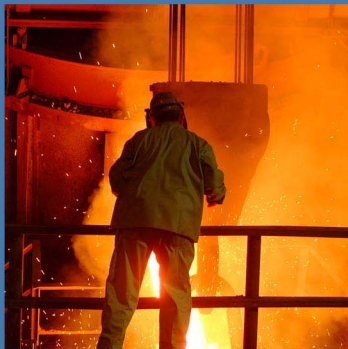


Monthly Economic Bulletin



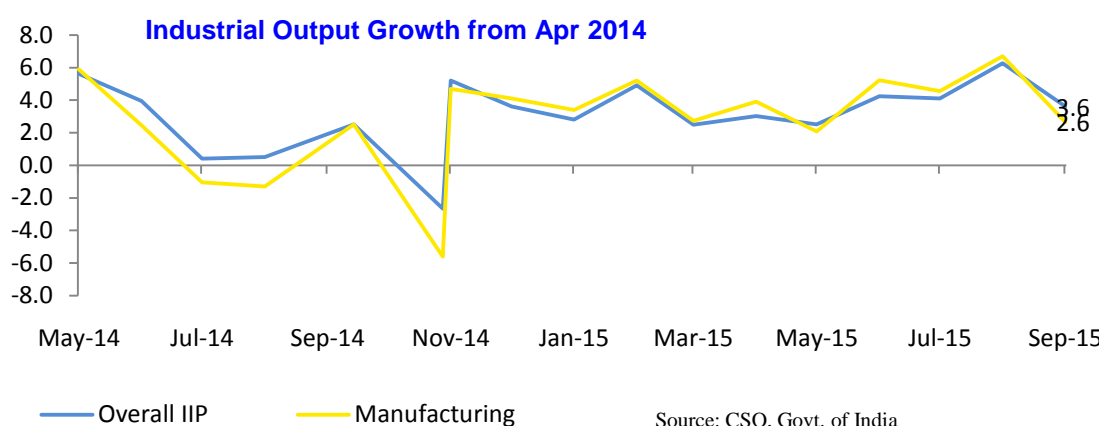
Indian Economy

Industrial Production

Industrial output growth dropped to four-month low in Sep 2015

Industrial output in India tumbled to four-month low of 3.6% in Sep 2015 from a three-year high level of 6.2% (revised) in Aug 2015. The deceleration in industrial growth was attributed to poor show by manufacturing sector that moderated to 2.6% in Sep as against 6.6% in Aug 2015. Mining sector also pulled down the overall growth to some extent by witnessing only 3.0% growth in Sep 2015. Electricity is the only major sector to go against the trend with a double digit growth of 11.4% over the same period last year.

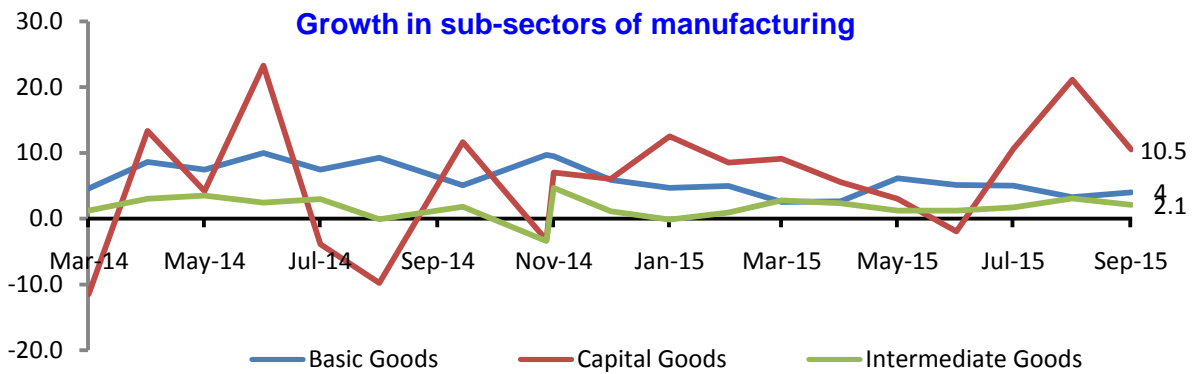
Fig1: Industrial Output Growth from April 2014



Use-based classification – Within the manufacturing sector, capital Goods continued to outperform overall industrial growth by recording double digit growth for the third consecutive month. However, growth in this sector decelerated to 10.5% in Sep 2015 from 21.1% a month ago. Consumer durables lost its pace but recorded a strong 8.4% growth in the month concerned as against 16.9% a month ago. Consumer non-durables sector continued its poor show with 4.6% decline in output during Sep 2015 and moreover, it conceded a downward revision of growth in Aug 2015 from 1.1% to -0.3% (i.e., a decline). Growth of basic goods accelerated in Sep 2015 but that of the intermediate goods dropped by 1% over the month. Despite a poor show in Sep, industrial growth performed better over the quarter as growth rose to 4.6% in the second quarter of the current financial year against 3.3% in the first quarter.

