# MONTHLY MONITOR

Prepared by
**Basanta K Pradhan & Sangeeta Chakravarty** **September 2012**

Highlights

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| ***Industrial activity picking up*** | The annual growth of Index of Industrial Production for the month of August 2012 has recorded a growth of 2.7 percent from a marginal growth of 0.1 percent in July and from a substantial decline of 1.8 per cent in June, 2012. The IIP growth figure for May 2011 was 9.5 per cent. This low growth in August 2012 is largely explained by the fall in the capital goods sector. Though the industrial activity was showing the signs of pick up, the high policy rates are squeezing the demand and pulling down the growth. If the RBI comes out with a supportive stance on October 30, the capital goods sector will turn around. |
| ***Headline inflation is up marginally*** | The year on year WPI inflation increased marginally to 7.81 in September from 7.55 in August, 6.87 percent in July, 7.25 percent in June, 7.55 per cent in May 2012, and is largely explained by higher prices of fuel and power and non-food primary articles. The inflation in the same month of the previous year was 10.00 per cent. The high fiscal deficits and the depreciated rupee were adding to the inflationary woes. The prices of oil and other commodities are again in the upward trend as the uncertainties in the western markets are perceived to be stabilizing. |
| ***Marginal increase in CPI inflation*** | Consumer Price Index Number for Industrial Workers marginally increased to 10.31 per cent for August from 9.84 percent in July, 10.05 per cent in June and 10.16 percent in May 2012. Food prices put the maximum pressure on the index even though prices of Vegetables and Fruits declined substantially. The much sensitive food Inflation increased at a faster rate to 12.20 per cent in August from 11.27 percent in July, 10.45 per cent in June and 10.61 percent in May 2012. The opening up FDI in multi-brand retail will help in decreasing retail prices in long run. |
| ***Rupee appreciated*** | The monthly average rupee-dollar rate appreciated to 52.88 till October 24, 2012 as against 55.33 till September 21, 2012 due to the change in reform orientation of the government. Earlier, the exchange rate slipped to 54.41 for the month of May from 51.73 for the month of April and 50.21 for the month of March, 2012, as the current account deficit widened to 4 percent of GDP. The monthly average of exchange rate went down further to 56.00 till August 17, 55.48 in July and 55.99 in June 2012 contributed by internal policy |

**Development Planning Centre, Institute of Economic Growth, Delhi University Enclave, Delhi-110007, India.** Phone: (00)-91-11-27667365, Fax: (00)-91-11-27667410
**E-mail: basanta@iegindia.org / sangeeta@iegindia.org** **URL: www.iegindia.org**

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| | lethargy and a not so comforting external situation. |
| ***Reserves are stabilizing*** | Foreign exchange reserves as on October 12, 2012 stood at US$ 294.88 billion as against US$ 294.48 billion on September 14, 2012. The foreign currency assets contributed US$ 260.03 billion to reserves on October 12, 2012. The accumulation of reserves is expected to be high as domestic policy reforms are likely to be continued. The stimulus packages announced by USA are also helping in this accumulation process. |
| ***Exports are down sharply*** | Exports have contracted by 10.78 percent in September 2012 in dollar terms over the corresponding month of the previous year as against contractions of 9.7 percent in August, 14.8 per cent in July and 5.45 percent in June 2012. The exports of engineering declined about 8 percent putting pressure on overall export growth. High base effect, slow growth in USA and the Euro zone crisis were pulling down the exports growth even if depreciation of rupee was very substantial. Contraction in IIP and higher inflation at home is not a good sign for exports. |
| ***Oil Imports are up sharply*** | Imports in September 2012 have shown a growth of 5.09 percent in dollar terms over the corresponding month in 2011 as against negative growth rates of 5.08 percent in August and 6.47 percent in July 2012. The imports increased in September 2012 due to the huge increase in oil imports. Cumulative value of imports for the period April-September 2012-13 stood at US$ 232.93 billion registering a negative growth of 4.36 percent over the same period last year. The substantive fall in non-oil imports during recent months shows the demand side was not able to sustain at higher level due to high interest induced demand contraction and policy lethargy. However, it is a big positive that in policy front, there is a lot of positive action since September 2012. |
| ***Trade deficit increases*** | The trade deficit for September, 2012 was estimated at US $ 18.08 billion as against US $ 13.19 billion for the same period last year. The trade deficit for April-September, 2012-13 was estimated at US $ 89.25 billion which was almost the same during April-September, 2011-12. |

