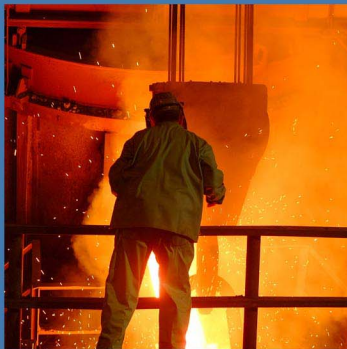


Monthly Economic Bulletin



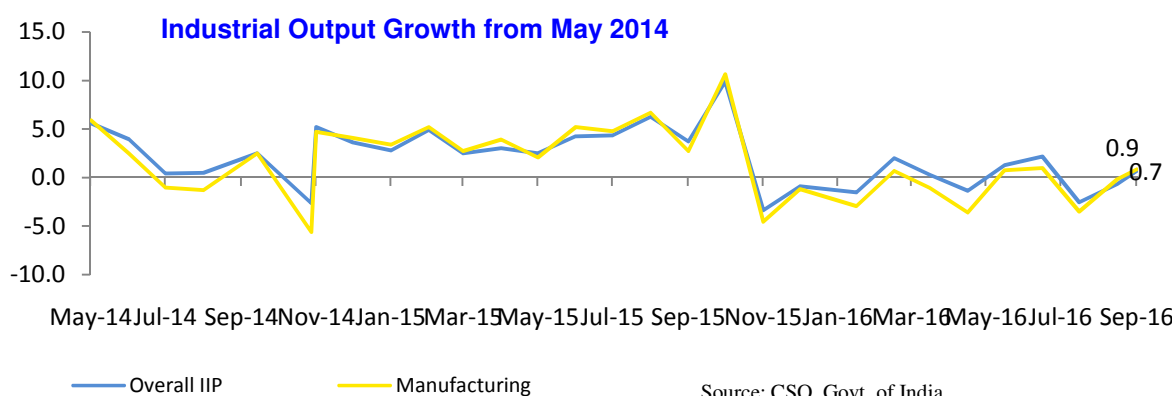
Indian Economy

Industrial Production

Industrial production rose in Sep 2016 after declining in two months

India's Index of Industrial production (IIP), the most familiar measure of industrial production, inched up by a meagre 0.7% in Sep 2016 after registering negative growth in the previous two months. This turnaround in industrial production is mainly caused by revival of manufacturing production that recorded 0.9% growth in Sep 2016 after conceding decline in output in the previous two months. Electricity sector also recorded 2.4% growth during the month but mining continued to tumble for the second straight month as mining production dropped by 3.2% in Sep 2016 as against 5.8% in the previous month.

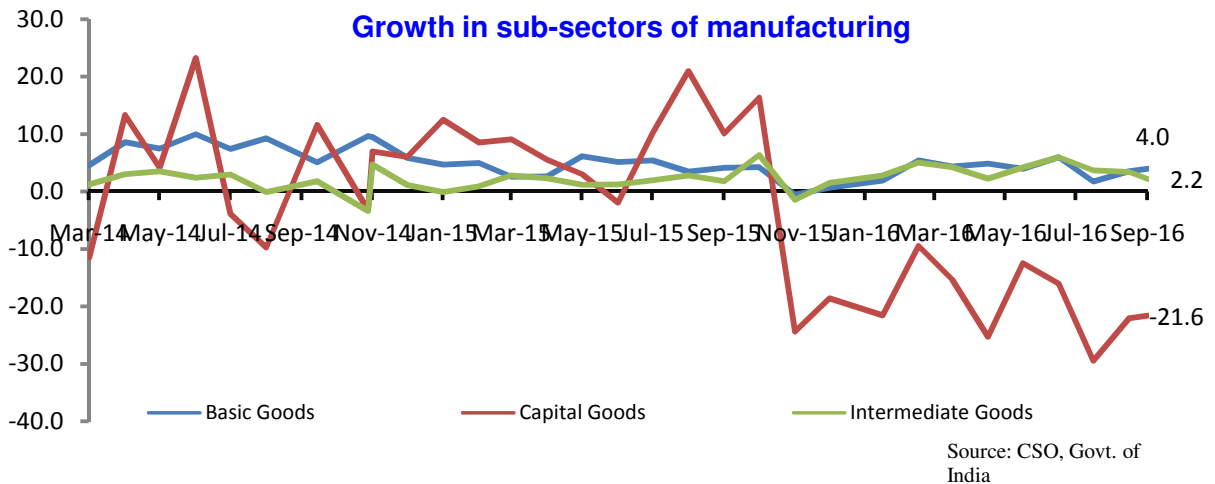
Fig1: Industrial Output Growth from May 2014