Cumulative IIP growth for the first half of 2015-16 is still higher - Industrial production growth during Apr – Sep 2015 was recorded at a higher 4% as compared to 2.9% during the same period last year driven by higher manufacturing growth at 4.2% as against 2.2% in the first half of the last fiscal. However, it has been clearly seen that the growth in IIP is based on selected sector and not at all broad based. The overall industrial numbers are thus masking the underlying weakness of the broader industrial scenario.

Fig 2: Growth in sub-sectors of manufacturing

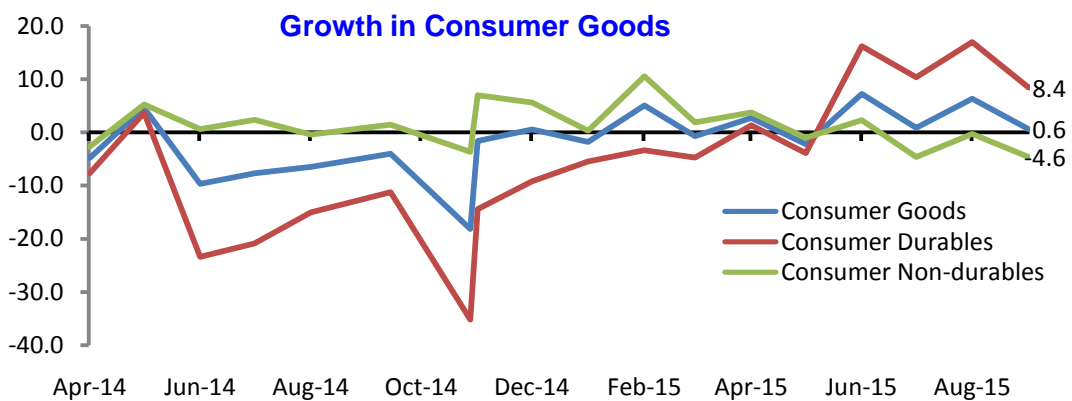


Source: CSO, Govt. of India

Industry group-wise analysis of engineering products during Sep 2015

Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, seven witnessed dismal performance with decline in production while only 'Electrical machinery & apparatus' and 'Motor vehicles, trailers & semitrailers' managed to grow. A much better picture could be seen if cumulative growth for Apr – Sep is considered. Only three out of nine sectors recorded negative growth during Apr – Sep 2015 while six recorded positive growth. 'Electrical machinery & apparatus' led the pack with 13.3% growth over the same period last year while 'Motor vehicles, trailers & semitrailers' came next with 7.9% during this period. On the other hand, 'Radio, TV and communication equipment & apparatus' was the worst hit during Apr – Sep 2015 with 13.8% decline in production over the same period last year while 'Office, accounting & computing machinery' conceded 9.8% decline during the same period.