## IEG FORECAST

| Variables | Latest Information available | Forecast for next three months |
|---|---|---|
| **Inflation rate (WPI)** | 7.81% in September 2012 | 7.69%,7.53%,7.49% |
| **Inflation rate (CPI)** | 10.30% in August 2012 | 10.39%,10.26%,10.02% |
| **Growth rate of IIP** | 2.7% in August 2012 | 3.86%, 4.72%, 5.12% |
| **Growth rate of M3** | 13.3% on October 5, 2012. | 13.72 %,14.16%,14.36% |
| **Re/$ exchange rate** | 52.88 monthly average till October24, 2012 | 52.97, 52.71, 52.47 |
| **Forex reserves** | US$ 294.88 billion on October 12, 2012 | $302.82, $310.56, $311.88 |
| **FII inflows (Net)** | US$4318.77 million monthly average till October 24, 2012 | Inflows expected to be high in the next three months |
| **Growth rate of exports** | -10.78% in September 2012 | A monthly average of 2.12% in next three months |
| **Growth rate of imports** | 5.09% in September2012 | A monthly average of 8.51% in next three months |
| | | |

## Inflation

***WPI inflation is up marginally***

The year on year WPI inflation increased marginally to 7.81 in September from 7.55 in August, 6.87 percent in July, 7.25 percent in June, 7.55 per cent in May 2012, and is largely explained by higher fuel and power and non-food price inflation. The inflation in the same month of the previous year was 10.00 per cent.

In August 2012, the year on year primary articles inflation, with a weight of 20.12 percent in the index, was 8.77 percent of which the food inflation was 7.86 percent, while the inflation for fuel, power, light and lubricants, with a weight of 14.91 percent in the index, was 11.88 percent, and the inflation for the principal sector, the manufacturing products with a weight of 64.97 percent in the index, was 6.26 percent.

Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent. But this trend saw a decline from December 2011 as the WPI has come down to a relatively more comfortable orbit of less than 8 per cent. The new WPI index tracks 676 commodities in contrast to the old index which was based on 435 commodities.

The high fiscal deficit, the increasing trend of crude prices and the falling trend of the rupee were putting an upward pressure on inflation. The recently announced reforms by the government may help contain the fiscal deficits. Further, the high policy rates are putting a downward pressure on demand. However, crude prices are again on uptrend as the short run Euro zone uncertainties are stabilizing and the USA stimulus package is putting a huge amount of cash in the market.

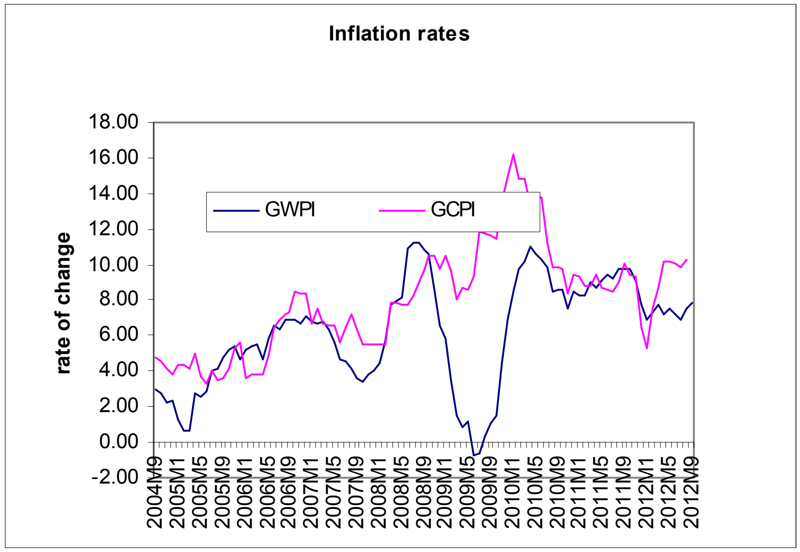
On balance, the inflation is likely to remain almost unchanged in September, October and November 2012.

