India's IIP rises 5.7% in November, retail inflation decelerates in December
livemint.com, 13th Jan 2017

India's industrial production rose 5.7% in November, its fastest in 13 months, driven by a positive base effect, from a contraction of 1.8% the previous month, shrugging off the initial impact of demonetisation.

Data separately released by the statistics department showed retail inflation decelerated to a two-year low at 3.41% in December, against 3.63% the previous month, as vegetable prices continued to contract.

Economists were expecting the index of industrial production (IIP) to partially capture the impact of demonetisation on industrial production as the move was announced by prime minister Narendra Modi on 8 November. Both the data prints will be the latest figures that will be available to finance minister Arun Jaitley as he prepares to present the Union budget on 1 February.

However, Sunil Kumar Sinha, principal economist at India Ratings & Research, said that there is nothing to cheer about the November IIP growth as the index number (175.8) is lower than that in October (178.1), indicating that factory output has actually declined sequentially. Cumulatively, growth for the April-November period at 0.4% is even lower than the 3.8% recorded for the same period last fiscal.

In November, manufacturing grew at 5.5% against a contraction of 4.6% a month ago while growth in mining output and electricity generation also picked up to grow at 3.9% and 8.9%, respectively.

The volatile capital goods sector grew for the first time in seven months at 15%, and consumer goods picked up by 5.6%. The index number for consumer durables in November fell sequentially to 248.3 from 273.8 in October, signalling a decline in demand for television sets and automobiles.

The impact of demonetisation on consumer durables may only accentuate as sales of automobiles across segments declined 18.66%, the most since December 2000, as customers unnerved by a cash crunch after the scrapping of high-value banknotes the previous month put off purchases.

Retail inflation in December, that surprised economists on the downside, benefited from a sharp decline in vegetable prices and the possible adverse impact of the note ban on the bargaining power of producers of perishables, said Aditi Nayar, principal economist at ICRA Ltd.

"Although stronger crude oil prices have started transmitting into higher fuel prices, food items continue to display a moderation in January 2017. With greater emphasis being laid on achieving the mid-point of the inflation target range of 4%, we maintain our view that the room for incremental rate cuts would be limited to 25 basis points over the next six months," she added.

The Reserve Bank of India (RBI) is scheduled to hold the next meeting of the monetary policy committee on 8 February.

The central bank on 7 December kept its interest rates unchanged, holding that crude oil prices may firm up in the coming months and reverse the gains from softer vegetable prices. “Volatility in crude prices and the surge in financial market turbulence could put the inflation target for Q4 of 2016-17 at some risk,” it said.

RBI is targeting to keep retail inflation under 5% in the fourth quarter and 4% within a band of 2% on either side in the medium term.

The central bank said while drop in vegetable prices might bring down overall retail inflation, downward inflexibility in inflation excluding food and fuel could set a resistance level for future downward movements in the headline inflation print.

Crude oil prices have remained volatile after touching an 18-month high of $56.44 per barrel last month as members of the Organization of the Petroleum Exporting Countries (Opec) and oil producers outside the group led by Russia agreed to reduce crude oil output by almost 2% of global oil supply.