Economic Growth

Blame it on investment and export - Indian economic growth eased from 9-quarter high

Real GDP growth during the second quarter of 2014-15 (Q2FY15) eased to 5.3% from 5.7% a quarter ago. Firm sector recorded a better-than-expected 3.2% growth although it was slightly lower than that of the previous quarter. Service sector achieved higher growth over a quarter ago but Industrial growth was dismal at just 2.2% as against 4.2% in the first quarter. A sector-wise break up of industrial activity depicted that manufacturing was the spoilsport with a meager 0.1% growth as against 3.5% a quarter ago. Mining and Construction sectors recorded slight moderation in growth to 1.9% and 4.6% respectively while ‘Electricity, gas & water supply’ witnessed a decent 8.7% growth but missed double digit like the first quarter. Within the service sector, ‘Trade, hotels, transport & communication’ and social sector recorded better growth than the previous quarter at 3.8% and 9.6% respectively but financial sector grew at a slower rate.

Expenditure side analysis of GDP data shows that Gross Fixed Capital Formation, a measure of investments was stagnant in the second quarter as against 7% growth in the first one probably on expectation of lower interest rate and lack of new project implementation due to regulatory hurdles. Exports also contracted by 1.6% in the reporting quarter vs. a substantial 11.5% growth in the first quarter. These two factors dragged down the headline GDP growth despite higher growth of private as well as govt. expenditure over the quarter. Real GDP growth for the first half of 2014-15 was recorded at 5.5%. (Growth measured on a year-on-year basis).

Outlook for economic growth: Third quarter is unlikely to see any revival

Apprehension of weak kharif crop production and possibility of slow recovery in some parts of the developed world is likely to impact the growth figure in the second half as the later one may have a drag on overseas demand. Financial sector is also likely to see slightly feeble growth due to a higher base of strong deposit mobilization through NRIs in the third quarter of last fiscal but that is not likely to have any significant impact on real sector. High interest rate will continue to be another dampener in the third quarter. Moreover, mounting fiscal deficit
is most likely to induce govt. to cut expenditure in the fourth quarter that may also take its toll on economic activities by the pace of growth in the final quarter. One big positive is the announcements of new projects and expectation of aggressive reform measures going forward but the full effect of that is unlikely to be reflected in GDP numbers of this fiscal. We expect growth to remain within 5.5% for the entire fiscal.

**Industrial Production**

**Industrial output in Oct 2014: First decline in the current fiscal and worst in last three years**

Industrial production slumped to 3-year low after achieving growth in the last 6 months. The factory output as measured by the Index of Industrial Production (IIP) contracted by 4.2% for the month of October, the worst in at least three-years, on account of a sharp decline in manufacturing, especially of capital goods and consumer goods.

Industrial growth was optimistic in Sep at 2.8% but dismal manufacturing production driven by contraction in capital and consumer goods sector dragged it down miserably in Oct 2014. Manufacturing, which constitutes 75% of the index, contracted 7.6% compared to a dip of 1.3% in the same month a year ago. For April-October, the sector saw an output growth of 0.7%, compared to a contraction of 0.1% in the year-ago period. While capital goods fell 2.3% in Oct 14 as against 12.5% growth in Sep 14 and intermediate goods dropped by 3.1%, away from its positive growth observed in Sep 14.

However, mining sector moved up from 0.7% growth in Sep 14 to 5.2% in Oct 14 as compared to the same period last year. Even the electricity sector regained double digit growth from 3.9% in Sep 14 to 13.3% in Oct 14 vis-à-vis Oct 13.

**Use-based classification** – Use-based analysis of manufacturing production unveiled that basic goods recorded constant growth at 5.8% but capital goods recorded 2.3% decline in output while production of intermediate goods also recorded a fall during Oct 2014. Capital goods sector conceded persistent decline from the second quarter, barring September. Consumer goods showed a disastrous 18.6% decline due to a combined dip in both the consumer durables and consumer non durable goods segment during Oct 14. Consumer durables declined by 35.2% in October 14, as against a dip of 12% a year ago. For April-October, it showed a decline of 16% as against a dip of 11.3% in the same period of last fiscal.
Consumer non-durable goods output too contacted by 4.3% in October, compared to 1.9% growth in same month last year. During April-October, the segment grew by 1% compared to 6.8% growth in same period last fiscal. The intermediate goods’ output too declined by 3.1% in October, compared to 2.7% growth in the same month last year. However the basic goods production grew by 5.8% in the month under review compared to a decline of 0.4% in same month last fiscal.

**Industry group-wise analysis of engineering products during Oct** – 16 out of the twenty two 22 industry groups (as per 2-digit NIC-2004) in the manufacturing sector conceded negative growth during Oct 2014. ‘Radio, TV and communication equipment & apparatus’ was the worst performer with 70% decline in production followed by ‘office machinery’ (31.6%) and furniture manufacturing (24.7%). ‘Machinery & Equipment’ production also dropped by 13.5% in Oct 2014. On the other hand, ‘Electrical machinery & apparatus’ achieved decent 10.5% growth while basic metal production increased by 4.6% during the reporting month.