***Marginal increase in CPI inflation***

Consumer Price Index Number for Industrial Workers marginally increased to 10.31 per cent for August from 9.84 percent in July, 10.05 per cent in June and 10.16 percent in May 2012. Food prices put the maximum pressure on the index even though prices of Vegetables and Fruits declined substantially. The much sensitive food Inflation increased at a faster rate to 12.20 per cent in August from 11.27 percent in July, 10.45 per cent in June and 10.61 percent in May 2012. It was 10.66 percent in April, 8.16 percent in March, 5.08 percent in February and the low of 0.49 percent in January, 2012. The opening up FDI in multi-brand retail will help in decreasing retail prices in long run.

*Forecast:*

The WPI inflation forecasts are 7.69%, 7.53 % and 7.49% for October, November and December 2012, respectively. The CPI inflation forecasts are 10.39%, 10.26% and 10.02% for September, October and November 2012, respectively.




## Industrial Production

The annual growth of Index of Industrial Production for the month of August 2012 has recorded a growth of 2.7 percent from a marginal growth of 0.1 percent in July, a substantial decline of 1.8 per cent in June, a growth of 2.4 percent in May and 0.1 per cent in April 2012. However, the IIP had a 3.5 percent contraction in March 2012. The IIP growth figure for May 2011 was 9.5 per cent. This low growth in August 2012 is largely explained by the fall in the capital goods sector.

***Industrial activity is picking up***

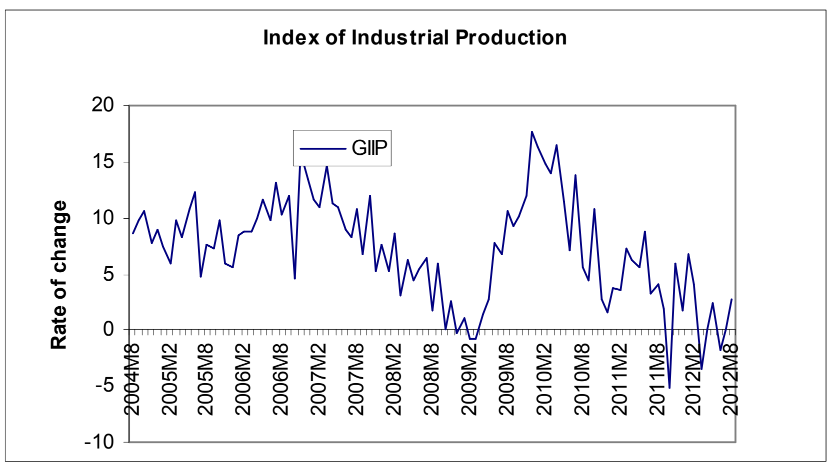
The Mining, Manufacturing and Electricity sectors for the month of August 2012 grew by 2.0, 2.9 and 1.9 percents, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been (-) 0.6, 0.0 and 4.8, respectively, during April-August, 2012-13 over the corresponding period of the last year. This moved the overall cumulative growth of the General Index to 0.4 percent.

It is a good sign that, out of the twenty-two industry groups, thirteen have shown positive growth during July 2012. Industry groups like ‘Publishing, Printing and Reproduction of Recorded Media’, ‘Radio, TV and communication equipment & apparatus’ and ‘Medical, precision & optical instruments, watches and clocks’ have increased at high rates of 15.4 percent, 14.5 percent and 14.4 percents, respectively, and have helped in the growth in the IIP.

In July 2012, the annual growth rates in Basic goods and in Intermediate goods stand at 2.8 percent and 1.9 percent, whereas the crucial Capital goods sector contracted at 1.7 percent. The capital goods sector contracted by a high 13.8 percent during April-August 2012. This is not a very good sign for sustaining the overall growth rate in the economy especially when the output gap is closing up in the economy. The Consumer goods increased by 5.0 percent while the Consumer durables went up by 4.0 percent and Consumer nondurables went up by 5.8 percent in August 2012.

