



Economy at a glance

Domestic growth on an upswing

23 January 2018

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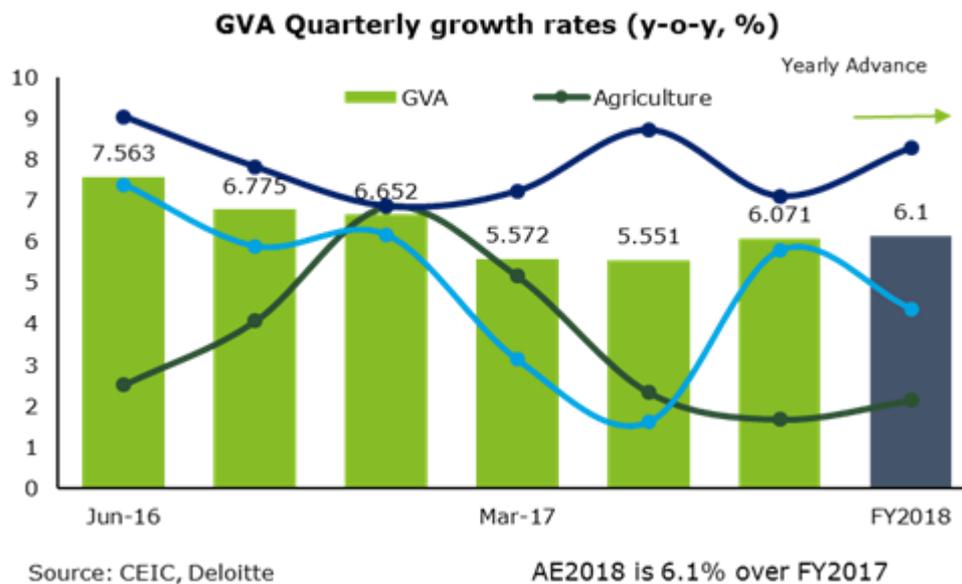
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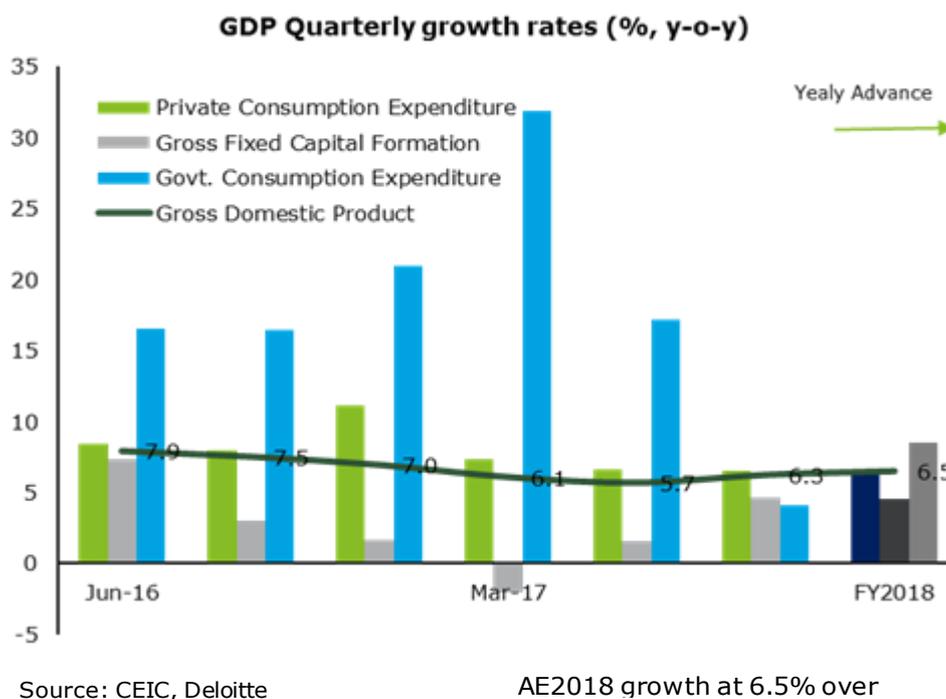
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GDP numbers show some pickup in momentum

