Industrial Production

Industrial output growth jumped to 4-month high in Feb 2015 driven by low statistical base

Industrial output witnessed an impressive 5% growth in February after registering slower 3.2% and 2.8% growth in Dec 2014 and Jan 2015 respectively. This time the growth is attributed to the improvement in manufacturing activity, a rebound in consumer non-durables and a lower base effect. Industrial growth in February was broad-based with all major sectors showing positive growth. Mining production increased by 2.5% against a contraction of 2% in Jan 2015. Manufacturing recorded 5.2% growth as against 3.4% a month ago. Electricity production also firmed up by 5.9% from 3.3% in the previous month.

Use-based classification – Among the use-based components of manufacturing, capital goods recorded the highest growth at 8.8% in Feb 2015. Despite being volatile in nature, capital goods is expected to boost industrial production if the current trend sustains. Basic goods and consumer goods recorded 5% and 5.2% growth respectively. Intermediate goods grew marginally at 1.1%. The non-durable segment of consumer goods sector saw double digit growth at 10.7% which was also its highest in fiscal 2014-15. Negative growth of consumer durables (3.4%) was more than offset by the robust growth of its non-durable counterpart.
Cumulative figures indicate industrial recovery in FY15 – Industrial output growth during Apr–Feb 2014-15 revived to 2.8% as against a decline of 0.1% during the same period last fiscal driven by better performance across the board. Mining and manufacturing witnessed moderate recovery at 1.5% and 2.2% respectively during Apr-Feb 2014-15 while growth in electricity was significant (9.1%) over the fiscal. Within manufacturing, basic goods and consumer goods bounced back in 2014-15 with 7.4% and 6.0% growth respectively during this fiscal while Intermediate goods saw a sluggish 1.6% growth during the same period. Consumer goods production worsened again with a decline of 3.7% in Apr-Feb 2014-15 as compared to 2.9% during the same period last fiscal owing to dismal performance of durable segment.

Industry group-wise analysis of engineering products during Feb 2015

Among the ten industry groups (as per the 2-digit NIC-2004) of manufacturing sector that comes under engineering segment, six witnessed positive growth during Feb 2015 as well as during Apr-Feb 2014-15. ‘Electric machinery & apparatus’ led the pack again with 21.3% cumulative growth followed by basic metals with 13.4% growth during this period. Contrastingly ‘Radio, TV and communication equipment & apparatus’ remained the worst performer with 53.7% decline in production during Apr-Feb 2014-15 followed by ‘office, accounting and computer machinery’ conceding a decline of 37.8%.

Outlook for industrial production: Industrial growth on the rise – Some reform action is expected from the govt. to support the growth process while transmission of policy rate cut is likely to bring down the borrowing cost for investors in the near term. However, all these will take some time to yield fruits. The effect of initiatives like ‘Make in India’ by the government is expected to materialize only in the later part of 2015-16. However, fiscal 2015-16 is most likely to see better industrial growth over the previous fiscal in all possibilities.

Inflation

Retail inflation hits three-month low, while Wholesale Price Index contracted by 2.33% in March 2015 - India’s Retail Price Inflation measures by the Consumer Price Index (CPI) surged by a lower 5.17% in March 2015 in comparison to a rise of 5.37% a month ago. The fall in inflation was seen in both rural and urban areas. Inflation in Rural India declined to 5.6% from 5.8% in February 2015 and that in Urban India declined to 4.8% from 5% respectively. The headline and the food inflation, in Rural as well as Urban India were substantially lower in March 2015 than the year-ago level. The fall in headline inflation was led by the fall in food price index that rose by 6.1% in March 2015 as compared to a higher 6.9% in February 2015. Retail inflation remains along the projected line of RBI at 5.8% by the end of 2015.
Inflation Outlook: slight uptrend may be seen – Despite a non-seasonal rainfall in March 2015, food prices remains stable and food inflation on the retail front dropped over the month. Therefore, it is expected that a good monsoon during Jun-Sep may erase out the upward pressure on food prices to keep retail inflation stable at the current level. However, possibility of slight uptrend cannot be ruled out in the next couple of months.

Non-food credit growth continued to remain poor - Non-food bank credit increased by 9.4% in Feb 2015 as compared with an increase of 14.7% in the same month last year. Credit to industry increased by 6.0% in Feb 2015 as compared with an increase of 13.2% in Feb 2014. Deceleration in credit growth to industry was observed in all major sub-sectors, barring beverages & tobacco and construction. Credit growth in manufacturing sector increased only by 9.5% during the reporting month from as high as 25.1% in Feb 2014.

Rupee turned weaker vis-a-vis the US Dollar during Mar 2015

After being steady against the US Dollar during Feb 2015, Indian Rupee weakened in Mar 2015 (as per RBI data) due to outflow of dollar from Indian capital market and strengthening of dollar in the international market as the time for interest rate hike by the US Federal Reserve was approaching. This depreciation of rupee was in line with our forecast made in our previous issue. However, the Indian currency appreciated against other major traded currencies like Euro and British pound during the month due to continuation of easy money policy by European policymakers.

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<th>Performance of Indian Rupee vs. Major Traded Currencies</th>
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<tr>
<td><strong>USD</strong></td>
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<td><strong>Change (%) in Mar 2015</strong></td>
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<td><strong>Direction</strong></td>
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Source: RBI Reference Rates
Outlook for rupee – We stick to our view of a depreciating rupee in the next month due to apprehension of some volatility in the capital market and possibility of tighter interest rate regime in the US. There may be a correction in the capital market leading to outflow of dollar which in turn is likely to weaken rupee vis-à-vis the US Dollar.

RBI kept all key policy measures unchanged in its 1st bi-monthly policy meet 2015-16 on 7th Apr 2015 – RBI kept the policy repo rate unchanged at 7.5% in the said policy meet. Consequently, reverse repo rate, bank rate and MSF rate also stood unaltered at 6.5%, 8.5% and 8.5% respectively. CRR was also kept unchanged at 4%.

Policy stance – RBI in its policy statement said that the effect of the last two rate cuts were not passed on by the commercial banks to the end-users so far. Therefore, RBI would wait for this transmission of policy rates to lending rates before taking further decision on rate cut. Moreover, RBI would also wait for inflation data for the next couple of months to see further clarity on inflationary trend.

GLOBAL SCENARIO

Economic data turned weaker of late, rate hike may be delayed – US economy showed mixed result during 2015. However, performance of some of the leading indicators of the economy like housing, retail sales, consumer sentiment and industrial production undershot estimates of late that made policymakers and investors a bit skeptical on the pace of recovery. Moreover, labour market also showed signs of softening after Feb 2015 as the largest economy of the world added only 126,000 non-farm payroll jobs in March 2015. Some economists think that no strong comeback is likely in the next 2-3 months. At this juncture, the US Federal Reserve may decide to keep the benchmark interest rate at around 0% - 0.25% for the next few months. It seems from the Fed’s statement that interest rate hike in the US may be seen from late second half of 2015.

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