EEPC INDIA

ENGINEERING THE FUTURE

Monthly Economic Bulletin

July 2015

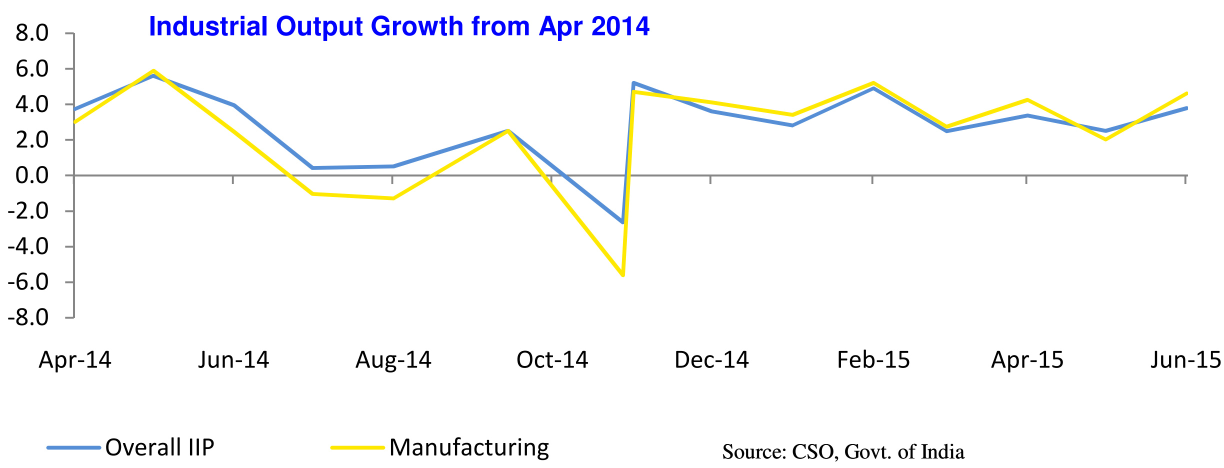
Indian Economy

Industrial Production

Industrial output grew highest in four months in June 2015 but volatility continued

After a slowdown in May 2015, industrial production grew by 3.8% during the month of June 2015 backed by the recovery in manufacturing. With around 75% weightage in the Index of Industrial production (IIP), growth in manufacturing rose sharply to 4.6% in June 2015 from a slower 2% in the month ago. However, electricity recorded a subdued 1.3% growth in June as against a higher 6% in May 2015 while mining again sunk to red with 0.3% decline in production. The overall situation did not improve as growth in May 2015 was revised downward to 2.5% from 2.7% in the initial estimate.

Fig1: Industrial Output Growth from April 2014

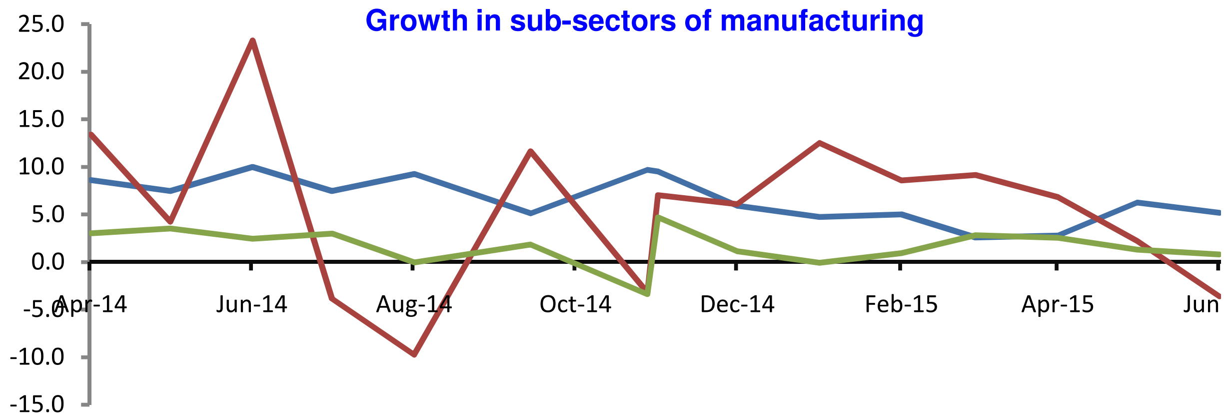


Source: CSO, Govt. of India

Use-based classification – Volatility in industrial production also contained in manufacturing as an inevitable consequence. Even, the manufacturing growth during June 2015 was not broad-based. Capital goods production decline by 3.6% and that of intermediate goods witnessed only marginal rise at 0.8%. This time the situation looked somewhat reversed as the most beaten down Consumer Durables outperformed the entire manufacturing with 16.0% growth while consumer non-durables ended with a marginal 1.3% growth over the same period last year. The sudden drop in capital goods and sharp rise in consumer durables growth were probably consequences of base effects. Capital goods recorded a robust 23.3% growth in June 2015 and consumer durables conceded an equal decline in production during June 2014.

