Industrial Production

Industrial production continued to slump for the second straight month to Dec 2015

Industrial production (or factory output) in India dropped for the second month in a row during Dec 2015, however at a slower pace than that of the previous month. IIP in Dec 2015 contracted by 1.3% after a 3.4% (revised) decline in Nov 2015. Manufacturing sector, with nearly 75% weightage in IIP, declined by 2.4% during Dec 2015 that mainly led the dismal performance of industrial production. However, drop in manufacturing production nearly halved in Dec 2015 in comparison to the decline of 4.7% in Nov 2015. Mining and electricity bucked the trend and recorded higher growth over the month. Mining production grew by 2.9% while electricity advanced by 3.2% in Dec 2015 as against 1.9% and 0.7% respectively in the previous month.

Use-based classification – Within manufacturing, the most important capital goods sector continued to concede double digit decline like previous month. Although, this time the decline was less than that of the previous month at 19.7%, it necessarily reflected that private investments were yet to pick up. However, both basic goods and intermediate goods bounced back to growth, however feeble, after declining in the last fiscal. Consumer goods recorded higher growth over the previous month at 2.8% due to double digit growth by the durable segment at 16.5% but non-durable segment remained gloomy with 3.2% decline.

Cumulative IIP growth for Apr - Dec 2015-16 is still higher - Cumulative industrial growth for April-December 2015 over the corresponding period of the previous year stands at 3.1% compared with the a lower 2.6% growth registered in the same period in 2014-15. Manufacturing witnessed 3.1% growth during this 9 months as against 1.8% during the same period last fiscal.
Industry group-wise analysis of engineering products during Dec 2015

The industry group-wise picture turned slightly better in Dec 2015 over the previous month in tandem with the improvement in broader industrial scenario. Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, five conceded negative growth y-o-y during Dec 2015 while only four achieved growth. Among the growing sectors, 'Radio, TV and communication equipment & apparatus' showed maximum growth at 82.0% during the month concerned while on the flipside, 'Electrical machinery & apparatus' was the worst hit once again in Dec 2015 with 44.9% decline However, cumulative growth figures for Apr – Dec 2015 witnessed that 'Motor vehicles, trailers & semitrailers' achieved highest growth at 7.6% among the nine sectors On the other hand, 'Medical, precision & optical instruments, watches and clocks' conceded biggest decline at 6.4% during the first 9 months of the current fiscal.

Outlook: Growth in core industrial output remained sluggish, severe flood in Chennai is taking its toll on manufacturing output, weak global demand is impacting our exports and vehicle sales dropped across categories. Therefore, industrial production is likely to remain around sub-zero level in the next few months.
Inflation

Retail inflation inched up to for the seventh straight month to Jan 2016

India’s retail or consumer price index (CPI) based inflation edged up to 5.69 % in Jan 2016. High retail food prices especially the huge 43% rise in the prices of pulses in Jan 2016 over Jan 2015 led to the rise in CPI. Retail food prices rose to 6.85% in Jan 2016 compared to 6.4% in Dec 2015. According to the RBI, inflation has moved along the growth trajectory set by the Central bank. Accomodating prices of fruits, vegetables and crude oil coupled with waning off of unfavourable base effects has helped to meet the the target for Jan 2016 of 6%.

Fig 6: WPI and CPI Inflation from April 2013

Outlook: Some of the economists opine that after the implementation of the VII Pay Commission, inflation would continue to be in an around 5.4% limitations being agricultural and commodity output.

Non-food credit disbursal improved slightly but growth still in single digit

Non-food bank credit growth accelerated to 9.3% in Dec 2015 from 8.8% in Nov 2015, but was lower than that of Dec 2014 at 9.7%. Credit growth to industry was also weaker than the same period last year. It increased by 5.3% in Dec 2015 as against 5.0% in Nov 2015 and a higher 6.7% during the same month last year. Deceleration in credit growth to industry was observed in all major sub-sectors barring chemical and chemical products and basic metal and metal products. Credit growth in manufacturing sector however decelerated in Dec 2015. Credit disbursal towards manufacturing sector in Dec 2015 recorded mere 2.5% growth as against a substantial 14.7% growth during the same month last year.
Indian Rupee dropped below 68 vis-à-vis the US dollar once again

After outperforming most of its Asian peers in the last two years and after achieving 0.7% gain over the greenback during Dec 2015, the Indian Rupee suddenly tumbled by 2.34% during the month of Jan 2016. Strengthening of US Dollar following the tightening of interest rate, outflow of dollar from Indian capital market and devaluation of Yuan in China drove the fall of rupee.

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 Jan 2016</td>
<td>2.34%</td>
<td>-0.60%</td>
<td>2.16%</td>
<td>2.12%</td>
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<tr>
<td>Direction</td>
<td>Depreciation</td>
<td>Appreciation</td>
<td>Depreciation</td>
<td>Depreciation</td>
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<tr>
<td>Change (%) in 2015</td>
<td>4.73%</td>
<td>-0.24%</td>
<td>-5.85%</td>
<td>4.08%</td>
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<td>Direction</td>
<td>Depreciation</td>
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Source: RBI Reference Rates

Outlook for rupee is weak – Rupee may continue to remain under pressure as the impact of aforesaid factors are not likely to wane off anytime soon and economic activities in the developed region will take time to see a decent growth and create demand for Indian commodities. Rupee may touch 70 per US Dollar in the near term despite assurance from RBI to intervene in currency market.

RBI kept policy Repo rate unchanged in its sixth bi-monthly policy review meet

The RBI in its fifth bi-monthly policy review meet for 2015-16 on 2nd Feb 2016 kept the policy repo rate unchanged at 6.75%. Consequently the reverse repo rate under the LAF stood unaltered at 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate at 7.75%. The cash reserve ratio (CRR) of scheduled banks was kept unchanged at 4.0% of their net demand and time liability.

Global Economy

China’s exports came worse-than-expected in Jan 2016 but fall in imports led to higher trade surplus - Chinese imports and exports fell far more than expected in January due to slackening of demand from overseas. The govt. data showed that exports dropped 11.2% in Jan 2016 from the same month last year, following a drop of 1.4% in Dec 2015. Economists had forecast a far more modest decline of 1.9%. Imports dropped 18.8% in Jan 2016 after falling 7.6% in the previous month, compared to expectations for a 0.8% decrease. However, trade surplus saw a record US$63.29 in Jan 2016 after a surplus of US$60.1 billion in Dec 2015 as the drop in imports outstripped the decline in exports. Imports were hit by falling commodity prices and weakness in domestic demand.

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