The mining sector may continue to underperform in the short to medium run as the environmental as well as displacement issues may take time to resolve. Moreover, the land acquisition issues are also affecting the industry sector as a whole. The uptrend in the industrial activity is faltering. The revival in demand supported by the low base for the year 2009 was able to deliver continuous higher growth later on. However, the pace of growth has got tapered off recently as the base effect wore off and withdrawal of stimulus picked up and impact of high policy rates became effective. The global uncertainty is adding fuel to the fire. The inflation pushed rate hikes are squeezing the demand and pulling the growth down. However, the recent policy announcements and the improvement in monsoon have been the sources of great relief. Recently, the IIP growth has become extremely volatile. The falling in exports is a negative sign for industrial growth. The government needs to keep the tempo of policy reforms in reducing the fiscal deficit and addressing the long run supply concerns in agriculture. It is also time for the RBI to reduce the policy rates further from the existing high level.

**Forecast:**
Based on the available information we forecast the IIP growth rate for the next three months to be 3.86%, 4.72%, 5.12% for September, October and November 2012, respectively.




## Money and Credit

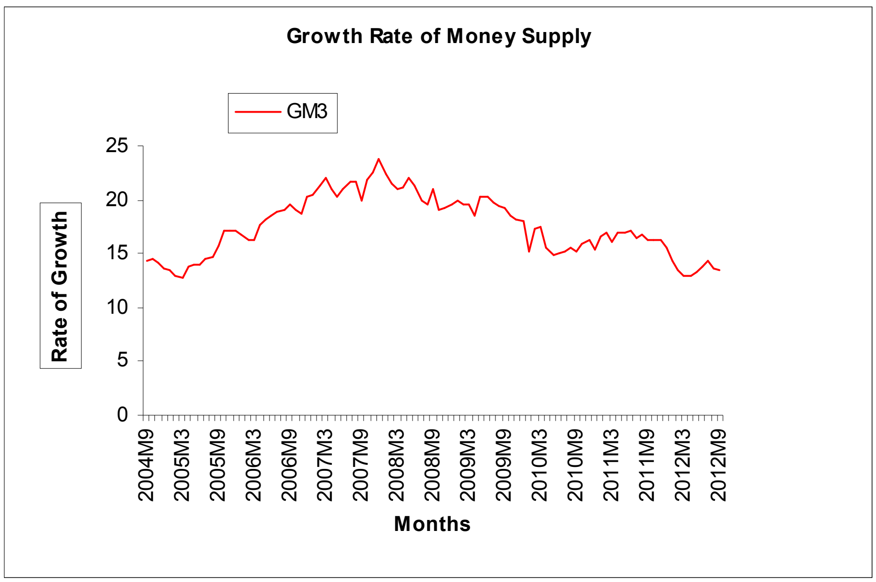
***Money supply growth stagnates***

The year-on-year growth rate of broad money (M3) supply clocked 13.3 percent as on October 5, 2012. This is much lower than its growth of 16.6 percent for the last year. This is also 2.2 percent lower than its projected growth of 15.5 percent set for the whole year. The liquidity is being eased by the RBI through reduction in reserve. There was a cut of 0.25 percent in CRR and it is expected that the policy rates will be revised downwards in the next policy review.

The expansion in money supply is contributed by the net credit to the Government increasing at 18.8 percent and credit to the commercial sector at 15.6 percent. Overall credit growth has slowed down. The FIIs have started pouring in large sums of money to the equity markets in India as announcements of policy reforms has started with a bang since September 2012, the Euro zone problem seems to be stabilizing and the announced stimulus appears to be helping the USA economy. The money supply is forecast to grow by about 14 percent for the next three months.

***Forecast:***

The growth rates of money supply (M3) are forecast to be 13.72%, 14.16%, 14.36% for October, November and December 2012, respectively.