Cumulative figures for Apr – Jun 2015 signaled industrial slowdown –Industrial production recorded at 3.2% during the first quarter of 2015-16 as compared to 4.5% growth during the same period last year due to lower production growth across the board.

Fig 2: Growth in sub-sectors of manufacturing

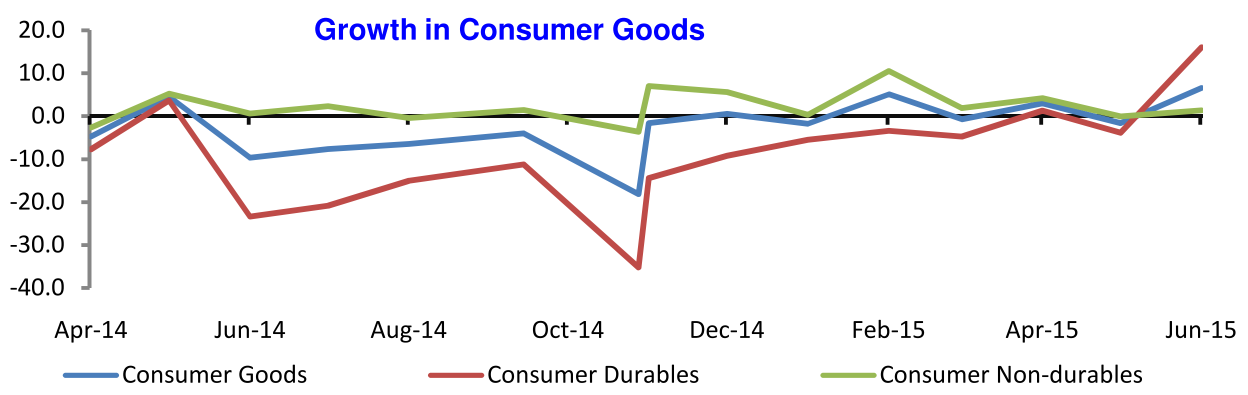


Source: CSO, Govt. of India

Industry group-wise analysis of engineering products during April 2015

Group-wise performance showed only marginal improvement of engineering sector over the month during June 2014. Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, five achieved positive growth during the month concerned while four conceded declined in production over the same month last year. 'Radio, TV and communication equipment & apparatus' continued to remain the worst performer with 23.3% decline in output followed by 'Office, accounting and computing machinery' that declined by 19% over June 2014. On the other hand, Basic Metals recorded highest growth at 9.2% followed by 'Motor vehicles, Trailers & Semitrailers' at 6.5% and 'Machinery and equipment' at 4.6% over the same month last year.

Fig 3: Growth in Consumer Goods



Source: CSO, Govt. of India

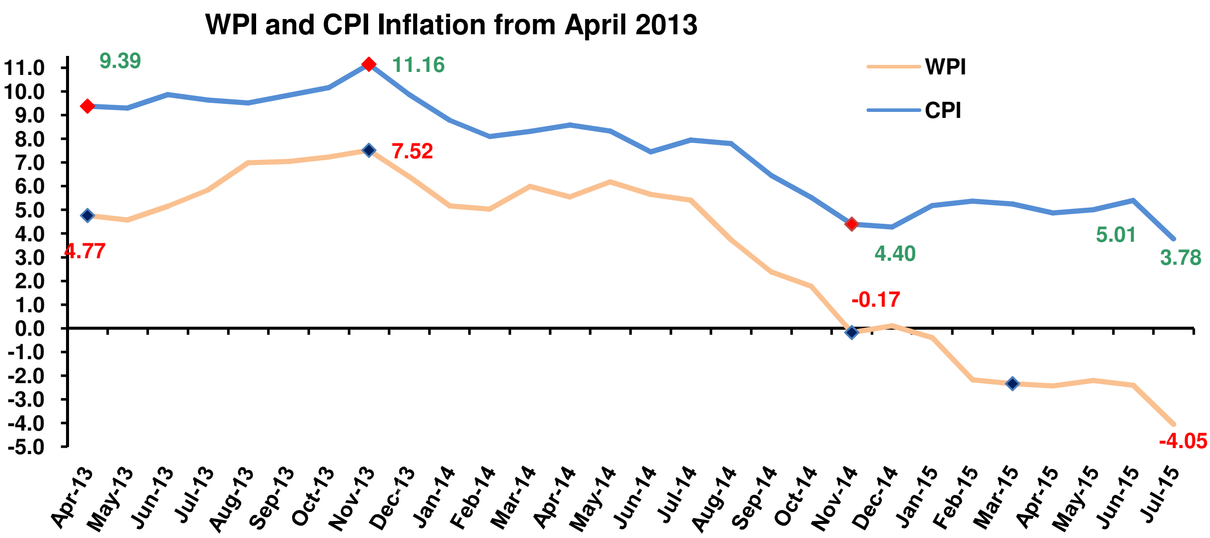
Outlook for industrial production: Industrial growth on the rise – We stick to our earlier view that growth is expected to pick up in the coming months as the impact of reforms taken during the year would lead to resumption of some of the stalled projects, improvement in investments and a turnaround in demand. Lower borrowing rate for businesses may also aid industrial recovery as BRI may continue on monetary softening.

