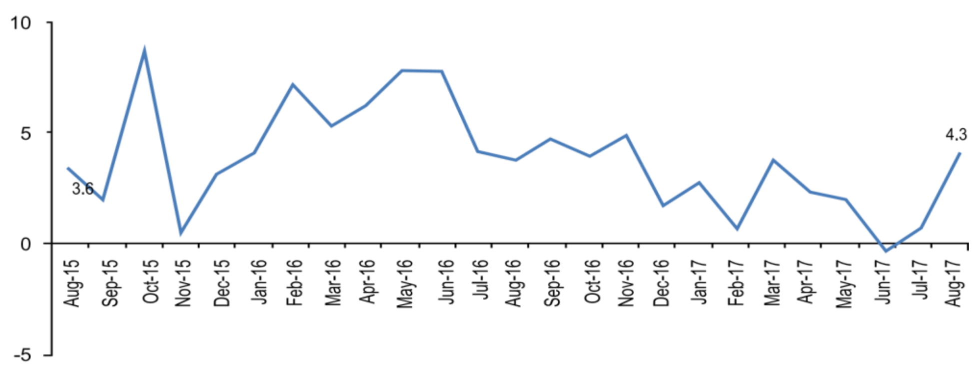
HIGH COMMISSION OF INDIA, KINGSTON
ECONOMIC NEWS LETTER OCTOBER, 2017

Industrial Growth Rises Sharply

Industrial Output Growth Accelerates in August 2017 (y-o-y, %)



Source: CSO

Amongst a broad-based improvement, industrial output measured by the index of industrial production (IIP) quickened to a five-month high of 4.3 per cent in August 2017 as compared to a paltry 0.9

Manufacturing growth inches up

The manufacturing sector, which has the highest weight at 77.6 per cent in overall IIP, saw its growth improving per cent growth experienced in the previous month as the uncertainties surrounding the transition to GST have diminished. This is the best reading since November last year. However, despite the strong monthly print in August 2017, the cumulative growth for the period April-August 2017 over the corresponding period of the previous year stands at a low of 2.2 per cent as compared to a healthy 5.9 per cent posted in the same period last year.

to 3.1 per cent in August 2017 as compared to a contraction seen in the previous month. It is interesting to note here that within the manufacturing group, digestive enzymes and antacids along with anti-pyretic API & formulations together contributed 1.2 per cent to headline index growth. Electricity sector grew at a robust rate of 8.3 per cent in August 2017 as compared to 6.6 per cent in the previous month. Mining sector growth also accelerated during the month, primarily cushioned by the low base of last year.

Capital goods sector output moves into the positive territory after a gap of 4 months

According to use-based classification, after a gap of four months, the growth of the capital goods sector moved into the positive territory. The sector grew by 5.4 per cent in August 2017 as compared to 1.3 per cent de-growth in the previous month. In contrast, crude oil, natural gas, refinery products and steel. Howand construction goods—a new category of IIP, saw its growth rate slowing down to 2.5 per cent in August 2017 as compared to 3.5 per cent posted in the previous month, in part due to the high base of last year.

Festive demand adds to the cheer

The growth rate of the consumer durables sector improved to 1.6 per cent, after recording a streak of negative growth rates for the past 8 months, driven by a pick-up in growth rates of 2-wheelers and passenger cars. Additionally, the rise in demand on account of the impending festive season and ironing out of the GST implementation related issues, also provided a fillip to durable sector's production during the month. Consumer non-durables' growth also quickened to 6.9 per cent in August 2017 as compared to 3.6 per cent growth in the previous month,

Sectoral Growth (y-o-y,%)

