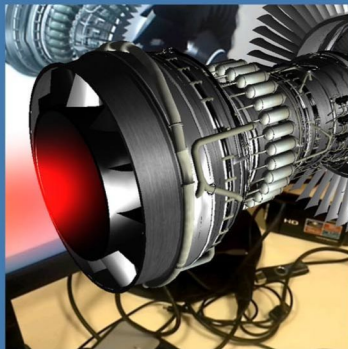


Monthly Economic Bulletin



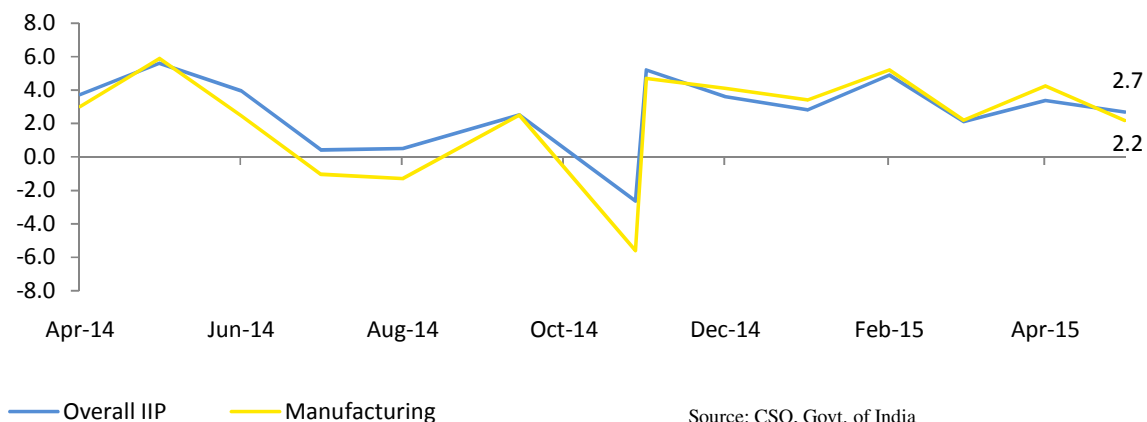
Indian Economy

Industrial Production

Volatility in Industrial Production continued as growth tumbled in May 2015

After a decent show in April 2015, industrial production turned sluggish as growth decelerated to 2.7% in May 2015 led by a sharp fall in growth of capital goods and decline in consumer goods production. Moreover, industrial growth of the last month was revised down substantially to 3.4% from 4.1% estimated earlier. Manufacturing growth declined to 2.2% year-on-year, compared with 4.2% (revised down from 5.1%) in April. However, electricity generation grew by 6% vs. a contraction of 0.5% in April while Mining also witnessed a higher 2.8% growth in May as against only 0.6% growth a month ago.

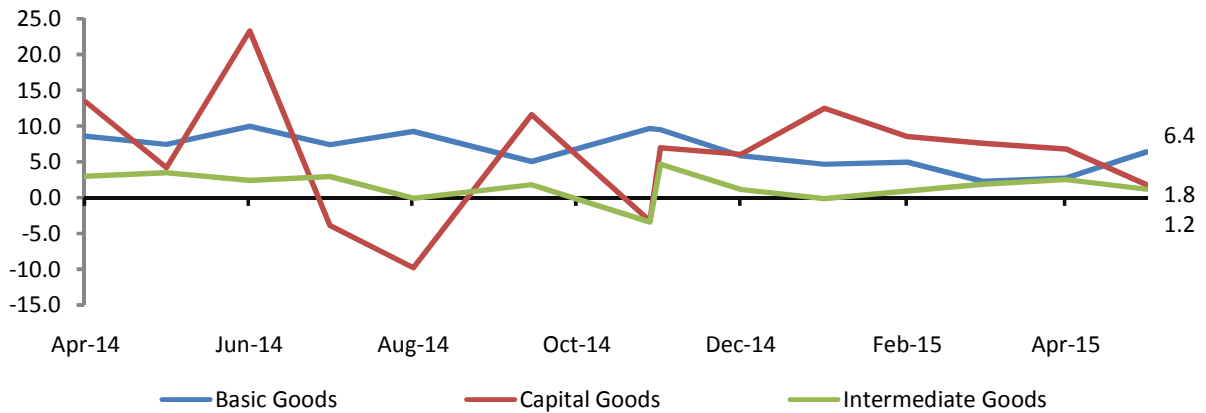
Fig1: Industrial Output Growth from April 2014



Use-based classification – Among the use-based components of manufacturing, capital goods sector, a sign of fresh investments, conceded a sharp decline in growth to 1.8% in May from 6.8% in April 2015. Growth of intermediate goods, considered as an early sign of industrial growth, also halved to 1.2% during the reporting month from 2.5% a month ago. Only basic goods depicted a substantial rise in growth at 6.4% in May 2015 from 2.8% a month ago. Most depressing was the sinking of consumer goods sector to negative growth (-1.6%) once again after 3% growth achieved in Apr 2015. This was mainly led by a dismal 3.9% decline of its durable sub-segment, indicating lower spending in urban region.