Use-based analysis exhibited uptrend for consumer goods: Among all the use based sectors, only capital goods continued to remain dismal for eleventh straight month to Sep 2016 with 21.6% decline in output during the month. In fact, in all of these eleven months capital goods output conceded double-digit decline except in Feb 2016. However, this time consumer durables recorded a robust 14% surge in production that helped consumer goods sector to see 6% rise in output and ultimately ensured growth of the manufacturing sector. Consumer non-durables was merely stagnant with 0.1% growth in Sep 2016 after registering decline in the previous two months. Basic goods and intermediate goods saw 4% and 2.2% growth respectively during the reporting month.

Cumulative IIP during Apr - Sep 2016 remained much lower than that of the previous fiscal: Cumulative Industrial production during the first half of fiscal 2016-17 conceded 0.1% decline as against 4% growth during the same period last year mainly due to dismal manufacturing that witnessed 0.8% decline in output during Apr - Sep 2016-17 as against 4.2% growth in the same period last fiscal. Only electricity achieved a better growth over the previous fiscal while mining remained stagnant when cumulative production was considered. The obvious reason behind the decline in manufacturing output was depressing capital goods sector conceding 21.4% fall in output as against 7.8% growth in the first half of the previous fiscal. Consumer non-durables was another segment that recorded decline in production (2.4%) during the first half of the current fiscal.

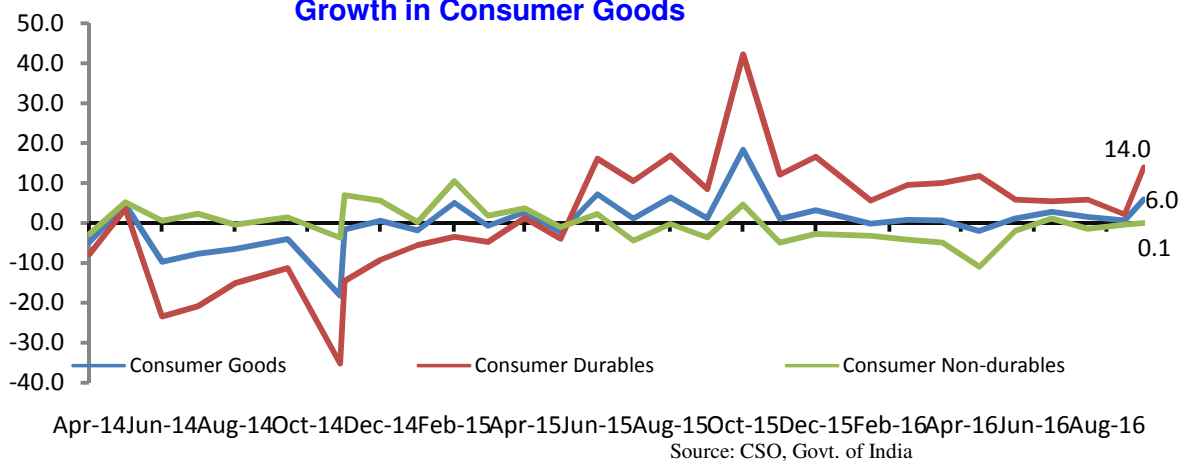
Fig 2: Growth in sub-sectors of manufacturing



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

Among the nine industry groups fall under engineering, three concede decline in output during Apr - Sep 2016 over the same period last fiscal. Output of 'Electrical machinery & apparatus' tumbled by 50.6% on a cumulative basis during these six months and recorded 49.7% drop in output during Sep 2016. 'Office, accounting & computing machinery' witnessed a marginal 4.3% decline in production during Apr - Sep 2016 driven by a substantial 28% fall in output during the reporting month. Among the leading sectors, 'Radio, TV and communication equipment & apparatus' registered highest growth at 12.7% cumulatively during Apr - Sep 2016 led by a 10.6% growth in output during Sep 2016. 'Other Transport Equipment' grew by 8.4% on a cumulative basis while 'Machinery and equipment' enjoyed 8.7% year-on-year growth during the first six months of the current fiscal. During Sep 2016, four out of nine industry groups conceded negative growth over the same month last year.

Fig 3: Growth in Consumer Goods



Outlook: Mining and electricity production are likely to be muted during the next couple of months while capital goods, a reflection of weak investments and consumer non-durables, a sign of consumption demand are likely to remain weak. Possibility of any sharp recovery of industrial production in the near term remains feeble.

