Update on the India's Industrial Output and Inflation

The latest update on India's leading economic indicators i.e. the industrial output and retail inflation, point to some weakness in the domestic economy with the IIP growth dropping to 4 month lows in September'15 and the retail inflation inching to 4 month high in October'15. However, on a cumulative basis i.e. for the fiscal year so far, both these economic variables do indicate improvement over last year, easing worries to an extent, of the country's economic performance and progress.

The 3.6% growth in IIP in September'15, *close to CARE's own projection of 3.7%,* was significantly lower than the 6.3% growth in the previous month but was higher than the 2.6% growth in September'14. Also, the growth rate in industrial output for the first half of the fiscal (Apr-Sep'15), is favorably higher at 4% compared to 2.9% growth for the comparable period last year. The moderation in growth rates in IIP in September'15 can in part be attributed to seasonal factors.

In case of CPI, an increase of 5% in October'15, *same as CARE's own estimate,* marks the fourth consecutive month of a rise in consumer prices. Here too, the cumulative rate of increase in price over the 7 months of this fiscal (Apr-Oct) at 4.6% is lower than the 6.7% growth seen for the comparable period a year ago.

Index of Industrial Production (IIP) Performance in H1 FY16

%	April – September FY15	April – September FY16
All Industries	**2.9**	**4.0**
Mining and Quarrying	1.7	1.5
Manufacturing	2.2	4.2
Electricity	10.4	4.5

Source: PIB

The industrial sector has recorded improved performance (at 4%) in the first half of the current fiscal (Apr-Sep'15), over 1% points more than that in the previous year. This growth has been supported by the electricity and manufacturing sectors.

India's manufacturing sector has recorded noteworthy improvements in its growth rates growing at 4.2% in H1-FY16, compared to the 2.2% growth in H1-FY15. Within the manufacturing segment, the capital goods and consumer durable goods output has pushed forward the growth of the whole sector, each having grown at the rate of nearly 8%. However, it need be noted that the higher growth in the capital goods sector was influenced to an extent by the low base effect (-12.5% growth in H1-FY15).

The electricity sector has recorded an over 50% decline in growth rate from 10.4% in H1-FY15 to 4.5% in H1-FY16. Similarly, in case of the mining sector too there has been a decline in growth rates, albeit marginal, from 1.7% in 1.5%.

At the aggregate level, the industrial output is likely to record favorable growth in the coming months with the second half the year generally seen have higher levels of activity, though the base effect could come in subsequent months after November. Adding to the optimism are reports of increases in auto sales and favorable growth in the capital goods and consumer goods segment. Also, the increased government spending would also provide the necessary boost to the sectors growth. ***We project industrial growth at 4-5% for the 2015-16. The downside risks however prevail owing to the subdued rural demand conditions and the weakness in the country exports.***

Consumer Price Index (CPI)

Retail (CPI) inflation rose to a 4 month high of 5% in October'15, triggered by a rise in prices of food items. The higher prices of pulses and other food items has pushed up the CPI index and thereby the overall retail inflation. Inflation in October'15 was higher than that a year ago (4.6%).

The rising trend in inflation viz. food inflation is attributable to the second consecutive year of deficit monsoons and the surge in the prices of pulses. However, despite the unfavorable weather conditions, the rise in food inflation has been rather contained/ modest at 4.5% for the 7 months of FY16, as against the 7.6% for the corresponding period last year. Moreover, with expectations of higher supplies in the coming months (kharif harvest entering the markets), prices are expected to be weathered down.

%	*Apr-Oct'15*	*Apr-Oct'16*
Food, beverages	7.6	4.5
Cereals and products	6.62	1.61
Pulses and products	6.71	24.69
Egg, Meat and Fish	6.93	5.39
Milk and milk products	10.97	6.27
Fruits	17	2.51
Vegetables	5.53	0.15
Non-alcoholic beverages	4.83	4.56
Sugar and Confectionary	0.11	-10.13
Pan, tobacco and intoxicants	7.7	9.5
Clothing and footwear	7.99	5.94
Housing	8.17	4.64
Fuel and light	4.28	5.6
Miscellaneous	5.59	3.52
CPI	**6.86**	**4.58**

Within the food products, barring the pulses complex, the other key segment that comprise the food and beverages basket have seen a moderation in their growth rates when compared with the previous year

The index for Fuel & light has seen a moderate increase in growth rates to 5.6%, while the housing, clothing and footwear segments have recorded a moderation in growth rates since last year. These segments are likely to see subdued growth in the coming months too.

Given the trend in inflation this far for the fiscal, it can thus be assumed that despite the recent uptrend in inflation, it is likely to remain within the target set by the RBI for Jan'16 (5.8%).

CARE estimates CPI inflation for FY16 to be in the range of 5-5.5%.

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