Cumulative figures signaled decent growth – The cumulative growth in industrial output for the first two months of this financial year was 3%, compared with 4.6% in the year-ago period. Industrial production grew by 2.8% in FY15 as against 0.1% contraction in the previous fiscal.

Fig 2: Growth in sub-sectors of manufacturing

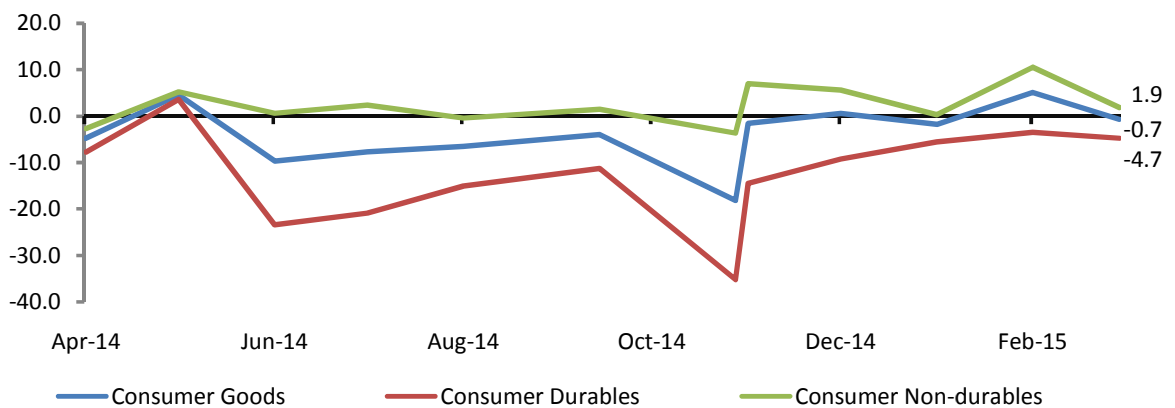


Source: CSO, Govt. of India

Industry group-wise analysis of engineering products during April 2015

Among the ten industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that came under engineering segment, five witnessed negative growth during May 2015. Among the beaten down segments, 'Radio, TV and communication equipment & apparatus' was the worst performer with 24.3% decline in output followed by 'Office, accounting and computing machinery' conceding 19% decline. On the other hand, sizeable growth in Basic Metals at 9.6%, and metal furniture manufacturing at 11.2% prevented further disappointment.

Fig 3: Growth in Consumer Goods



Source: CSO, Govt. of India

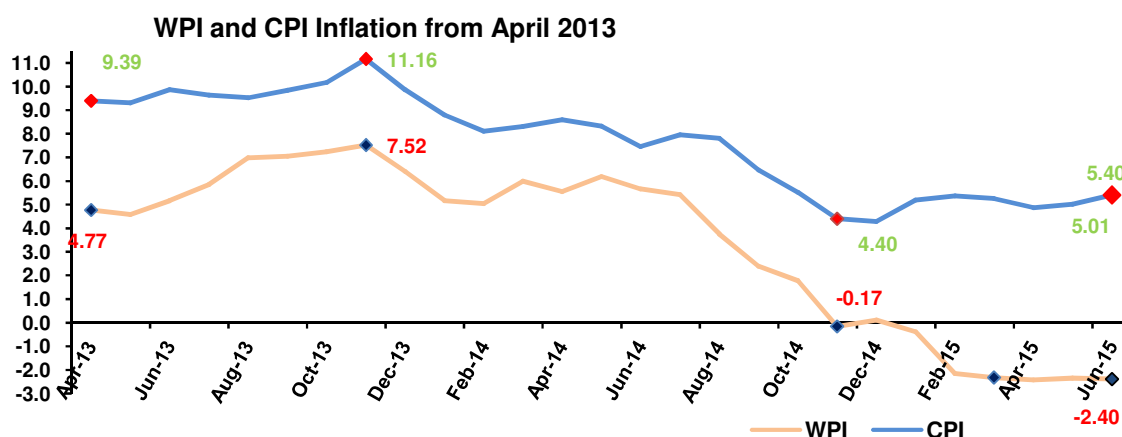
Outlook for industrial production: Industrial growth on the rise – We expect growth to pick up in the coming months as the impact of reforms taken during the year would be felt on the ground resulting in some improvement in investment intentions and a turnaround in demand. Lower borrowing rate for businesses may also aid industrial recovery. Some of the stalled projects are likely to resume. In addition, Better-than-expected monsoons would increase rural demand and would help revival of the consumer goods sector.

