The govt. has changed the base year for national income accounting from 2004-05 to 2011-12. Some conceptual changes have also been made in the process of national accounting as per international standards. GDP at factor cost has been replaced by GVA (Gross Value Added) at factor cost and GDP means GDP at market price only. These have resulted in a correction in GDP figure. Under the new method, GDP growth in the first three quarters stood at 6.5%, 8.2% and 7.5% respectively. GVA at basic prices at constant prices recorded 7.5% growth during the third quarter of 2014-15. Growth figure for previous quarters has also been revised upward with revision in base year. However, manufacturing growth declined over the same quarter last year. On a year-on-year basis, agricultural production declined but industry recorded decent growth. Overall economic growth was driven by the service sector. The new method estimated GDP growth for FY13 and 14 at 5.1% and 6.9% as opposed to 4.8% in each of those years as per the old method.

**Outlook for economic growth: Current fiscal is expected to see higher growth**

Under the new methodology with revised base year, GDP is expected to grow at 7.4% in 2014-15 as against around 6% estimated under the old methodology. When we calculate GVA at basic price at constant price, growth is likely to be driven by services sector and electricity. Firm sector growth is anticipated to derail at only 1.1% as against 3.7% in 2013-14. Manufacturing sector is estimated to grow at 6.8% during the ongoing fiscal. Financial and real estate is expected to grow at double digit.
Industrial Production

Industrial output bounced back in Nov after a dismal Oct 2014 but growth slowed down again in Dec 2014

After a lacklustre Oct 2014, industrial production witnessed a notable rebound in Nov 2014 with 3.9% growth where manufacturing production recorded 3.1% growth as against 7.6% decline in Oct 2014. IIP in Dec 2014 also recorded growth but at a slower 1.7% driven by lower production across the board. Manufacturing growth in Dec 2014 also slowed down to 2.1% mainly on decline in consumer non-durable production and poor performance of intermediate goods sector. Mining production declined (3.2%) for the first time in fiscal 2014-15 and electricity also recorded lower growth at 4.8% as against 10% in Nov 2014.

Use-based classification – Among the use-based components of manufacturing, basic, intermediate and capital goods all recorded positive growth during Dec 2014. However, growth in each sector slowed down in comparison to the previous month. Basic goods recorded 2.4% growth, capital goods production grew at 4.1% while intermediate goods grew at mere 0.1% during Dec 2014. Consumer goods recorded growth for the second time in the current fiscal but at a feeble 0.7% over the same period last year in Dec 2014 driven by a decent 5.7% growth by the non-durable segment. Production of consumer durable however declined by 9% year-on-year during the month concerned.

Industry group-wise analysis of engineering products during Dec 2014 – In terms of industries, 13 out of the twenty two 22 industry groups (as per 2-digit NIC-2004) in the manufacturing sector witnessed positive growth during Dec 2014. Cumulative performance showed that ‘Electric machinery’ achieved highest growth at 19% during Apr-Dec 2014 followed by basic metals with 10.7% growth. On the flipside, ‘Radio, TV and communication equipment & apparatus’ remained the worst performer with 70.4% decline in production during Apr-Dec 2014 followed by ‘office, accounting and computer machinery’ (37.4%).

![Growth in sub-sectors of manufacturing](image)

Source: CSO, Govt. of India

![Growth in Consumer Goods](image)

Source: CSO, Govt. of India
Outlook for industrial production: Better growth expected in the coming months – The coming budget is expected to be a game changer for Indian industries, especially for manufacturing and infrastructure. Moreover, pick up in exports, increase in production of automobiles and above all, softening of monetary stance by the RBI with prospect of more rate cut in 2015 are likely to boost industrial production in the coming months.

Inflation

Retail inflation slightly up in Jan 2015 at 5.11% while Wholesale inflation dipped to negative at 0.39% - The govt. has changed the base year (from 2009-10 to 2011-12) and adopted a new methodology for measuring CPI (weightage of food was lowered slightly among others). Under the new methodology, headline CPI inflation inched up to 5.11% in Jan 2015 from 4.28% a month ago. However, overall inflation remained well below the mid-term target of RBI at 6% and core CPI inflation softened to 3.9% in Jan 2015 from 5.2% a month ago that might bring relief to policymakers.