						Apr-Aug	
	Weight	Aug-16	Jun-17	Jul-17	Aug-17	FY17	FY18
General	100.00	4.0	-0.2	0.9	**4.3**	5.9	2.2
Manufacturing	77.63	5.5	-0.5	-0.3	**3.1**	6.1	1.6
Mining	14.37	-4.3	0.4	4.5	**9.4**	4.0	3.3
Electricity	7.99	2.1	2.1	6.6	**8.3**	6.7	6.2
Use-Based							
Primary	34.05	-1.0	-0.2	2.2	**7.1**	5.6	3.2
Capital	8.22	0.5	-6.6	-1.3	**5.4**	9.5	-1.9
Intermediates	17.22	4.6	-0.3	-1.7	**-0.2**	3.4	0.4
Infrastructure/ Construction	12.34	6.5	0.1	3.5	**2.5**	4.1	2.0
-Durables	12.84	7.3	-2.4	-3.6	**1.6**	6.2	-0.9
-Non durables	15.33	11.3	4.7	3.6	**6.9**	9.6	6.8

Source: CSO

intermediate goods continued to remain in the negative zone, partially due to a high base of last year. Infrastructure

suggesting a positive impact of normal monsoon in most rural parts

Core sector output growth continued to rise for the second consecutive month to 5.2 per cent in September 2017 as compared to 4.4 per cent in the previous month mainly due to higher production of

ever, the output of cement, fertilizer, electricity and coal moderated during the month. On a cumulative basis, core sector growth for the first half of FY18 (April-September FY18) stood at 3.3 per cent as compared to 5.4 per cent in the same period last year.

Core Sector Output Snapshot (y-o-y,%)

Sector	Weight	Sep-16	Jun-17	Jul-17	Aug-17	Sep-17	Apr-Sep FY17	Apr-Sep FY18
Coal	10.333	-6.7	-6.7	0.6	15.3	**10.6**	0.8	1.5
Crude Oil	8.983	-4.1	0.6	-0.5	-1.6	**0.1**	-3.3	-0.2
Natural Gas	6.876	-5.9	6.4	6.6	4.2	**6.3**	-4.3	5.0
Refinery Products	28.037	6.9	-0.2	-2.7	2.4	**8.1**	7.3	2.1
Fertilizers	2.627	0.3	-2.7	0.2	-0.7	**-7.7**	1.5	-2.1
Steel	17.916	16.1	6.0	9.2	2.2	**3.7**	9.9	5.5
Cement	5.372	6.7	-3.3	-2.0	0.7	**0.1**	4.7	-1.9
Electricity	19.853	5.1	2.2	6.5	8.3	**5.2**	6.5	6.0
Overall Index	100.00	5.3	1.0	2.6	4.4	**5.2**	5.4	3.3

Source: Office of Economic Advisor

Outlook

Industrial output bounced back sharply in August 2017, after a sluggish growth in the preceding months as companies stepped up production on the back of festive demand. The sharp rise in industrial production reinforces the hope that subsequent quarters would see a further upturn in industrial output. Going forward, the recovery in IIP growth is likely to be predominantly led by private consumption with some support from public capex and exports.

Additionally, a favourable base will also perk up industrial output in the next few months.

