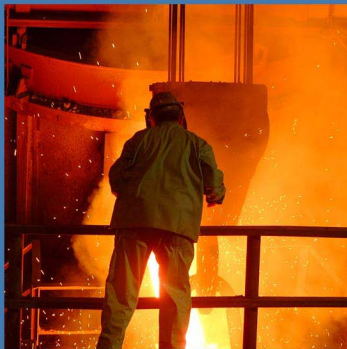


# Monthly Economic Bulletin



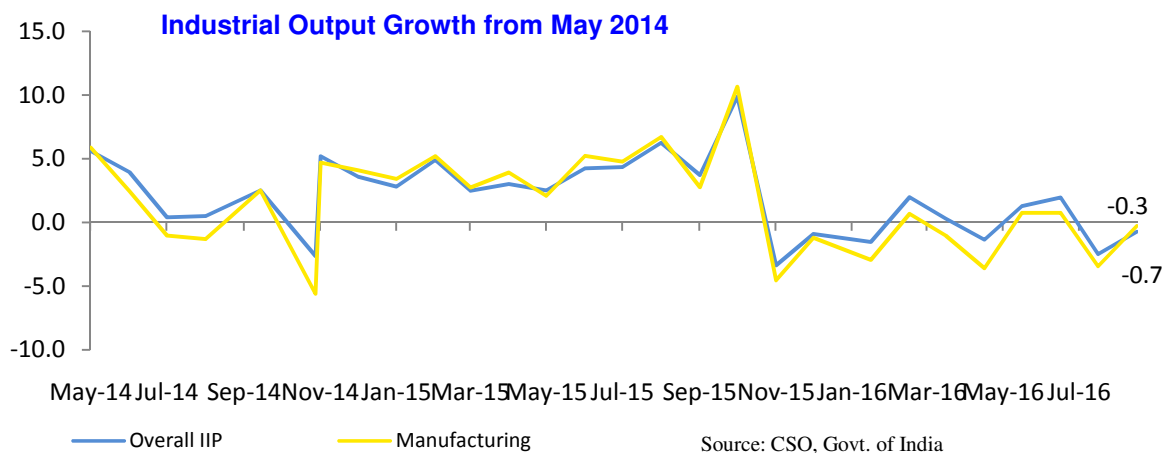
# Indian Economy

## Industrial Production

### IIP in Aug 2016 declined for the second month in a row

Industrial show continued to remain depressing as Index of Industrial production (IIP), the most familiar measure of industrial production, contracted by 0.7% in Aug 2016 owing to dismal manufacturing and mining output. manufacturing output, with over 75% weightage in IIP, dropped by 0.3% over the same month last year while mining production tumbled by a substantial 5.6% year-on-year in the reporting month. Electricity however secured a meagre 0.1% growth during the month.

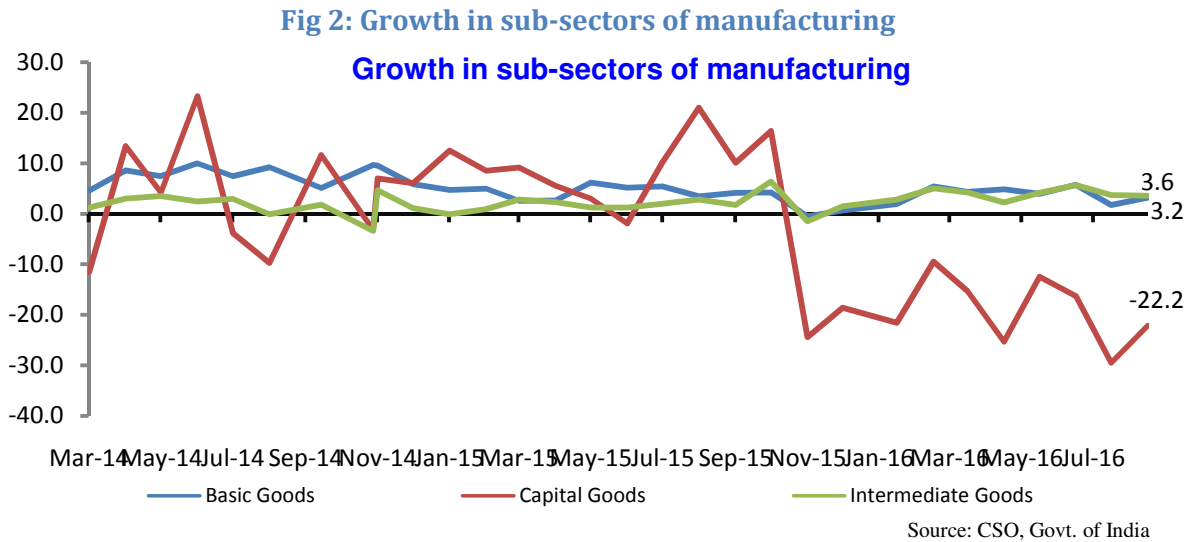
Fig1: Industrial Output Growth from May 2014



