Industrial Production

Industrial output growth reached three-year high in Aug 2015

Industrial production growth jumped sharply to three year high during Aug 2015 at 6.4% backed by robust performance in all major segments viz. Manufacturing, Mining and Electricity. Lower statistical base was attributed as one of the reasons for higher growth as IIP growth was only 0.5% during Sep 2014. Manufacturing as usual was the main driver of growth with 75% weightage in IIP index. Manufacturing recorded a good 6.9% growth during Aug 2015 as against 4.6% a month ago backed by double digit growth in Capital Goods and Consumer Durables. Mining growth accelerated to 3.0% from a meager 0.9% in the previous month while electricity recorded a higher 5.6% growth as against 3.5% during Aug 2015.

![Industrial Output Growth from April 2014](source)

Use-based classification – Within the manufacturing sector, capital Goods recorded double digit growth for the second consecutive month at 21.6% during Aug 2015. Another beaten down sector, consumer durables also achieved double digit growth for the third consecutive month at a higher 16.9% from 10.3% a month ago. Consumer non-durables sector also came back to growth path with 1.1% growth as against a decline of 4.6% last month. Growth of basic goods decelerated to 3.2% from 5% a month ago while intermediate goods recorded a higher growth at 2.6% from 1.7% a month ago.

Cumulative IIP figures for Apr – Aug 2015 somewhat optimistic – Industrial production recorded 4.1% growth during the first five months of 2015-16 as compared to 3.0% growth during the same period last year backed by higher manufacturing growth at 4.6% in Apr – Aug 2015 vs. 2.0% in the year ago period.
Industry group-wise analysis of engineering products during Aug 2015

Among the nine industry groups (as per the 2-digit NIC - 2004) of manufacturing sector that apparently came under engineering segment, only three conceded decline in production during Aug 2015 over the years while seven recorded higher production growth over the last month. When we take the cumulative figure here to get a better picture of the sectors, it shows marginal improvement over the month. Only three out of nine sectors recorded negative growth during Apr – Aug 2015 while six recorded positive growth. 'Electrical machinery & apparatus' recorded highest growth at 11.9% during the period followed by 'Motor vehicles, trailers & semitrailers' at 7.7% and then Base metal at 6.4%. On the flipside, 'Radio, TV and communication equipment & apparatus' was the worst hit during Apr – Aug 2015 with 14.5% decline in production over the same period last year while 'Office, accounting & computing machinery' conceded 12.0% decline during the same period.

Outlook: Industry is likely to see higher growth – This high growth is expected to stay till the month of Nov 2015 as this growth is attributed to festive demand which will last till Nov 2015. The latest policy rate cut by the RBI in late Sep will further encourage businesses and industry may see better growth in the months to come.
Inflation

Retail inflation hardened again to over 4% in Sep 2015 but wholesale inflation continued to be negative at below 4%

India's retail inflation based on the consumer price index (CPI) for Sep 2015 increased to 4.41% from 3.74% in the previous month. Higher food prices, like the previous month was mainly attributed to the rise in retail inflation as food articles carried nearly 50% weightage in the CPI basket. Food inflation showed a sharp upturn at 3.88% in Sep 2015 as against 2.20% in Aug 2015. Wholesale inflation on the other hand declined further to -4.45% in Sep 2015 from 4% a month ago.

**Fig 6: WPI and CPI Inflation from April 2013**

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

**Outlook:** Despite a below normal rainfall in the monsoon season and weakness in the external sector, retail inflation in India did not go up substantially. However, there is a possibility of inflation to go up as base effect will wane off from Nov 2015 as we have said earlier. 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 continued to remain in single digit** - Non-food bank credit growth decelerated to 8.4% in Aug 2015 from 10.2% in the same month last year. However, growth remained the same over the month. Credit growth to industry increased marginally at 5.0% in Aug 2015 from 4.8% in July 2015 but was much lower than 7.8% in Aug 2014. Deceleration in credit growth to industry was observed in all major sub-sectors barring basic metal, all engineering, chemical and chemical products and gems and jewellery. Credit situation in
The manufacturing sector continued to remain dismal. Credit disbursement towards the manufacturing sector in Aug 2015 was recorded at 6.0% as against a robust 19.7% during Aug 2014.

Indian Rupee dropped to two-year low vis-à-vis the US Dollar in Aug 2015

Indian rupee appreciated marginally vis-à-vis the US Dollar during Sep 2015 after touching its two-year low in Aug 2015 due to intervention of the Indian central bank. During Aug 2015, the rupee dropped below the 66 level per US dollar and reached its two-year low. Devaluation of Yuan by the China Govt. also weighed on the rupee as devaluation was supposed to make Chinese goods cheaper in the international market and India as a competitor might lose share in global exports.

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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</thead>
<tbody>
<tr>
<td>Change (%) in Sep 2015</td>
<td>-0.85%</td>
<td>-2.71%</td>
<td>-0.94%</td>
<td>0.09%</td>
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<tr>
<td>Direction</td>
<td>Appreciation</td>
<td>Appreciation</td>
<td>Appreciation</td>
<td>Depreciation</td>
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<tr>
<td>Change (%) in 2015</td>
<td>3.81%</td>
<td>0.96%</td>
<td>-4.17%</td>
<td>3.53%</td>
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<tr>
<td>Direction</td>
<td>Depreciation</td>
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<td>Appreciation</td>
<td>Depreciation</td>
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Source: RBI Reference Rates

Outlook for rupee is weak – We stick to our earlier view that devaluation of Yuan and possible hike in benchmark interest rate by the US Federal Reserve may put downward pressure on the Indian rupee.

RBI reduced the policy Repo rate aggressively by 50 bps in Sep 2015

On the back of slower growth and falling inflationary pressure, the RBI in its fourth bi-monthly policy review meet for 2015-16 reduce the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points from 7.25% to 6.75% with immediate effect. Consequently the reverse repo rate under the LAF stands adjusted to 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate to 7.75%. The cash reserve ratio (CRR) of scheduled banks was kept unchanged at 4.0% of their net demand and time liability (NDTL);

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