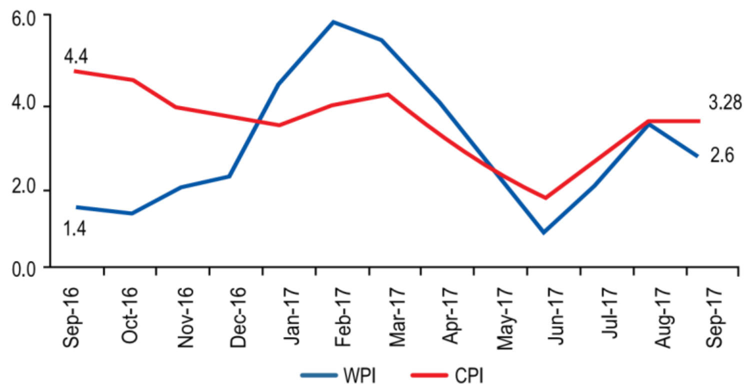
Inflationary Pressures Abate Marginally

Consumer price index (CPI) based inflation remained unchanged at 3.28 per cent in September 2017 as compared to a revised 3.28 per cent in August 2017. However, on a sequential basis, the headline index printed at -0.15 per cent on a month-on-month basis, the first contraction in 8-months. CPI food inflation decelerated marginally to 1.25 per cent in the reporting month as compared to 1.52 per cent in the previous month essentially due to a decline in prices of vegetables, fruits and meat & fish. Going forward, the sequential momentum in food prices could remain subdued until January with kharif output coming on board. However, the upside risks to food prices have still not abated fully, with government's first advance estimate showing that kharif foodgrain production is expected to contract by 2.8 per cent in the FY18 season. CPI fuel & light inflation came at a higher 5.56 per cent in September 2017 due to the hardening of international crude oil prices during the month which had a spillover on domestic fuel prices. Going forward, a reduction in excise duty and VAT on petrol and diesel by the central and a few state governments could result in a reduction in fuel prices in the coming months. CPI housing index has reached a 38-month high of 6.1 per cent in the reporting month, indicating the pass-through from the 7th Pay Commission related HRA payouts. Going forward, the further entrenchment of HRA payouts in the remaining states would lend further momentum to the CPI housing indices.

Lower food prices push down WPI based inflation in September 2017

Wholesale price index (WPI) based inflation slowed down to 2.6 per cent in September 2017 as compared to 3.2 per cent in the previous month, aided by a sharp fall in food and vegetable prices. Total food index inflation halved to 2.0 per cent in the reporting month as compared to the previous month. On a cumulative basis, average inflation during the first-half (April-

WPI Inflation Decelerates in September 2017 (y-o-y, %)



Source: Office of Economic Advisor& MOSPI

Sectoral Components of Inflation (y-o-y,%)

(2011-12 base year)						Apr-Sept	
	Weight	Sep-16	Jul-17	Aug-17	Sep-17	FY17	FY18
General	100	1.4	1.9	3.2	**2.6**	0.2	2.4
Food	24.38	6.3	2.2	4.4	**2.0**	7.0	1.7
Primary	22.62	3.7	0.6	2.7	**0.2**	4.7	-0.2
- Food	15.26	4.2	2.4	5.8	**2.0**	6.2	0.9
- Non-Food	4.12	3.7	-6.1	-3.6	**-2.2**	6.1	-3.0
- Minerals	0.83	18.9	24.7	-7.7	**-7.1**	7.9	3.7
Fuel	13.15	-2.9	4.4	10.0	**9.0**	-10.3	9.5
- Petrol	1.6	-9.3	9.6	24.6	**15.8**	-22.1	16.1
- High Speed Diesel	3.1	-0.8	5.5	20.3	**15.7**	-17.2	17.2
Manufacturing	64.23	1.1	2.1	2.5	**2.7**	-0.1	2.5
- Food	9.12	10.2	2.0	1.8	**1.8**	8.7	3.2

Source: Office of Economic Advisor

September) of FY18 stood at 2.4 per cent as compared to 0.2 per cent inflation recorded in the same period last year.

Primary articles inflation slows down on lower food prices

Amongst the WPI sub-categories, inflation in primary articles came in at a low of 0.2 per cent in September 2017 as compared to 2.7 per cent posted in the previous month. Primary food inflation also slowed down sharply to 2.0 per cent from 5.8 per cent in the preceding month mainly on the back of a correction in vegetable prices (down to 15.5 per cent from 45 per cent). To be sure, prices of some vegetables, such as tomatoes, which had risen sharply in July 2017, corrected in September 2017. Meanwhile, primary non-food articles continued to record deflation for the sixth consecutive month in September 2017. The minerals category too saw a deflation to the tune of 7.1 per cent in September 2017 mainly due to high base of last year (18.9 per cent inflation in September 2016).

Fuel inflation expected to moderate on reduction of excise duty

Fuel inflation decelerated marginally to 9.0 per cent in September 2017 as compared to 10.0 per cent recorded in the previous month. Both petrol and diesel inflation moderated during the month. Going forward, fuel inflation is expected to slow down due to the reduction in excise duty on petrol and diesel by the Central Government and with some of the state governments also following suit by reducing Value Added tax (VAT) on auto fuel. Manufacturing inflation inches up marginally

Inflation in the manufactured group continued to increase for the second consecutive month to 2.7 per cent in September 2017 from 2.5 per cent posted in August 2017. Manufacturing food inflation, however, remained unchanged from the previous month's reading.