**Use-based performance showed Capital Goods was the spoilsport:** Poor performance of the manufacturing sectors was mainly led by lacklustre capital goods sector that recorded 22.2% decline in output during Aug 2016 while other sectors ended the month by registering year-on-year growth. Basic goods recorded 3.2% growth while intermediate goods, an early signal of investment momentum, expanded by 3.6% in Aug 2016 over the same month last fiscal. Even non-consumer durables, a reflection of rural spending, grew by a slight 0.1% and consumer durables grew by 2.3% year-on-year during the month concerned. Consumer goods as a whole expanded by 1.1% over Aug 2015.

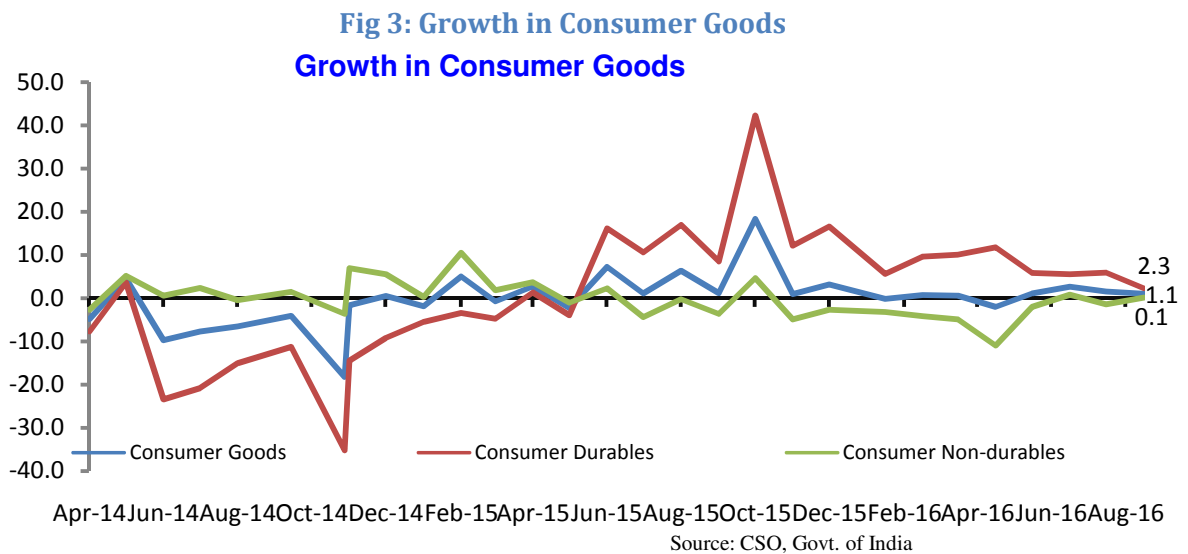
In Aug 2016 however, **steel production rose to a 37-month high** and cement output maintained momentum that augured well for construction activities.

**Cumulative IIP during Apr - Aug 2016 declined for the second straight month:** Cumulative Industrial production during the five months of fiscal 2016-17 conceded 0.3% decline over the same period last year due to 1.2% decline in manufacturing output on a cumulative basis. However, mining grew by 0.6% during Apr - Aug 2016-17 and electricity recorded a higher 5.7% growth as against 3.2% recorded in the first five months of the previous fiscal. Within manufacturing, only capital goods and non-consumer durables were responsible behind the fall in overall manufacturing production as capital goods declined by 21.4% and non-consumer durables by 2.8% year-on-year during Apr - Aug 2016-17.



### Industry group-wise analysis of engineering products during Apr - Aug 2016

Among the nine industry groups fall under engineering, only two concede decline in output during Apr - Aug 2016 over the same period last fiscal. Output of 'Electrical machinery & apparatus' tumbled by 50.9% on a cumulative basis during these five months and recorded 49.4% drop in output during Aug 2016. 'Medical, precision & optical instruments, watches and clocks' also recorded a marginal 0.8% decline in production during Apr - Aug 2016 driven by a 6.4% fall in output during Aug 2016. Among the achievers, 'Radio, TV and communication equipment & apparatus' registered highest growth at 13.2% cumulatively during Apr - Aug 2016 led by a 15.2% production growth during Aug 2016. 'Other Transport Equipment' grew by 8.4% on a cumulative basis while 'Machinery and equipment' also witnessed a decent 8.3% year-on-year growth during the first five months of the current fiscal. During Aug 2016, three out of nine industry groups conceded negative growth over the same month last year.



**Outlook:** We stick to our opinion provided in the previous month. 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.