Growth in services to pick up



Consumption expenditure remains broadly stable while investments pick up

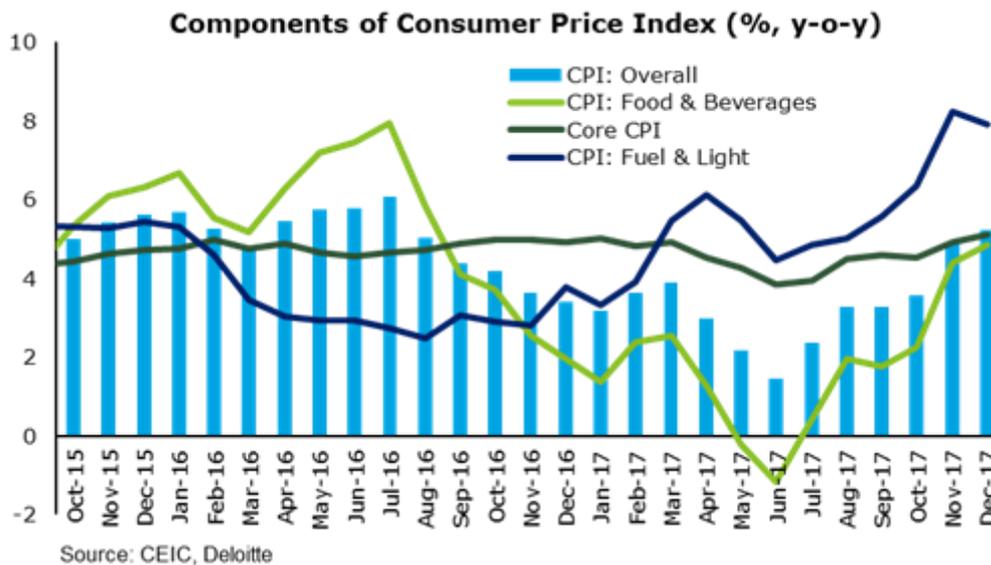


- The latest set of numbers on economic growth in FY18 suggest that slowdown has likely bottomed out and activity levels are recovering from the disruptions over the last few quarters. Growth in FY2018 is estimated to come in at 6.5% according to the advance estimates released by the Ministry of Statistics.
- Encouragingly, industrial activity is likely to rebound for the full year despite subdued performance in the first half of the year while utility services and mining activities are likely to remain broadly stable. The services sector is likely to have picked up while the agriculture sector, in contrast, is likely to underperform given the amount of rainfall.

- Overall GDP growth should move up in the coming quarters, though likely to remain sub 7%, on the back of some pick-up in consumption expenditure and revival in investment activity.

CPI inflation rises due to base effect

Inflation rises above the 5% mark

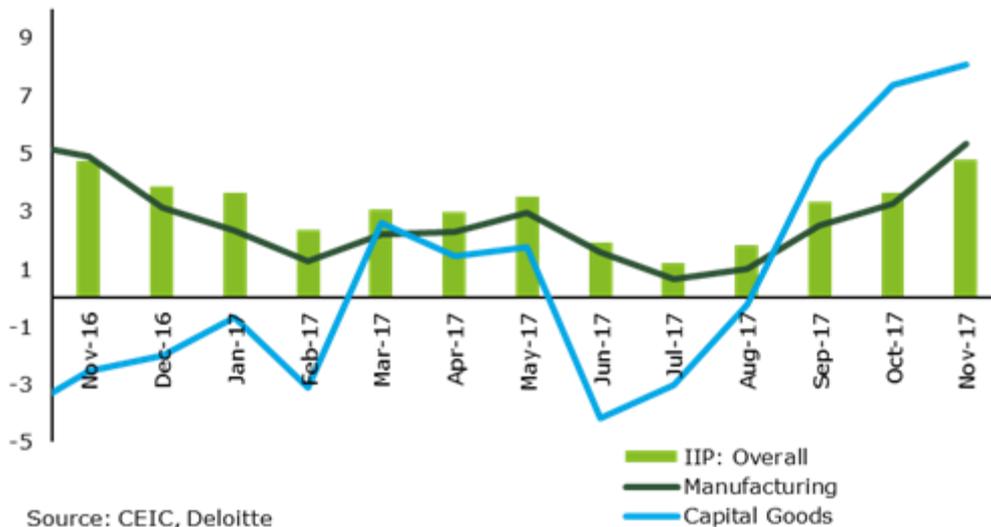


- Headline inflation moved up for the month of Dec'17 on the back of a base effect as the overall index showed a fall from November's level.
- Important to remember that the RBI now looks at an inflation target range of 4% +/- 2%. It seems that pay revision in the public sector and a change in the tax regime has had some effect on prices while there has been some increase in vegetable prices due to erratic rains affecting supply.
- The current print is unlikely to lead to any major change in the RBI's stance in the near term as inflation is likely to head downwards in the second half of the year once the unfavorable base effects wane. Inflationary pressures may build further in the coming months on account of rising commodity prices.

Industrial production hits a 25-mth high

Manufacturing rebounds due to restocking

Industrial Production by Components (3mma, y-o-y, %)



- Manufacturing production registered robust growth possibly on the back of normalization led by industry restocking and improvement due to festive demand. That said, readings on consumer durables seem to be pointing at a still subdued rural sector demand and is unlikely to rebound in the near term.
- Mining and electricity saw stability in line with the performance of the core sector. Consumer non- durables recoded a steep jump while capital goods saw an upswing, possibly signaling improvement in investment sentiment.
- Overall, while this is clearly an encouraging number, we need to assess if it sustains in the coming months especially in capital goods production.