August 2017

As per the latest data released by the Controller General of Accounts (CGA), the fiscal deficit till April-August 2017 has reached 96.1 per cent of the total budgeted target of the government for FY18 on account of front loading of expenditure. Further, the government has also overshot its revenue deficit target for the fiscal. This is likely to limit the government's ability to significantly raise capital spending in order to spur economic growth. During the same period last year, the government had used up 76.4 per cent of the total fiscal deficit

Total expenditure surges ahead

During the April-August FY18 period, total expenditure stood at 44.3 per cent of the full-year target of Rs 21,50,000 crore as against 40.5 per cent during the same period in the previous fiscal year. It is useful to note here that after the surge in expenditure in the early months of the current fiscal, the pace of spending was arrested in August 2017. A break-up shows that revenue target for FY17. As for the revenue deficit, last year the government reached 91.7 per cent of its target in the first five months, whereas in the current fiscal, it is at 134 per cent. Moreover, the Reserve Bank of India (RBI) recently announced that it would pay Rs 30,659 crore as a dividend to the government for FY17 which is less than half of Rs 65,876 crore transferred in FY16, owing to a sharp rise in the central bank's expenditure and a decline in income in FY17. This is likely to affect the government's fiscal math this financial year. Expenditure is at a higher level this year—45.8 per cent of the full-year target till August 2017, as against 41 per cent during the same period last year. In contrast, capital expenditure so far has fallen short at 35.5 per cent during the April-August FY17 period as compared to 37 per cent during the same period last year. This trend is worrisome as capex spending is crucial for bringing back growth to the economy.

While revenue receipts lag behind, albeit only marginally

Total receipts during the April-August FY18 period stood at 26.6 per cent of the budgeted amount for the current fiscal as compared to 27.3 per cent during the same period in the previous year. To be sure, the government is likely to face a possible revenue shortfall this fiscal due to lower non-tax revenue and uncertain goods and services tax (GST) collections. Out of the total receipts, revenue receipts stood at 27 per cent of the budgeted amount of Rs 15,15771 crore in the first five months of FY18 as compared to 28.0 per cent in the same period last year.

However, tax receipts on an increasing trend so far thanks to healthy income tax collections

Gross tax revenue has totalled Rs 5,83,626 crore so far till August 2017 as compared to Rs 4,86,356 crore in the same period last year. The jump in tax collections this year is attributable to the healthy income tax collections so far, this fiscal. Non-tax revenue receipts, whose major component is dividends & profits, stood at 24.0 per cent of the budgeted total for FY18 as compared to 32.5 per cent in the same period last fiscal. The disinvestment target was fixed at Rs 72,500 crore for FY18, out of which only Rs 19,759 crore have been collected as of 4th October 2017. However, all is not lost yet as the government has an attractive list of PSUs up for stake sale. Hence, there are bright chances that the government will be able to meet its disinvestment target this year.

Going forward

The government is likely to face a higher revenue deficit this year mainly on account of lower non-tax revenue and uncertainties linked with GST collections. In view of this, the finance ministry has Central Public-Sector Enterprises (CPSEs) to declare "liberal dividends" to the government and set aside an additional Rs 25,000 crore for capital expenditure this fiscal year to revive investment demand in the economy.

Disclaimer

The newsletter is a compilation of news article from various business enewspapers and in no way, is an endorsement or reflection of views of High Commission of India, Kingston

For queries contact:

For queries contact: - Mr. Mohan Parameswaran, Second Secretary (E&C), High Commission of India, 5 Earls Court, Kingston-8. Email: - cons.kingston@mea.gov.in, Web: www.hcikingston.com

****

Please like us on Facebook: https://www.facebook.com/hcikingston

Follow us on Twitter: http://twitter.com/hcikingston