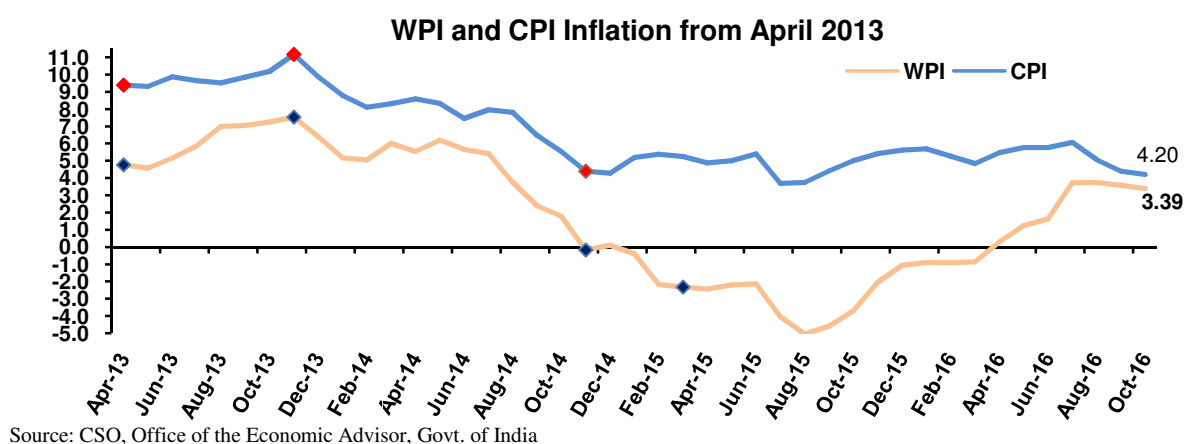
Inflation

Retail price inflation in Oct 2016 eased to its lowest since November 2014

India's retail (or CPI) inflation was down to 4.2% in October 2016, the lowest in the new series launched since November 2014, against 4.31% in the previous month. The decline was mainly led by drop in food prices that accounted for around 50% in the CPI commodity basket. Consumer Food Price Index (CFPI) eased to 3.32% during Oct 2016 from a higher 3.96% in the previous month. Inflation in pulses came down drastically in CPI to 4.11% from 14.33% while that for vegetable dropped to 5.71% in Oct 2016 from 7.21% in the previous month.

WPI rate of price rise declined to a four-month low of 3.39% in Oct 2016 as compared to 3.57% in the previous month.

Fig 6: WPI and CPI Inflation from April 2013



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

Outlook - The recent cash crunch induced by demonetisation of old 500 and 1000 rupees note is likely to bring down the price level further by shrinking demand. However, inflation may again go up to around 5% by the end of the ongoing fiscal on account of the waning of the base effect and the impact of higher consumer demand on prices. However, retail inflation by all possibilities is not likely to surge beyond the comfort level of the Indian central bank.

Non-food credit disbursal to industry remained weak in Sep 2016

Non-food bank credit increased by 10.8% in Sep 2016 on a year-on-year basis, as compared with the increase of 8.6% in the same month last year. Credit disbursal to industry increased by 0.9% in Sep 2016 as compared with an increase of 4.9% in Sep 2015. Major sub-sectors which witnessed deceleration/contraction in credit include infrastructure, basic metal & metal products, food processing and chemical & chemical products. Credit disbursal to manufacturing sector continued to decline and contracted by 1.5% in Sep 2016 over the same period last year. Credit growth to manufacturing was recorded at 5.1% during Sep 2015.

Indian Rupee depreciated marginally over the US Dollar in Oct 2016

After two months of appreciation, Indian rupee again weakened over the US Dollar during the month of Oct 2016 probably on sale of rupee following the possibility of interest rate hike by the US Federal Reserve in Dec 2016.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
% Change in Oct 2016	0.30%	-5.93%	-2.47%	-3.95%
Direction	Depreciation	Appreciation	Appreciation	Appreciation
% Change in 2016	0.80%	-17.34%	0.56%	15.16%
Direction	Depreciation	Appreciation	Depreciation	Depreciation

Source: RBI Reference Rates

Outlook for rupee is weak –Rupee is likely to remain weak in the near term mainly due to the possibility of rate tightening by the US Federal Reserve.

RBI kept policy rate unchanged in its fifth bi-monthly monetary policy review for 2016-17 on 7th Dec 2016 even after rise in bank deposits following demonetisation

The RBI decided to keep the policy repo rate under the liquidity adjustment facility (LAF) at 6.25 per cent. Consequently, the reverse repo rate under the LAF stands stood unchanged at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.75 per cent. CRR was also kept unchanged at 4%.

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