Inflation

Retail inflation edged up further to 5.40%, but Wholesale inflation remained negative for ninth straight month

Retail inflation or Inflation based on Consumer Price Index (CPI) rose to 5.40% in June, the highest in the new series data introduced in Jan 2015. CPI inflation recorded at 5.01% in May 2015 and 4.9% in Apr 2015. The key factor behind this rise in headline CPI number was rise in the prices of food items that carried nearly 50% weightage in the CPI basket. In fact it was the highest retail inflation since Sep 2014. The consumer food price index rose sharply to 5.48% in June this year as compared to 4.80% last month. The surge in food prices was probably a lagged effect from unseasonal rains in March and April in North India, which led to crop damage. Core-CPI inflation (which excludes food & beverages and fuel & light) rose again to 4.8% from 4.6% in May 2015 and 4.3% in Apr 2015 that might add another concern for the monetary regulator RBI. The Wholesale Price Index based inflation on the other hand continued to remain at sub-zero level for the eighth straight month and recorded at (-) 2.40% in Jun 2015 vs. (-) 2.36% a month ago despite the rise in inflation in all major segments over the month.

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% – Food prices may come down as prices of pulses and onions, the two main commodities responsible for the surge in food prices. Keeping inflation within 4% by Aug 2015 seems to be difficult but a good monsoon can result in slightly below 6% inflation by Jan 2016.

Non-food credit disbursement continued to remain poor - Non-food bank credit growth decelerated to 9.0% in May 2015 from 13.0% in the same month last year. However, it was a tad higher than the 8.9% growth recorded a month ago. Credit growth to industry more than halved

to 5.2% as against 11.3% in May 2014. Even a deceleration was seen from 6.4% growth during Apr 2015. Deceleration in credit growth to industry was observed in virtually all major sub-sectors barring gems and jewellery. Credit disbursal towards manufacturing sector during Apr 2015 was recorded at a poor 9.6% growth in May 2015 as against 23.8% during the same month last year.

Rupee ended flat vis-à-vis the US Dollar in July after depreciating in the previous three months

Indian Rupee ended flat during July 2015 with just 0.01% appreciation after showing weakness in the previous three months to Jun 2015. However, rupee dropped vs. the Dollar in the last few trading day of the month but managed some gain in the last trading day. Sentiment turned in favour of rupee 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. However, uncertainty in Greece and concern on interest rate tightening by the US Federal Reserve continued to put downward pressure on rupee.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in Jun 2015	-0.01%	2.38%	1.85%	1.15%
Direction	Appreciation	Depreciation	Depreciation	Depreciation
Change (%) in 2015	0.67%	1.56%	-7.54%	-1.62%
Direction	Depreciation	Depreciation	Appreciation	Appreciation

Source: RBI Reference Rates

Outlook for rupee – 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. However, volatility in the Indian capital market and possibility of tighter interest rate regime in the US may continue to put pressure on rupee. Monsoon outlook and developments in Greece is also likely to determine the trend of rupee in the coming months. We stick to our view that Rupee is expected to move within a broader range of 62 – 64 per dollar in the short term.

RBI reduced the policy repo rate by 25 basis points (bps) in its 2nd bi-monthly policy meet 2015-16 on 3rd June 2015 – RBI reduced the policy repo rate by 25 bps to 7.25% 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 however was kept unchanged at its several decade low of 4%. This is the third time RBI opted for monetary easing following the downward trend of inflation.

Policy stance – RBI said that some risks to inflation still remain as below normal rainfall has been predicted this season that might put pressure on agricultural prices. Further, the apex bank urged that govt. support is also required to step up investments other than cheaper borrowing.

They expected, rather asked the banks to pass on the effect of three policy rate cuts to the end users.

Likely outcome of RBI rate cut – Policy rate has been reduced by 75 bps in three phases during 2015. This rate cut is strongly expected to be followed by the commercial bank and lower the borrowing rate as their lending rate from RBI has now become cheaper by 0.75%. Lower borrowing rate will encourage businesses and in turn help to accelerate economic activities.

GLOBAL SCENARIO

Panic of Greece leaving the Euro wanes off – The Greek parliament passed the sweeping austerity measures as demanded by lenders of the severely debt-strapped nation. Now the passage is open to talk on a new 86 billion Euro bailout package for Greece, its third in the past five years. This new progress on Greece has reduced the panic of global economic instability originated from the fear of Greece's exit from Euro. In exchange for funding, Greece has accepted reforms including significant pension adjustments, increases to value added taxes, an overhaul of its collective bargaining system, measures to liberalize its economy and tight limits on public spending.

US economy shows signs of firming up but Fed says not enough to hike interest rate – US unemployment hit seven-year low of 5.3% after adding 223,000 jobs in June 2015. The current unemployment rate is the level that is considered full employment by the govt. Meanwhile, confidence among homebuilders held at a more than 9-1/2-year high in July. However, the US Federal Reserve believes that underlying strength of the economy does not permit any immediate rate tightening. We expect interest rate tightening to take place by the end of this year.

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