Indian Economy

Economic Growth

GDP Growth slowed down in the first quarter of current fiscal

Real GDP growth slowed down to 7.0% during the first quarter (Q1) of the ongoing fiscal (FY16) from 7.5% in the last quarter of the previous fiscal. However, gross value added (GVA) at basic prices, the current measures adopted for calculation of national accounts, showed that economic growth accelerated to 7.1% in April-June against 6.1% in January-March. However, as we always measure growth on a year-on-year basis in India, GVA growth of the first quarter of 2014-15 is more important and there also we saw a decline in GVA from 7.4%.

When compared to the GVA of the same period last year (Q1FY15), agriculture and industry witnessed slowdown in growth but services recorded a slightly higher growth. Firm sector growth decelerated to 1.9% from 2.6% while industrial growth slowed down to 6.5% from 7.7% during the first quarter of last fiscal. Within industry, the most sensitive manufacturing sector saw 7.2% growth which was lower than 8.4% in the same quarter last year. Electricity was the sector that recorded maximum decline in growth from 10.1% to 3.2% but construction grew a bit faster at 6.9% from 6.5% in the year ago period. The decline in growth for electricity was attributed to weak power generation followed by dismal financial condition of state electricity boards. ‘Trade, hotel, transport and communication’ was the only sector to grow in double digits at 12.8%.

Economic outlook slightly upbeat – Firm sector is expected to fare well in the coming quarter despite a deficit monsoon as agriculture ministry predicted that the impact of deficit monsoon was less than earlier estimates. Investment scenario is somewhat improved that may help industrial growth to move faster. Manufacturing sector is also expected to firm up in the coming quarters.
**Industrial Production**

**Industrial output grew over 4% for the second consecutive month to July 2015**

Industrial production during July 2015 crossed 4% to come at the highest in the current fiscal if we consider only preliminary estimates. However, industrial output growth in June revised upward at 4.4% from 3.8% of the preliminary estimate. High growth was attributed to manufacturing and within manufacturing, capital goods and consumer durables. Mining and electricity sectors also registered better growth over the previous month. Mining revived from negative growth in June 2015. A slight base effect also contributed to better manufacturing growth in Jul 2015.

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

**Use-based classification** – Although, manufacturing demonstrated a more or less steady growth in the first four months of fiscal 2015-16, a detail look into the components did not show a stable picture. Basic goods maintained a steady growth at 5.2% in Jul 2015 but growth of intermediate goods sector remained weak at 1.5% as against 1.1% in Jun 2015. Capital Goods remained volatile with a double digit growth at 10.6% during Jul 2015 as against a decline of 2.1% in the previous month. Growth of consumer goods dropped to mere 1.3% from 7.7% in Jun 2015 due to a dismal non-durable sector that conceded 4.6% decline during the month concerned. Consumer durable once again achieved double digit growth at 11.4% in Jul 2015 as against 17.4% in Jun 2015 but sudden jump in growth in the last two month did not signal any trend reversal. High growth of capital goods was driven by boost in commercial vehicles, transformers, cylinders and aluminium conductors while that of consumer durables was more due to base effect.

**Cumulative IIP figures for Apr – Jul 2015 somewhat optimistic** – Industrial production recorded 3.5% growth during the first four months of 2015-16 as compared to 3.6% growth during the same period last year backed by higher manufacturing growth at 4.0% in Apr – Jul 2015 vs. 2.8% in the year ago period.
Industry group-wise analysis of engineering products during July 2015

Group-wise performance showed some improvement of engineering sector over the month during July 2015. Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, only three conceded decline in production during July 2015 over the years while seven recorded increase in production. We may take the cumulative figure here to get a better picture of the sector. Three out of nine sector recorded negative growth during Apr – Jul 2015 while six recorded positive growth. Base metal recorded highest growth at 8.7% followed by ‘Motor vehicles, trailers & semitrailers’ at 6.8%. On the flipside, ‘Radio, TV and communication equipment & apparatus’ was the worst hit during Apr – Jul 2015 with 16.0% decline in production over the same period last year while ‘Office, accounting & computing machinery’ conceded 14.3% decline during the same period.