**Industrial Production back to growth in Nov 2014 showing highest growth in 5-month**

Shrugging off the fear of further slowdown, Industrial production in Nov achieved 3.8% growth – the highest since Jul 2014 and higher than the market expectation at 2.2% led by manufacturing sector that recorded 3.0% growth as against a decline of 7.6% in Oct 2014. Within manufacturing, most vulnerable capital goods revived with 6.5% growth but consumer goods declined by 2.2% due to low demand from durable segment. 16 out of 22 industry groups (as per 2-digit NIC-2004) in the manufacturing sector recorded positive growth during the month.

**Outlook for industrial production: Better growth expected in the coming months** – December and March are usually seasonally strong months from an industrial output perspective. In addition, improvement in the infrastructure sector, pick up in exports, increase in production of automobiles and above all, likely decline in interest rate from Feb 2015 may lead to higher industrial production in the coming months.

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**Inflation**

Retail inflation set new low once again while Wholesale inflation dipped to ‘zero’ in Nov 2014 – Headline CPI inflation declined to 4.4% in Nov from 5.5% a month ago due to cheaper food prices. Food price index in CPI eased to 3.6% from 5.7% a month ago. Core CPI, the prime concern of RBI also eased to 5.5% in Nov from 5.9% a month ago. Wholesale inflation on the other hand remained unchanged over the year ago period reflecting virtually no change in prices.

CPI however hardened to 5% in Dec.
Inflation Outlook: may see a mild surge due to the possibility of lower kharif production – Vegetable prices continued to soften that brought down CPI inflation to its historic low. However, there is a possibility that CPI numbers may surge again as Kharif crop production has been estimated to be lower than last year that may again push the food prices up. However, fall in global crude prices may result in lower fuel inflation.

Non-food credit growth decelerated in Nov 2014 - non-food credit growth of banks decelerated to 11.0% in Nov 2014 as compared to 14.7% in the same month last year. Credit growth to industry also declined noticeably to 7.3% in Nov 2014 as compared to an increase of 13.7% a year ago due to slower disbursement of credit to almost all major sub-sectors excluding construction, beverages & tobacco and mining & quarrying. Growth of Credit flow to manufacturing sector was 14.1% in Nov 2014 against a much higher 22.4% in the year ago period.

Rupee depreciated in Dec 2014 due to strengthening of US Dollar and uncertainty in European economy

US dollar strengthened on the global front due to US Fed’s decision to withdraw liquidity infusion and possibility of interest rate tightening therein. Uncertainty in Greece also caused emerging currencies to weaken as political uncertainty in Greece is apprehended to cost it another bailout. Year-end dollar buying by exporters was also one of the reasons for depreciation of rupee. However, Currencies of most economies have depreciated more than the rupee, the agency stated.

| Performance of Indian Rupee vs. Major Traded Currencies |
|-----------------|-------|-------|--------|-------|
|                | USD   | GBP   | EURO  | YEN   |
| Change (%) in Dec 2014 | 2.19% | 1.25% | -0.21% | 0.92% |
| Direction        | Depreciation | Depreciation | Appreciation | Depreciation |
| Change (%) in 2014 | 2.32% | -3.36% | -9.79% | -10.24% |
| Direction        | Depreciation | Appreciation | Appreciation | Appreciation |

Source: RBI Reference Rates

Outlook for rupee – Currency experts opined that the recent depreciation in rupee is not in line with the fundamentals of the Indian economy and is not going to be a long term phenomenon. Rupee strengthened a bit from below 63 level but the RBI is also expected to intervene in the currency market to check the appreciation. Trend of rupee could be clearer if the uncertainty in Greece dilutes by end-January 2015.

Outlook on Interest rate: Rate cut may be from Feb-2015 - RBI, in its fifth by monthly review of Credit policy 2014-15 on 2nd Dec kept the policy repo rate unchanged at 8%. However, the industry was disappointed as RBI indicated that rising food prices might put CPI inflation target for Jan 2016 (6%) at risk.
However, RBI’s underlying tone was quite dovish in the said policy meet. The central bank said that with the earliest sign of stable inflation at the lower level, monetary policy stance will be shifted and subsequent policy actions would be consistent with the changed stance. Therefore, we can expect interest rate to come down in several phases starting from Feb 2015.

GLOBAL SCENARIO

Talk of the world: Greece may exit from euro – Parliamentary election in Greece is scheduled on 25th January 2015 where the leftwing Syriza is likely to take the hot seat but they are against austerity and wants a part of Greek debt to be written off. Now, if Greece goes against austerity it will not receive any bailout and the inevitable outcome for Greece will be to exit Euro. Government experts were concerned about a possible bank collapse if customers storm Greek institutions to secure euro deposits in the event that Greece leaves the zone.

Reserve Bank of India (RBI) and European Central Bank (ECB) signed a Memorandum of Understanding (MoU) for cooperation in the area of central banking. The MoU provides a framework for regular exchange of information, policy dialogue and technical cooperation between the two institutions. Technical cooperation may take the form of joint seminars and workshops in areas of mutual interest in the field of central banking, said the RBI.

