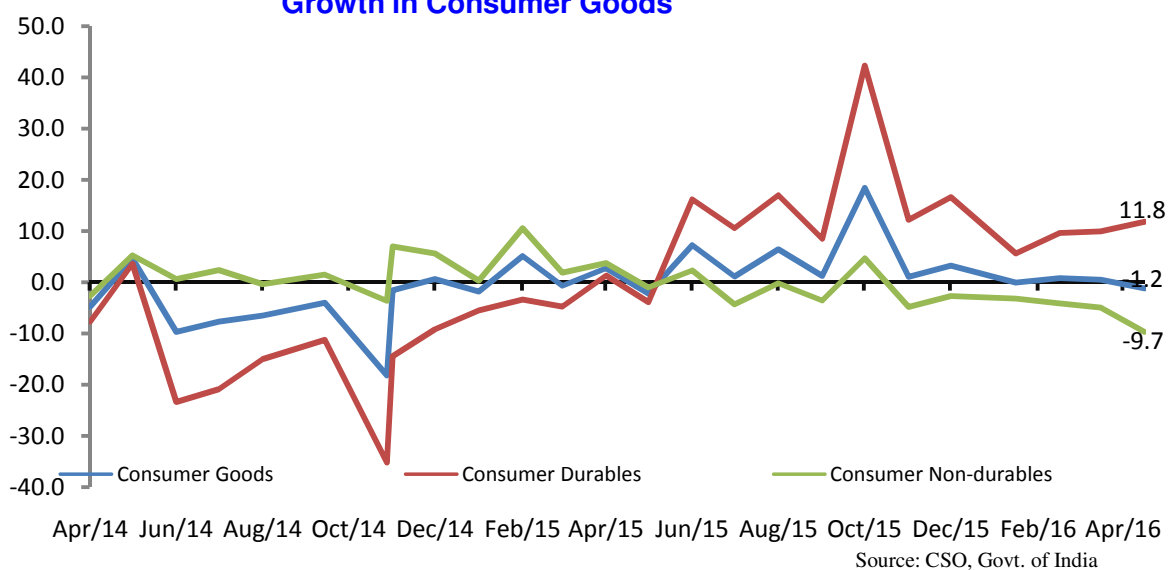
Fig 2: Growth in sub-sectors of manufacturing



Industry group-wise analysis of engineering products during April 2016

Overall, 2 out of 9 industry groups that comes under engineering sector conceded negative growth in April 2016 as compared to year ago period. Electrical machinery recorded the highest decline at 55.9 percent while base metal recorded a slight 0.3 percent decline. On the other hand, radio, TV, communication equipment grew by the highest 18.8 percent followed by office, accounting and computing machinery (18.7 percent) and Medical, precision & optical instruments (13.2 percent) during Apr 2016.

Fig 3: Growth in Consumer Goods



Outlook:

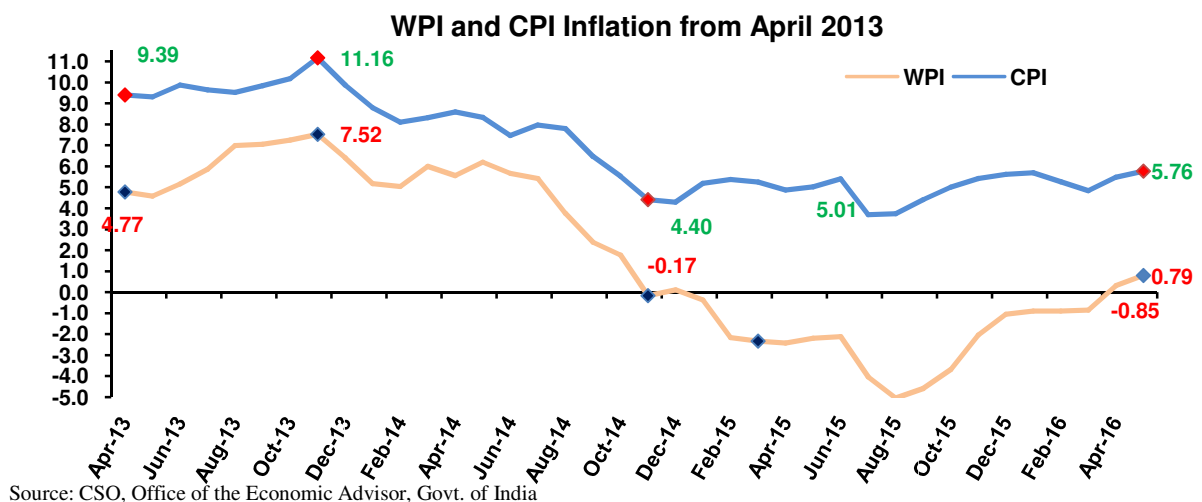
The India Meteorological Department's forecast of above-normal rainfall after two years of below-normal rain is expected to boost rural demand. Further the impending implementation of the seventh pay commission award is also likely to stimulate urban demand. According to RBI's monetary policy review, an increase in cargo traffic at major ports, a pickup in automobile sales especially two-wheelers and three-wheelers, commercial vehicle sales, air passenger and freight traffic, cement production and steel consumption are expected to facilitate a consumption-led recovery of the economy in 2016-17. Economists are expecting industrial production to pick up in 2016-17 in the coming months on the back of improved infrastructure spending by the government and an improvement in the consumer goods segment. The growth in consumer goods segment is slated to strengthen in the second half of the year with expectations of increased urban and rural demand which in turn is expected to help the capital goods segment.