Fig 3: Growth in Consumer Goods



Source: CSO, Govt. of India

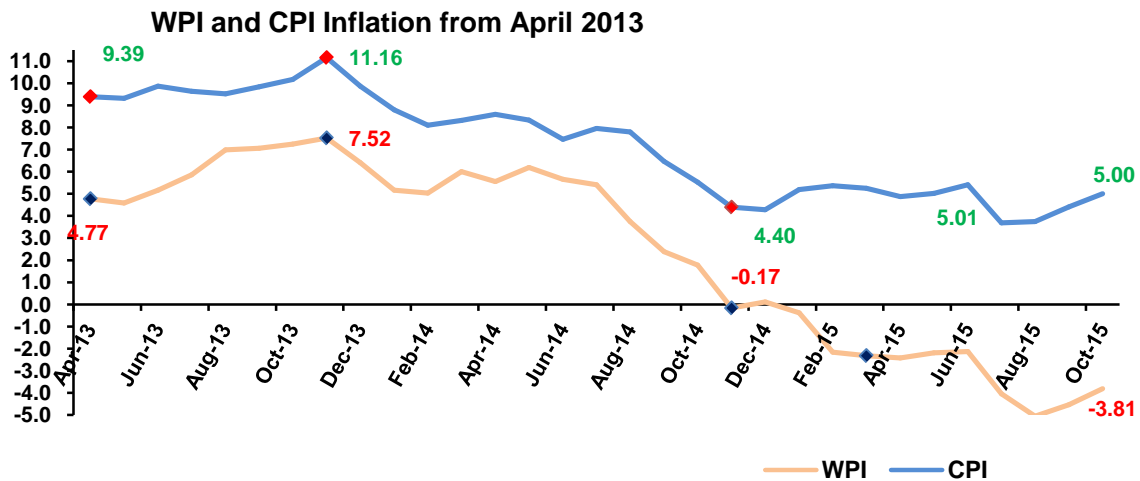
Outlook: Industry is likely to see higher growth – We expected a higher growth in Sep 2015 but probably stockpiling in the previous month due to festive demand limited the growth. Now, as merchandise exports and rural demand are expected to remain gloomy and the recovery in infrastructure remaining confined to a few sectors, industrial growth is likely to post modest levels after November when the base effect will completely wane off.

Inflation

Retail inflation jumped to 5% in Oct 2015 but deflationary trend continued on the wholesale front

India's retail or consumer price index (CPI) based inflation rose to four-month high of 5% in Oct 2015 from 4.41% a month ago. The rise in headline CPI was attributed to rise in food price index that has nearly 50% weightage in the CPI basket. Food inflation surged to 5.25% in Oct 2015 from 3.88% a month ago due to a sudden rise in the prices of pulses. Inflation in 'food and beverage' category went up by 5.38% in Oct 2015. However, there was one relief for the government that core inflation remained stagnant at 4.1% in October 2015. Wholesale Inflation (WPI) on the contrary continued to show deflationary trend but this time it was slightly higher at -3.81% in Oct.

Fig 6: WPI and CPI Inflation from April 2013



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

Outlook: We stick to our view that inflation may see an uptrend from Nov 2015 as base effect will wane off by that time. On the other hand, demand pressure from global prices and slow domestic recovery may cap any sharp upside of inflation. Some analysts expect CPI inflation to undershoot the Reserve Bank's projection of 5.8% for next January.

Non-food credit disbursal failed to reach double digit - Non-food bank credit growth accelerated to 8.6% in Sep 2015 from 8.4% a month ago. However, it remained stagnant when compared to the same month last year. Credit to industry increased by 4.9% in Sep 2015 as compared with the increase of 5.9% in Sep 2014. Deceleration in credit growth to industry was observed in all major sub-sectors barring basic metals, engineering, chemical and chemical products, vehicles and gems and jewellery. Credit situation in manufacturing sector continued to

remain dismal. Credit disbursal towards manufacturing sector in Sep 2015 was recorded at 5.1% as against a much higher 18.1% during the same month last year.

Indian Rupee appreciated vs. the US dollar during Sep 2015

Indian rupee strengthened vis-à-vis the US Dollar for the second consecutive month to Sep 2015 after touching its two year low in Aug 2015 due to intervention of the Indian central bank and weakening of the dollar index. Rupee dropped below the 66 level per US dollar and reached its two year low during Aug 2015. The uncertainty of the global market has made dollar a bit weaker as it is considered as the global currency.

Table1: Performance of Indian Rupee vs. Major Traded Currencies

	USD	GBP	EURO	YEN
Change (%) in Oct 2015	-0.79%	0.40%	-2.88%	-1.61%
Direction	Appreciation	Depreciation	Appreciation	Appreciation
Change (%) in 2015	2.99%	1.37%	-6.93%	1.87%
Direction	Depreciation	Depreciation	Appreciation	Depreciation

Source: RBI Reference Rates

Outlook for rupee is weak – Devaluation of Yuan and possible hike in benchmark interest rate by the US Federal Reserve may put downward pressure on Indian rupee going forward.

Outlook for Indian Economy - Underlying macroeconomic fundamental remain favourable as lower commodity prices helping to tame inflation while easing of external account vulnerability improves the investment scenario. Possibility of fiscal slippage is also lower in this fiscal on the back of healthy inflows of indirect taxes, non tax revenues, disinvestment proceeds and a substantial decline in the fuel subsidy outgo. However, slackening of demand from overseas following weak economic activities in some crucial regions of the world, sluggish recovery in rural areas and weak revival of the infrastructure sector may weigh on faster economic recovery in the ongoing fiscal.

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