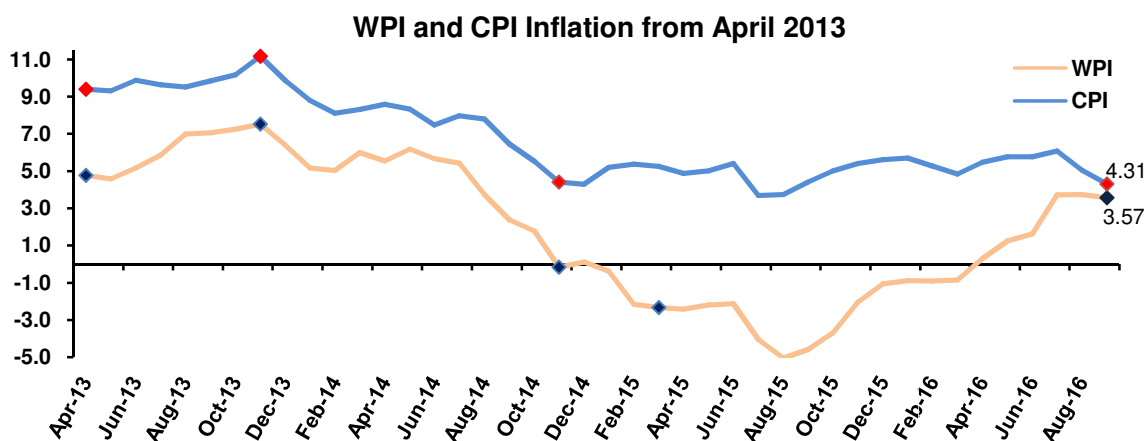
## Inflation

### Retail price inflation eased Further in Sep 2016 to below 5%

Consumer Price Inflation (CPI) or Retail Inflation continued to soften for the second month in a row and dropped below 5% during Sep 2016. CPI inflation was recorded at 4.31% in Aug 2016 bringing relief to the monetary authority as it has now got more room to soften interest rate. The lowering of retail inflation was due to cheaper prices of food and beverages that accounted for around 50% weight in the retail commodity basket. Inflation for food & beverages dropped sharply to a 13-month low of 4.1% in Sep 2016 from 5.8% in the previous month mostly due to higher statistical base and month-on-month declines in perishables and protein items. Inflation on housing items also eased over the month. Lower inflation in 'food and beverages' and 'housing' outweighed the rise in inflation of 'fuel & light' and 'miscellaneous items'. Core-CPI inflation (excluding 'food & beverages' and 'fuel & light') hardened to 4.9% in Sep 2016, the highest in five months due to higher inflation in 'transport & communication' and 'health'. Core inflation exceeded headline CPI inflation after a gap of twelve months.

Wholesale inflation also eased to 3.57% in Sep 2016 from 3.74% in the previous month driven by the decline in inflation in primary articles.

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



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

**Outlook - View of ICRA** - ICRA expect CPI Inflation be U-shaped for the remainder of this fiscal, with a dip in inflation till Nov 2016 followed by an uptrend to around 5.0% in March 2017, on account of the waning of the base effect and the impact of higher consumer demand on prices. Possibility of further easing of 25 bps in policy rate in the remainder of this fiscal can't be ruled out.



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## Non-food credit disbursal to industry contracted in Aug 2016

Non-food bank credit increased by 8.2% in Aug 2016 on a year-on-year basis, as compared with the increase of 8.4% in the same month last year. Credit disbursal to industry contracted by 0.2% in Aug 2016 as compared with an increase of 5.0% in August 2015. Major sub-sectors which witnessed contraction in credit include food processing, infrastructure, textiles and cement & cement products. Credit disbursal to manufacturing sector continued to decline and contracted by 3.7% in Aug over the same period last year. Credit growth to manufacturing was recorded at 6.0% during Aug 2015.

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## Indian Rupee appreciated over the US Dollar for second straight month to Sep 2016

In the last month, the strengthening of rupee was just 0.08% over the US Dollar but this month it was a bit stronger at 0.48%. The sentiment was a bit upbeat for rupee as US Federal Reserve did not show any hurry to tighten interest rate. Selling of dollar by exporters was also a reason for strengthening of rupee.

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

	USD	GBP	EURO	YEN
% Change in Sep 2016	-0.48%	-1.44%	0.17%	1.79%
Direction	Appreciation	Appreciation	Depreciation	Depreciation
% Change in 2016	0.50%	-12.12%	3.10%	19.89%
Direction	Depreciation	Appreciation	Depreciation	Depreciation

Source: RBI Reference Rates

**Outlook for rupee is weak** – Despite the strength seen in the near term, we think that Rupee is likely to remain weak in the near term and may go down to 68 per US Dollar.

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## RBI reduced policy repo rate by 25 basis points in its fourth bi-monthly monetary policy review for 2016-17 on 4th Oct 2016

On the assessment of the current and expected macroeconomic situation, the RBI decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.5 per cent to 6.25 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.75 per cent. CRR however was kept unchanged at 4%.

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