Inflation

Retail inflation was at 21 month high in May 2016

Consumer Price Index (CPI) inflation or retail inflation surged to 5.76% in May 2016 as against 5.47% (upwardly revised from 5.39%) in the previous month due to rise in the prices of food articles. The figure came at 21 month high causing some concern for the policymakers of India. Food inflation, which counts for nearly half of CPI, rose to 7.55% compared with 6.32% in April but combined fuel and light inflation declined to 2.94% in May 2016 from 3.03% a month ago. The trend of retail inflation is now alarming as it is above RBI's expectation of between 4.5-5 per cent retail inflation in 2016-17 and rise in the crude prices in the international market is going to add upward pressure on CPI further. Rise in price level was also reflected in the wholesale figure as WPI bucked the deflationary trend and rose by 0.79% in May 2016. WPI in Apr 2016 also revised upward to 0.34% led by rise in the prices across the board.

Fig 6: WPI and CPI Inflation from April 2013



Outlook: Global crude prices, which hit a 12-year low of below \$27 dollars per barrel in January 2016 bounced back to touch levels below \$50/bbl in June 2016 for the first time since November 2015. This 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 decelerated to 8.4% in Apr 2016 from 9.1 percent in March. Growth was also higher at 8.9% during Apr 2016. Credit growth to industry also slumped substantially to just 0.1% in Apr 2016 from 2.7 percent in March 2016 which was already halved as compared to the growth rate of Feb 2016. On a year-on-year basis growth was also high at 5.9% during Apr 2016. Credit growth declined for several sub-sectors, notably in food processing and infrastructure. Credit disbursement in manufacturing sector recorded a decline for the second straight month and this time the dip is even bigger at 6.7% as against in Mar 2016 2016. Credit growth was at 10% percent during Apr 2016.

Indian Rupee weakened in Apr 2016 after appreciating in two straight months

After two months of strengthening, Indian rupee again depreciated vis-à-vis the US Dollar during May 2016 due to strengthening of Dollar in the international market. After two months of depreciation earlier. During the first five months in 2016, rupee weakened in three months and appreciated in Mar and Apr. Overall, rupee weakened over the greenback and another major traded currency Euro during 2016.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in May 2016	1.03%	1.29%	-1.24%	-2.52%
Direction	Depreciation	Depreciation	Appreciation	Appreciation
Change (%) in 2016	1.32%	0.31%	3.16%	9.64%
Direction	Depreciation	Depreciation	Depreciation	Depreciation

Source: RBI Reference Rates

Outlook for rupee is weak – Broader weakness in Rupee still exists. The main driving force against rupee is the possibility of further interest rate tightening by the US Federal Reserve that will strengthen dollar.

RBI has kept policy measures unchanged on 7th June in line with our forecast

The Indian apex bank has kept the policy repo rate unchanged at 6.5% during its second bi-monthly policy meet for 2016-17 held on 7th June 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