## Interest rates

***Interest rates declining***

The growth in the economy is faltering though inflation has become sticky at an uncomfortably high level. The RBI has given a positive surprise by reducing the repo rate by 50 basis points to 8 percent in last April. It also cut CRR by 0.25 percent in September 2012. As India is showing the sign of moving towards a stagflation like situation, RBI should go for a reduction in policy rates by another 50 basis points in the next policy review on the October 30. On the positive side the government is announcing measures since September 2012 which is expected to help in checking the fiscal deficit. Earlier, the prime lending rates saw upward revision both due to the continuous upward revision of policy rates, upward revision of deposit rates and the uncertainty in the global scenario. However, there are recent announcements by banks in reducing interest rates. In the medium term, increases in GDP growth will increase the growth in demand for money while monetary easing by RBI will increase the supply softening pressure on the market interest rates. The corporates may increase their borrowings from outside the country as the withholding tax has been reduced, which may have a softening effect on the domestic interest rates. On balance, we would like to believe that the market interest rates may come down in next three months.

### Exchange rate

***Rupee is appreciating***

The monthly average rupee-dollar rate appreciated to 52.88 till October 24, 2012 as against 55.33 till September 21, 2012 due to the change in reform orientation of the government. Earlier, the exchange rate slipped to 54.41 for the month of May from 51.73 for the month of April and 50.21 for the month of March, 2012, as the current account deficit widened to 4 percent of GDP. The monthly average of exchange rate went down further to 56.00 till August 17, 55.48 in July and 55.99 in June 2012 contributed by internal policy lethargy and a not so comforting external situation.

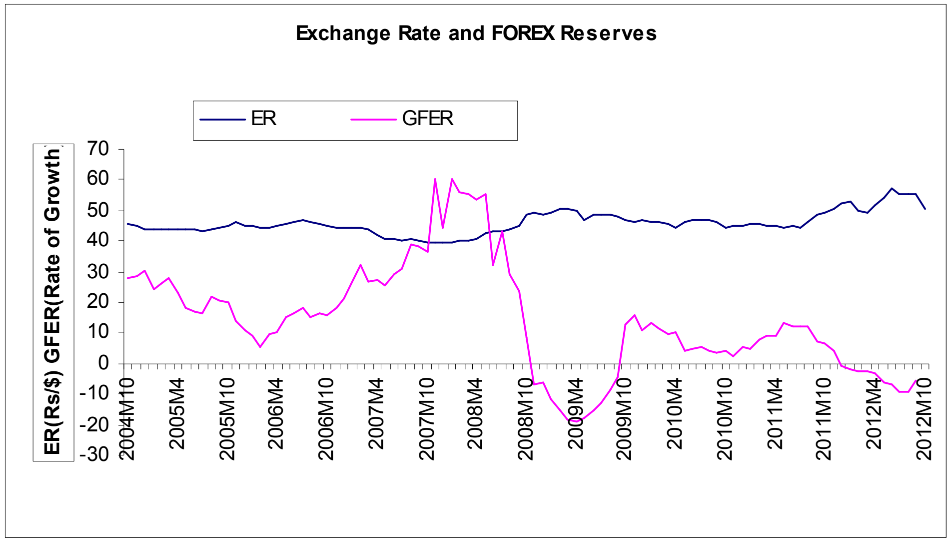
The Rupee was depreciating owing to the short term portfolio outflows in the stock market among other factors. The widening of trade deficit caused by the rise in crude prices as well as the negative export growth rates in recent months were putting pressure on the rupee.

However, the low value of rupee is proving to be a short run phenomenon. In medium to long run, the rupee is expected to be stronger. By the end of current fiscal, when growth starts picking up, rupee will start gaining. In fact, it has already started appreciating in response to the current policy announcements.

The monthly average of rupee was 44.7 till August 24, 44.62 till May 20 and 45.18 till March 17, 2011. The continuous flow of FIIs into the stock market and the underlying strong growth potential of the economy had assisted in strengthening the Indian rupee during this period.