Source: RBI, GoI Websites, ICRA, Newspapers & Periodicals

EEPC PUBLICATIONS

EEPC Monthly publications (ie²) focuses on different engineering sectors every month, identifying their trade and investment pattern and highlighting their export incentive schemes under the Foreign trade Policy. Snapshots of some recent publications on the Castings Industry, Compressor and Valves Industry, etc are given below:
EEPC India has been providing the **EEPC Metal Price Monitor** to its members to keep them updated of the monthly metal price fluctuation around the world. The monitor includes both domestic and international prices of steel and other non-ferrous metals. A snapshot of the price monitor for the month of November is given below:

EEPC India has recently come up with a “**Strategy Paper for the growth of Indian Engineering Exports - FY 14-19**” prepared by KPMG. The analysis is based on the prevailing market conditions and regulatory environment that may impact the outcome of the review. The pillars of this study are market attractiveness, competition and inherent capabilities which along with other elements strengthen the contours of our growth strategy. This report was developed after taking a holistic view of the industry trends, stakeholder interactions to arrive at the recommendations.
Doing Business Series of EEPC India: In 2013-14, EEPC India published a series of ‘Doing Business’ Reports:

- EURASIA
- Africa
- Poland and
- Vietnam
- India

Other Publications:

- Engineering export info Bulletin;
- Product Catalogues;
- Event specific publications;
- Post Show Reports on:
  - INDEE Vietnam;
  - INDEE Morocco; and
  - IESS 2014
- Press releases.
EEPC India Monthly Policy Issues and Suggestions

Preparing an analysis on Import Appraisal. Here DGCI&S had provided the data showing India’s import for 442 HS codes at 8 digit level for two years i.e. 2013-14 and the two quarterly data Apr-Jun 2013 over Apr-Jun 2014. But we have included trade data for previous two more years to understand trend and pattern of Indian engineering imports in the last three years. Out of the 442 tariff lines provided at 8 digit level, 181 were identified as engineering products. Our analysis limits its focus for these engineering products only. We have found out the overall import scenario of India and noticed the declining trend in India’s engineering imports in the last few years. We have identified the tariff lines where India enjoys trade surplus. Further we have carried out a sector wise import analysis of the engineering products. Lastly we have found out India’s major sources of imports.

EEPC India submitted its comments and suggestions on EXIM Bank’s report on “Transaction Cost and other Impediments on India’s foreign trade” based on its discussion with its members.

EEPC India prepared a report comparing the specific impediments on foreign trade faced by the exporters as per EXIM Bank’s report of 2005 and the subsequent changes that have taken place during the last 9 years.

EEPC India’s comments on “Import of Second hand Capital Goods”. The Department of Heavy Industries, Government of India has requested for the views of the members of the Council with regard to import of second hand capital goods. We present a cross section of the views received by us for consideration of the Government.

EEPC India gave its views on Conformity Testing. Even after India being the top exporter of many products there still exist a few cases where we come across certain standards to be met by Indian exporters in different countries. It is this regard that we provide our views on appropriate standards to be met by the Indian exporters.

EEPC India also identified IS and ISO standards for Market Quality Control restricting import surge for some top engineering import items.

EEPC India has recently furnished suggestions on the ongoing RCEP Framework Agreement on request from the Department of Commerce. In fact, we have focused on India’s export interest as well as defensive
interest on various engineering sectors with the ASEAN+5 countries. We have also suggested respective Rules of Origin and the possibility for participating in the global value chain country-wise, keeping in mind the trade pattern restricting import surge and their tariff schedules with India.

(October and November)

EEPC India has proposed suggestions on the prospects of further expanding scope of Indian exports to Chile under the proposed India-Chile Expanded PTA. We have prepared an analysis of the likely impact on Indian exports of engineering products to Chile under the proposed Expanded PTA.

(November)

EEPC India has also made a similar suggestion on strategies to enhance bilateral commercial relation between India and Vietnam. It has also identified potential engineering sectors, with special focus on SME sector, infrastructural development and multilateral funded projects.

(November)

EEPC India has suggested some modifications / alterations in prevailing direct and indirect tax measures based on the feedback received from the members and presented the same for kind consideration of the revenue department on preparing the General Budget for fiscal 2015-16. Our suggestions include alterations on Duty Drawback, Cenvat Credit and general excise & customs duty among indirect tax and exemption of income tax is selected cases under the purview of direct tax.

(November)

EEPC India prepared a report for its upcoming issue ie2 on 'India -USA engineering trade'. Here we have made a detailed analysis of the existing trade scenario between the two countries. A comprehensive analysis of composition of India-USA engineering trade is done to understand the pattern of trade.

(December)

EEPC India prepared the monthly engineering export analysis for the month of November, 2014.

(December)

EEPC India prepared the platform for the fourth India Engineering Sourcing Show(IESS IV) making way for the forum and Global sourcing meet details.

(December)

EEPC India prepared an analysis of India-Georgia trade relations, which was discussed in IESS December, 2014.

(December)
EEPC India provided its valuable inputs for boosting the exports of the auto mobile and auto components exports. We recommended reciprocal free market access for some products. Further we also mentioned the markets where neutralization of duty rates would help in penetration of the Indian products.

(December)