Inflation Outlook: may see a mild surge during the rest of the fiscal – Kharif production has been estimated at lower than last fiscal that may put pressure on overall CPI inflation. However, some of the economists hold the idea that improving trade gap and falling wholesale prices will help moderate retail inflation in the months ahead by providing stability to the rupee and easing input costs for firms.

Non-food credit growth decelerated in Dec 2014 - On a year-on-year (y-o-y) basis, non-food bank credit increased by 9.8% in Dec 2014 as compared with an increase of 14.8% a year ago. Credit to industry increased by 6.8% in Dec 2014 as compared with an increase of 14.1% in Dec 2013. Deceleration in credit growth to industry was observed in all major sub-sectors, barring construction, beverages & tobacco, gems & jewellery and mining & quarrying. Credit growth in manufacturing sector nearly halved to 13.3% in Dec 2014 from 25.4% in Dec 2013.
Rupee appreciated in Jan 2015 due to inflow of foreign capital mainly through investments in equities and bonds

Despite the sentiment remained in favour of US Dollar on the global front, rupee appreciated vis-a-vis all its major traded currencies as fall in oil prices is expected to strengthen India’s current account while investments by foreign portfolio investors in Indian securities market led to dearer rupee in comparison to the US dollar. However, demand from importers and banks pushed rupee down in the last week of the month.

<table>
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<th>Performance of Indian Rupee vs. Major Traded Currencies</th>
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<tbody>
<tr>
<td>USD</td>
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<td>----</td>
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<tr>
<td>Change (%) in Jan 2015</td>
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<tr>
<td>Direction</td>
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<td>Change (%) in 2014</td>
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<td>Direction</td>
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Outlook for rupee – In line with our forecast made in last month, rupee appreciated in January 2015. The strengthening of dollar however may check the bull run of rupee in the short term but it is expected to remain stable around 62-63 level in the medium term.

RBI reduced the policy repo rate on 15th Jan 2015 – RBI started monetary softening by reducing the repo rate by 25 bps to 7.75% before its mid-term policy scheduled on 3rd Feb 2015. As a consequence, the reverse repo rate under the LAF stood adjusted at 6.75% while the marginal standing facility (MSF) rate and the Bank Rate also reduced to 8.75% 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

US Economy recorded strongest growth in 2014 since recession – Real GDP in the US grew at 2.4% in 2014, the strongest since 2010 despite a slowdown in the growth rate in the fourth quarter of 2014. Real GDP growth in the fourth quarter decelerated to 2.6% from a surprising 5% in the third quarter. The growth was mainly driven by personal consumption expenditure.

GDP in the Eurozone and European Union (EU) crawled up by 0.9% and 1.4% respectively – The recession fear has been completely shrugged off in the Europe as GDP recorded steady increase in all quarters of 2014, however weak. During the fourth quarter of 2014, GDP was up by 0.3% in the euro area and by 0.4% in the EU.
**GDP growth in China slowest in 24 years, missed target** – China’s GDP grew at 7.4% during 2014, missing the 7.5% target marginally as property prices cooled and companies and local governments struggled under heavy debt burdens. Last year, China achieved 7.7% growth. However, GDP growth in the fourth-quarter growth came at 7.3%, which was slightly better than expectations.

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

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**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:

- 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

EEPC India has furnished suggestions on the ongoing Rules of Origin under India- Canada CEPA to the Department of Commerce. We have focused on India’s export interest as well as defensive interest on various engineering sectors with Canada. As we have observed trade complementarity between India and Canada, we have stressed on our export interest on framing the Rules of Origin (ROO) for Canada. We have also shared our views on Absorption or roll up principle, Cross / Diagonal Cumulation, and De-mininis principle for this purpose.

(January 2015)