The rupee hit a five month high on the 4th October 2010 at 44.24 rupees per dollar and it touched a record low of about Rs 57 against the US dollar in mid-June 2012. Rupee appreciated 12.9 percent during the year 2009-10 as against a depreciation of 25.5 percent in the previous year. This appreciation was mainly due to macroeconomic recovery of that period.

***Forecast:***
In coming months, the exchange rate is expected to be around Rs/$ 52.97, 52.71, 52.47 for October, November and December 2012.




*Reserves are stabilizing*

## Foreign Exchange Reserves

Foreign exchange reserves as on October 12, 2012 stood at US$ 294.88 billion as against US$ 294.48 billion on September 14, 2012, while on August 10 reserves were amounting to US$ 289.17 billion, total reserves stood at US$ 288.62 billion on June 22 and US$ 288.26 billion on May 25, 2012, to which the foreign currency assets contributed US$ 260.03 billion. Foreign exchange reserves went up impressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November19, US$ 295.03 billion on December 24, 2010 and US$ 318.36 billion on October 7, 2011. This is a substantial progress from the below 250 billion mark during 2009. In the process, it crossed the peak of 314.61 billion of May 2008.

The rise in reserves is mainly due to inflow of foreign investment into Indian market. The rise in the stock market indices attracted huge FII inflows. The high interest rate differentials between India and the rest of the world, which is also likely to continue for some time, must have helped in this increase. The current policy announcements along with Euro zone uncertainties and USA stimulus helping the accumulation of reserves.

On balance, we forecast a substantial rise in the forex reserves for the next three months.

***Forecast:***

Forex reserves expected to be $302.82 $310.56 $311.88 billion in October November and December 2012, respectively.

## Foreign Institutional Investment

The average monthly foreign institutional investments (FIIs) in the Indian market were impressive at US$ 4318.77 million till October 24, 2012 against

**Substantial FII inflows**

US$ 2585.66 million till September 21 and US$ 1965.2 million till August 17, 2012 as the expectation is running high about the reform in the domestic economy. The reform packages by the Indian government and stimulus packages from USA and Japan announced in September 2012 are inducing huge inflows and pushing up the stock market indices.

The monthly foreign institutional investments (FIIs) in the Indian market was modest at US$ 209.14 million for June 2012 though the FIIs in equity market were negative at US$ -86.16 million. The monthly average of FIIs was US$ 211.46 million till October 28, US$ -1790.59 million till August 24, US$ -651.93 million till May 20 and US$ -721.13 million for February 2011. This was mainly due to the Euro zone uncertainty. However, the FIIs were a high US$ 4784 million in November, US$ 5468 million in October, US$ 4262.60 million in September and US$ 5285.33 million in July 2010. These later figures clearly show the foreign investors' confidence about India's long term growth story. The expected long term appreciation of the rupee and the prospects of returns are making the Indian economy attractive for the FII inflows in the long term.

For 2009-10, the cumulative FIIs were 29047 million as against -15017 million for 2008-09. The revival in major global economies along with the improvement in the Indian share markets had helped in reversing the negative trend of foreign institutional investments of the crisis period of the economy.

After registering a huge fall during the crisis, the 30 share index of Bombay Stock exchange Sensex went up above the high 20,000 mark though, recently, the index is around 18750.

It is forecast that the inflows are going to be high in the next three months as the domestic policy reform going to continue.

