Industrial Production

Industrial output growth slowed down in Jan 2015 after decent numbers in the previous two months.

After achieving over 3% growth in Nov and Dec 2014, industrial production growth toppled to 2.6% in Jan 2015 due to decline in mining production and slower growth of electricity. Manufacturing output recorded a decent 3.3% growth as against 3.8% in Dec 2014. The marginal slowdown in manufacturing growth during Jan 2015 was mainly due to the decline in the production of consumer goods (1.9%) and intermediate goods sector (0.8%). Mining production declined (2.8%) for the second straight month in fiscal 2014-15. Electricity also recorded a feeble 2.7% growth as against 4.8% in Dec 2014.

Use-based classification – Among the use-based components of manufacturing, capital goods recorded double-digit growth at 12.8% in Jan 2015 after four months. Basic goods also recorded 4.5% growth but it was the lowest in the ongoing fiscal. On the flipside, intermediate goods and consumer goods recorded negative growth during Jan 2015. Both the durable and non-durable segments of consumer goods sector recorded negative growth during the month concerned. However, the decline in consumer non-durable is mere 0.1% while the fall in consumer durable production was substantial at 5.3%.

Cumulative figures indicate industrial recovery in FY15 – Industrial output growth during Apr – Jan 2014-15 recorded at a higher 2.5% than a stagnated 0.1% during the same period last fiscal driven by better performance across the board. Mining and manufacturing escaped negative growth of the previous fiscal to witness moderate recovery at 1.3% and 1.7% respectively during Apr-JanFY15.
while growth in electricity improved over the fiscal. Within manufacturing, capital goods bounced back in FY15 with a decent 5.7% from a decline of 0.8% during the same period last fiscal. However, intermediate goods and consumer goods portrayed a completely different scenario. Consumer goods production worsened with a decline of 4.7% in Apr-JanFY15 as compared to 2.7% during the same period last fiscal owing to dismal performance of both durable and non-durable segments. Rate of growth in Intermediate goods production more than halved to 1.5% in Apr-JanFY15 as against 3.2% in the year ago period.

Industry group-wise analysis of engineering products during Jan 2015

Among the ten industry groups (as per the 2-digit NIC -2004) of manufacturing sector that comes under engineering segment, five witnessed positive growth during Jan 2015. Cumulative performance however portrayed a better picture as seven out of ten industry groups achieved positive growth during Apr-Jan 2014-15. ‘Electric machinery & apparatus’ led the pack with the highest growth of 20% during followed by basic metals with 13.2% growth. Contrastingly ‘Radio, TV and communication equipment & apparatus’ remained the worst performer with 54.5% decline in production during Apr-Jan 2014-15 followed by ‘office, accounting and computer machinery’ conceding a decline of 37.2%.

Outlook for industrial production: Industrial growth on the rise – The exciting double-digit growth of the capital goods sector will boost the industrial growth further. It is the capital goods sector with a weight of 8.8% in IIP, giving the major push to the IIP. The growth in capital goods is expected to pick-up investments and boost industrial growth backed by favourable monetary and fiscal policies.

Inflation

Retail inflation increased to 5.37% in Feb 2015 while Wholesale inflation dipped to (-) 2.06% - India's Consumer Price Index (CPI)-based inflation rose to 5.37% in February 2015 from 5.19% in the previous month, mainly due to high food prices. After a revision of base year (from 2010 to 2012) from December 2014, retail inflation saw an upward trend as it inched up for the third straight month. The Consumer Food Price Index (CFPI) for Feb 2015 stood at 6.79% as against 6.14% a month ago. However, retail inflation still remains within the comfort level of RBI at 6%.
Inflation Outlook: Food prices to drive Inflation up further – We expect inflation to continue its upward run in the near term as unseasonal rainfall will probably take its toll on food prices. The central bank might wait for the inflation figure in the next couple of months before deciding on further reduction in the policy repo rate. Post announcement of forming a monetary policy body in the Budget, the RBI will be aiming to bring down the rate of retail inflation below six per cent by January 2016.

Non-food credit growth continued to fall in Jan 2015 - Non-food bank credit increased by 9.7% in Jan 2015 as compared with an increase of 15.0% a year ago. Credit to industry increased by 6.6% in Jan 2015 as compared with an increase of 13.6% in the same month last year. Deceleration in credit growth to industry was observed in all major sub-sectors, barring beverage & tobacco and construction. Credit growth in manufacturing sector nearly halved to 12.7% in Jan 2015 from 25.3% in Jan 2014.