INR appreciates on fund inflows

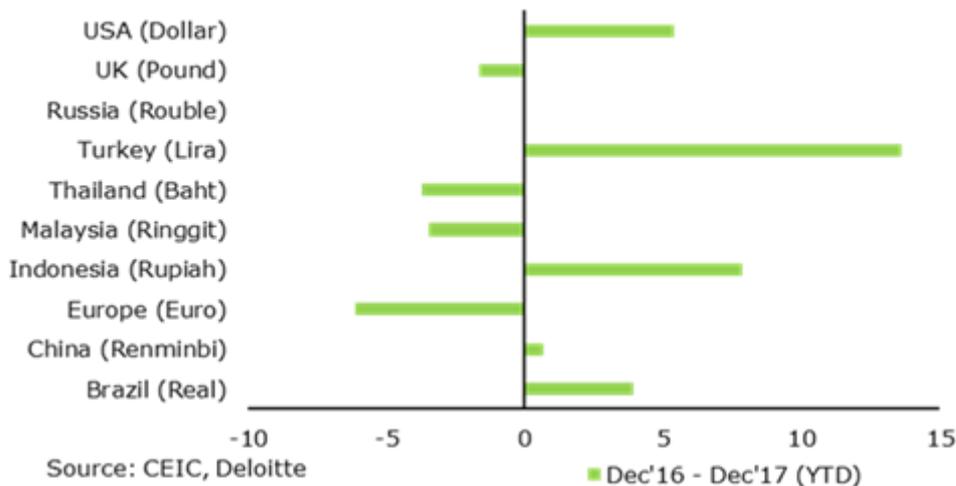
Exchange Rate Movement (INR/USD)



Source: CEIC, Deloitte

*Jan value is as of 19 Jan'18

Performance of INR against major global currencies (% YTD)



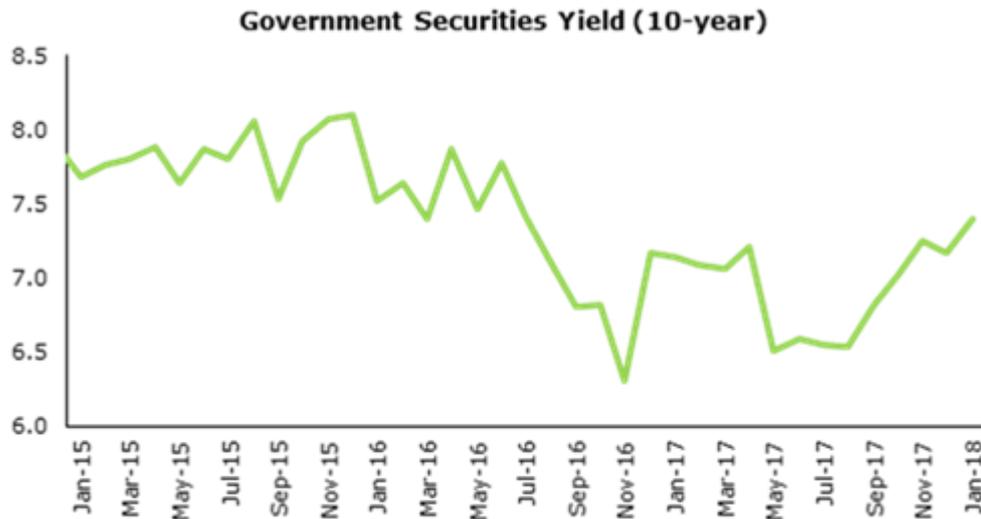
Source: CEIC, Deloitte

■ Dec'16 - Dec'17 (YTD)

- The rupee saw considerable strength over the better part of the year following some volatility due to short-term disruptions. As of 19th Jan 2018, the rupee again gained some strength reaching 63.72 to a dollar.
- Important to note that the INR has rallied despite RBI buying dollars on the back of inflows in the form of portfolio and direct investments
- Investments by FPIs stood at a staggering USD 30.7 bn since the beginning of the year until Dec'17, bulk of which were bought in bonds. This is against a negative reading in the previous year depicting a net outflow.
- While the INR is currently trading at multi year highs, room for further appreciation seems to be limited as the US Fed starts to

unwind its loose monetary policy. A change in tax laws in the US could also impart a downward bias on the INR.

Uptick in the 10-yr benchmark yield on inflation cues



Source: CEIC, Deloitte

*Jan value is as of 19 Jan 2018

- The long-term yield on 10-year government bonds has climbed 37 basis points since the monetary policy in October driven by expectations of rising inflation and some fiscal slippage by the central government.
- Since government's December announcement to borrow an additional INR 500 billion to fund fiscal deficit, bond yields jumped by 18 basis points. However, since its January announcement to only borrow INR 200 billion, yields witnessed a relative easing.
- The benchmark yield closed at a 18-month high of 7.40% on 19th Jan 2018, with the market seeing little room for the central bank to cut rates, given the inflationary pressures and high fiscal deficit.
- Yields are unlikely to change much from current levels as we are likely to see any major change only after the budget is unveiled.

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The above data is also available on the following link:
[Economic Perspectives](#)



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