Outlook: Industry is likely to see higher growth – Lower interest rate may lead to expansion of businesses and industry may see better growth in the months to come but it is not likely to be broad based. Capital goods to remain volatile and consumer durables is unlikely to be stable at higher level as expenditure side analysis of GDP data shows weakness in consumption. However, manufacturing is expected to pick up in the coming months on the back of the impact of reforms taken during the year.
Inflation

Fall in Global Commodity prices deepens WPI to -4.95% while CPI inflation eases marginally to nine-month low of 3.66% in August 2015

The consumer price index (CPI) for the month of August came in at 3.66%, compared to marginally higher reading of 3.69% (revised) in July 2015. The Core-CPI inflation eased for the second consecutive month to 4.1% in August 2015 from 4.3% in July 2015. The impact of a fall in core-CPI inflation (excluding food & beverages and fuel & light) in August 2015 relative to July 2015 was partially offset by rise in fuel inflation and a mild uptick in food inflation. Food inflation for the month of August has increased slightly to 2.9% in August 2015 from 2.8% in the previous month. Inflation based on the wholesale price index (WPI) stayed in negative for the tenth consecutive month registering 4.95% fall in August compared with 4.05% fall in July.

Fig 6: WPI and CPI Inflation from April 2013

Outlook: inflation is likely to pick up as base effect wanes off – Following further softening of crude oil prices, the cut in retail prices of petrol and diesel would likely to bring down CPI inflation in September 2015. However, the recent softening of inflation is mostly due to base effect, the waning of which from Sep 2015 may lead to higher headline CPI and cross the target level of RBI by Jan 2016.

Non-food credit disbursal continued to remain in single digit - Non-food bank credit growth decelerated to 8.4% in Jul 2015 from 12.6% in July 2014. However, growth remained the same over the month. Credit growth to industry continued to reamin the same over the month at 4.8% in July 2015 as against 10.2% in July 2014. Like May 2015, deceleration in credit growth to industry was observed in virtually all major sub-sectors barring basic metals and gems and jewellery. Credit situation in manufacturing sector was even worse. Credit disbursal towards
manufacturing during Jul 2015 was recorded at mere 6.1% as against a robust 21.6% during the same month last year.

Indian Rupee dropped to two-year low vis-à-vis the US Dollar in Aug 2015

Indian rupee fell sharply vis-à-vis the US Dollar and depreciated by 3.6% during Aug 2015 as the US Dollar strengthened in the global market following the possibility of interest rate hike in the US by the US Federal Reserve. The foreign institutional investors also pulled out their investments from the Indian capital market that was the reason for weakening of rupee. During Aug 2015, rupee dropped below the 66 level per US dollar and reached its two year low. Devaluation of Yuan by the China Govt. also weighed on rupee as devaluation was supposed to make Chinese goods cheaper in the international market and India as a competitor might lose share in global exports.

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

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<th>USD</th>
<th>GBP</th>
<th>EURO</th>
<th>YEN</th>
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<tbody>
<tr>
<td>Change (%) in Aug 2015</td>
<td>3.59%</td>
<td>2.48%</td>
<td>6.17%</td>
<td>6.21%</td>
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<tr>
<td>Direction</td>
<td>Depreciation</td>
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<tr>
<td>Change (%) in 2015</td>
<td>4.70%</td>
<td>3.78%</td>
<td>-3.26%</td>
<td>3.44%</td>
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<tr>
<td>Direction</td>
<td>Depreciation</td>
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Source: RBI Reference Rates

Outlook for rupee is weak– Devaluation of Yuan and possible hike in benchmark interest are by the US Federal Reserve may put downward pressure on Indian rupee. However, vulnerability of rupee seems to have reduced somewhat as India's foreign exchange reserve swelled up to over US$350 billion, which could provide necessary cushion to India's import bill for the next 11 months. But, volatility in the Indian capital market and monetary softening by RBI may continue to put pressure on rupee.

RBI may cut interest rate in its bilateral policy review meet – Industrial growth seems to have gathered momentum but any sign of stability is yet to be seen. Economic growth is also rising but but without any signal towards stability. Inflation however moderated and unlikely to go up sharply. Therefore, in absence of higher inflation RBI may opt for one more phase of reduction in policy repo rate in its ensuing policy review meet on 29th Sep 2015.
GLOBAL SCENARIO

US Federal Reserve did not opt for monetary tightening in Sep 2015 – The Federal Reserve bank of US changed its benchmark interest rate (Fed Fund rate) unchanged at its record low of 0% - 0.25% during its two day policy meet in Sep 2015 that was completed on 17th Sep. The Fed statement said that recent global economic and financial developments might restrain economic activity somewhat and was likely to put further downward pressure on inflation in the near term. The Federal Reserve open market committee continued to see the risks to the outlook for economic activity and the labour market as nearly balanced but developments abroad were still at risk. The statement of the committee said that although employment and inflation reached near mandate-consistent levels, economic conditions might, for some time, warrant keeping the target federal funds rate below levels which the committee viewed as normal in the longer run.

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