Rupee was largely unchanged over the US Dollar during Feb 2015

Rupee was steady against the US Dollar during Feb 2015 with a feeble 0.05% depreciation after a decent 2.5% appreciation in Jan 2015 (as per RBI data). US Dollar weakened in the global market over its major traded currencies as the US Federal Reserve indicated slower-than-anticipated interest rate hike starting from mid-2015 while inflow of foreign capital in Indian equities and debts through foreign portfolio investment helped the rupee to strengthen over the greenback (i.e., US Dollar). However, month-end dollar demand by importers and dollar buying by banks just ahead of the Union Budget 2015-16 erased out rupee’s gain towards the end of the month and the Indian currency ended with a marginal depreciation.

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<th>Performance of Indian Rupee vs. Major Traded Currencies</th>
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<td><strong>Change (%) in Feb 2015</strong></td>
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Source: RBI Reference Rates

Outlook for rupee – Rupee is likely to depreciate in the next couple of months as there may be some volatility in the capital amrket. The market has geared up of late without sufficient fundamental development in the economy. Therefore, there may be a correction in the market leading to outflow of foreign capital (dollar) which in turn is liekly to weaken rupee vis-à-vis the US Dollar.

Lower Current Account Deficit (CAD): Another relief for policymakers – India’s CAD narrowed down to USD 8.2 billion or 1.6% of GDP during the third quarter of 2014-15 from USD 10.1 billion or 2% percent of GDP in the second quarter driven by a pickup in net exports of services on the back of an improvement in net earnings through travel and software services, and lower net outflows under primary income. CAD has now come down well within the comfort level of the govt. which is 2%. However, on a
year-on-year basis, CAD was higher than that of the same quarter last fiscal at 0.9% of GDP.

RBI reduced the policy repo rate once again on 4th Mar 2015 – After Jan 2015, the RBI has reduced the policy repo rate once again by 25 bps to 7.50% on 4th Mar 2015 following easing of retail inflation and exception of no sharp rise at least in the first half of fiscal 2015-16. As a consequence, the reverse repo rate under the LAF stood adjusted at 6.50% while the marginal standing facility (MSF) rate and the Bank Rate also reduced to 8.50% each with immediate effect. CRR was kept unchanged at 4%.

RBI’s underlying tone was quite dovish in the last policy meet on Feb 2015 - The central bank kept all monetary measures unchanged in its last policy meet on 5th Feb 2015. However, the underlying tone of the apex bank was quite dovish and hinted towards further easing of policy rates if inflation stays within the targeted level. Therefore, we can expect interest rate to come down in several phases during the rest of 2015.

GLOBAL SCENARIO

Stronger signal of economic recovery from Eurozone as business activities surged to 4-year high – HSBC Markit Composite Flash Purchasing Managers' Index (PMI) for Eurozone, an indicator of business activities, jumped to near four-year high at 54.1 in March 2015 from 53.3 in February. The European Central Bank (ECB) launched its quantitative easing program to buy bonds worth more than a trillion Euros in March 2015 to support the economy but this growth has not been viewed as an effect of the easing as it takes some time to impact economic activities.

Economic data in the US optimistic but US Fed signals slower rate hike – Unemployment rate declined to a 7-year low of 5.5% in Feb 2015, the lowest since May 2008. New home sales reached 7-year high in Feb 2015 and manufacturing PMI, a gauge of factory activity in the US rose to its 5-month high in Mar 2015. However, consumer sentiment dropped to 4-year low in Mar 2015 and Retail Sales dropped for the third month in a row in Feb 2015 due to extreme cold weather. Considering the overall economic recovery as ‘moderate’, the Federal Reserve decided to keep the benchmark interest rate at around 0% - 0.25% for the time being. It seems from the Fed’s statement that interest rate hike in the US may be seen from the middle of 2015.

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 is given below:

EEPC India has 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:** EEPC India published a series of ‘Doing Business’ Reports:

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- Africa
- Poland and
- Vietnam
- India

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**Other Publications:**

- Engineering export info Bulletin;
- Product Catalogues;
- Event specific publications;
- Press releases.

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