Inflation

Wholesale inflation dips to record low, while Retail inflation hits 2 year low

The sharp drop in Retail inflation or Inflation based on Consumer Price Index (CPI) to two year low of 3.78% in July has come in the backdrop of substantial decline in food inflation that eased to 2.89% from 5.7% in the preceding month and 7.39% during the corresponding month of the previous year of July 2014. CPI inflation was recorded at 5.4% in June 2015 as against 5.01% in May and 4.87% in April 2015. However, a favourable base effect helped to show lower July numbers. Food inflation measured on Consumer Food Price Index during the month of July 2015 fell to 2.15% as against 5.48% recorded in June 2015. Prices of vegetables fell sharply during the month from a year ago period with inflation printing a negative 7.93%. The Wholesale Price Index based inflation on the other hand declined 4.05% in July 2015, the ninth consecutive monthly fall and the steepest in about four decades vs. (-) 2.40% for the previous month and 5.41% during the corresponding month of the previous year.

Fig 6: WPI and CPI Inflation from April 2013



Source: CSO, Office of the Economic Advisor, Govt. of India

Inflation Outlook: inflation may miss the August target at 4% – Inflation may strengthen further as prices of vegetables is likely to go up in the months ahead but pulses may be cheaper as area shown for pulses is likely to increase as the harvest season comes in. The rise in inflation therefore is not expected to damage the economic upmove or interest rate scenario to a great extent.

Non-food credit disbursal slowed down further - Non-food bank credit growth decelerated to 8.4% in June 2015 from 9.0% in May 2015 and from 13.0% in the year ago period. Credit growth to industry continued to slowdown further to 4.8% in June 2015 from 5.2% in May and from 10.2% in June 2014. Like May 2015, deceleration in credit growth to industry was observed in virtually all major sub-sectors barring gems and jewellery. Credit situation in manfacturing sector was even worse. Credit disbursal towards manufacturing during Jun 2015 was recorded at mere 6% as against a robust 21% during the same month last year.

Weakening of Rupee vis-à-vis the US Dollar continued in July also

Indian weakened by 0.4% vis-à-vis the US Dollar in June 2015. The US economy recorded higher growth at 2.3% annualized rate during the second quarter of 2015 and the rest of the global situation is largely unchanged. However, rupee is somewhat less vulnerable now as continuous buying of US Dollar by the Reserve Bank of India built up India's foreign exchange reserve that was adequate to fund import payments for nearly 11 months.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in Jul 2015	0.39%	-0.28%	-1.46%	-1.00%
Direction	Depreciation	Appreciation	Appreciation	Appreciation
Change (%) in 2015	1.06%	1.27%	-8.89%	-2.61%
Direction	Depreciation	Depreciation	Appreciation	Appreciation

Source: RBI Reference Rates

Outlook for rupee – Rupee is apprehended to slide further vis-avis the US Dollar as China's central bank may cut the reference rate of its currency Yuan against the US Dollar just to get its export cheaper. Enmerging market currencies specially like India who are competitors of China may see weakening of their currencies as a consequence. 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, monetary softening by RBI and possibility of tighter interest rate regime in the US may continue to put pressure on rupee. Rupee may weaken below 65 and even beyond in the months ahead.

RBI kept the policy repo rate unchanged at 7.25% in its 2nd bi-monthly policy meet 2015-16 on 4th August 2015 – RBI kept its policy repo rate unchanged in the said policy meet. Consequently, reverse repo rate, bank rate and MSF rate also stood unaltered at 6.25%, 8.25% and 8.25% respectively. CRR was also kept unchnaged at its several decade low of 4%.

GLOBAL SCENARIO

World's largest economy has probably shrugged off the recession – The US economy of late has demonstrated clear sign of recovery as real GDP grew by 2.3% annualized rate during the second quarter of 2015 as per the advance (or first) estimate. In the previous quarter, GDP revised from a 0.2% decline to 0.6% growth as per the final estimate. The recovery in economic activity is basically driven by rise in personal consumption expenditures (PCE), exports, state and local government spending, and residential fixed investment. However, despite a decent performance, growth was slightly offset by private inventory investment and nonresidential fixed investment. Rebound in economic growth strengthened the possibility for commencement of monetary tightening from September 2015.

Steady growth and weak inflation helps ECB to support economic recovery by keeping interest rate at record low – Annual consumer price inflation remained stable at 0.2% in the Euro area and at 0.1% in the European Union during July 2015. Real GDP growth was more or less steady at 0.3% in the Euro area and 0.4% in the European Union, signaling weak but steady recovery in that region. Lower inflation helped the European Central Bank (ECB) to keep the benchmark interest rate (Marginal lending facility rate) at record low to support the economy in the process of recovery.

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