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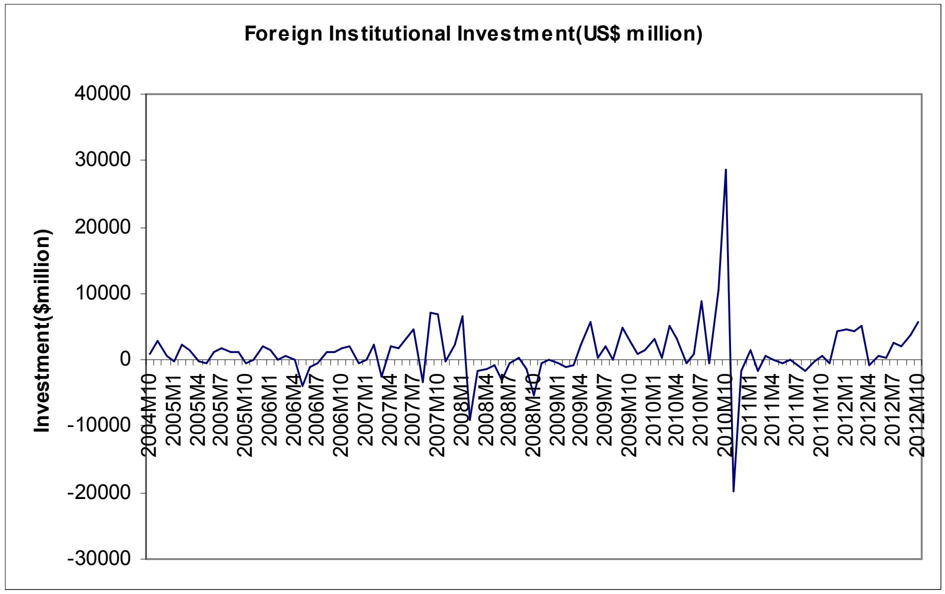
***Forecast:***

Inflows are expected to be high in the next three months




## Exports and Imports

*Exports are down sharply*

Exports have contracted by 10.78 percent in September 2012 in dollar terms over the corresponding month of the previous year as against contractions of 9.7 percent in August, 14.8 per cent in July and 5.45 percent in June 2012. The exports of engineering declined about 8 percent putting pressure on overall export growth. The incentives announced in recent foreign trade policy (FTP) helped in arresting the further fall in exports. High base effect, slow growth in USA and the Euro zone crisis were pulling down the exports growth even if depreciation of rupee was very substantial. Contraction in IIP and higher inflation at home is not a good sign for exports. Cumulative value of exports for the period April-September 2012-13 stood at US$ 143.68 billion registering a negative growth of 6.79 per cent over the same period last year. The exports growth fluctuated in a very wide range from an astonishing 82 percent expansion in July 2011 to a 14.8 percent contraction in July 2012. The recent stimulus in USA and Japanese economy may help exports to pick up.

*Imports are up*

Imports in September 2012 have shown a growth of 5.09 percent in dollar terms over the corresponding month in 2011 as against negative growths of 5.08 percent in August and 6.47 percent in July 2012. The imports increased in September 2012 due to the huge increase in oil imports. The imports had a positive growth of 3.83 percent in April 2012. The figures for March, February and January 2012 were not much different from each other at 24.28, 20.65 and 20.25 percents of positive growths, respectively. Cumulative value of imports for the period April-September 2012-13 stood at US$ 232.93 billion registering a negative growth of 4.36 percent over the same period last year.

Oil imports during September, 2012 pegged at US$ 14.09 billion increased by 30.74 percent over the corresponding period last year. Oil imports during April-September, 2012-13 pegged at US$ 80.78 billion grew up by 6.78

*Trade deficit increases*

percent over the corresponding period last year. Non-oil imports during September, 2012 estimated at US$ 27.69 billion contracted by 4.46 per cent over the corresponding period last year. Non-oil imports during April-September, 2012-13 pegged at US$ 152.14 billion contracted by 9.38 percent over the corresponding period last year.

The substantive fall in non-oil imports during recent months shows the demand side is not able to sustain at higher level due to Euro zone crisis externally and high policy rates internally. The high domestic inflation and the euro zone crisis have pulled down the export growth to negative zone in recent times. The low export growth and high oil prices resulted in huge trade deficits. However, the recent fall in crude prices was helping in arresting the deficit. It is a big positive that in policy front also, there is a lot of action since September 2012.

The trade deficit for September, 2012 was estimated at US $ 18.08 billion as against US $ 13.19 billion for the same period last year. The trade deficit for April-September, 2012-13 was estimated at US $ 89.25 billion which was almost the same during April-September, 2011-12.

***Forecast:***

Exports growth rate is forecast as monthly average of 2.12% and import growth rate as monthly average of 8.51 % for October, November and December 2012.