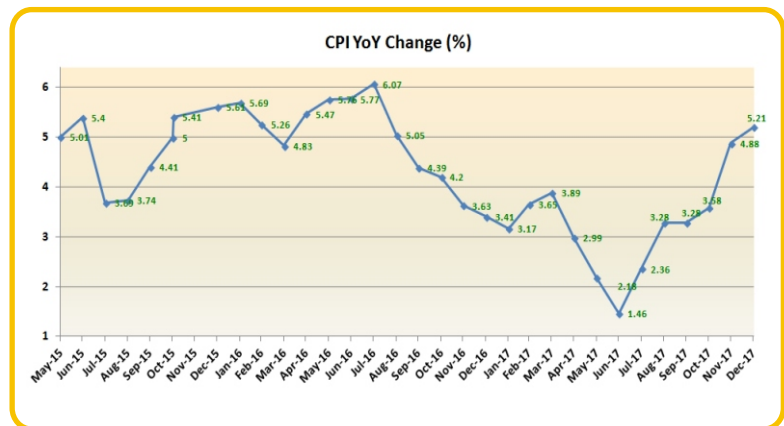


Update on India Economic Indicators

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CPI Inflation hits 16 months high in Dec'17

- Retail inflation in Dec'17 was 5.2% (Prov.) and rose to a 16 month high. The comparable inflation rate last year was 3.4% in Dec'16. In Nov'17, retail inflation was 4.9%. Core-CPI inflation (excluding food and beverages and fuel and light) increased to a 38-month high 5.1% in December 2017 from 4.9% in November 2017, taking a cue from the uptick in housing inflation.
- Consumer inflation was driven by an increase across all segments (except Clothing and Footwear) of price index with notable increases in food, fuel and housing inflation.
- Food inflation rose sharply during this month and registered a growth of 5.0% (y-o-y) as compared with 1.4% in Dec'16. Food and Beverages witnessed inflation of 4.9% (y-o-y) compared with 2.0% during the previous year. This is the highest recorded level of inflation in Food and Beverages since Aug'16.
- Inflation in Vegetables reached 29.1%, much higher than (-) 14.6% in Dec'16 and recorded a 48 month high. This was on account of disrupted supply chains and lower production (especially for Kharif onion) due to unseasonal weather patterns.
- Fruits recorded an inflation of 6.7% as compared with 4.8% during the previous year, which was the highest level since Mar'17.
- Price of eggs rose 9.5% in Dec'17 over the 6.5% growth of Dec'16. The increase in these prices is most likely on account of higher seasonal demand due to consumers choosing to move away from highly priced vegetables. Lower production of poultry products in recent months would have exacerbated the price rise.
- Pulses prices fell (-) 23.5% as against (-) 1.6% in Dec'16, on account of favourable supply conditions in the market. This is the 13th month in a row where prices have declined. Spices too have been falling continuously since Jun'17 and were recorded at (-)2.2% (y-o-y) for the month.
- Inflation in pan and tobacco rose to 7.8% (y-o-y) over and above 6.4% for the same month in the previous year. This is the sharpest increase in prices since Apr'16. This is the second month in a row that inflation has remained above year ago levels in this category.
- Inflation in fuel and light moderated marginally from month ago levels to 7.9%, but remained considerably higher than the 3.8% recorded in Dec'16. This can be attributed partly to the continuing rise in international oil prices and OPEC action to cut global production. This rise in prices is likely to continue till at least Mar'18.
- Inflation in Housing increased by 8.3% in the month of December as against 5.0% in the previous year, and has reached its highest level since Mar'13. This can be attributed to revisions in the HRA of the 7th Pay Commission.
- Inflation in Clothing and footwear moderated to 4.8% from 5% in Dec'16.



Outlook

- Upside risks persists and the direction of inflation will rise as all segments have witnessed inflation of higher than 4%.
- Further rising global oil prices remain a cause for concern, and guidance from the budget will be critical in this regard. Higher MSP and lower rabi crop sowing (a decline of 0.9% since year ago levels) could also fuel inflation in coming months.

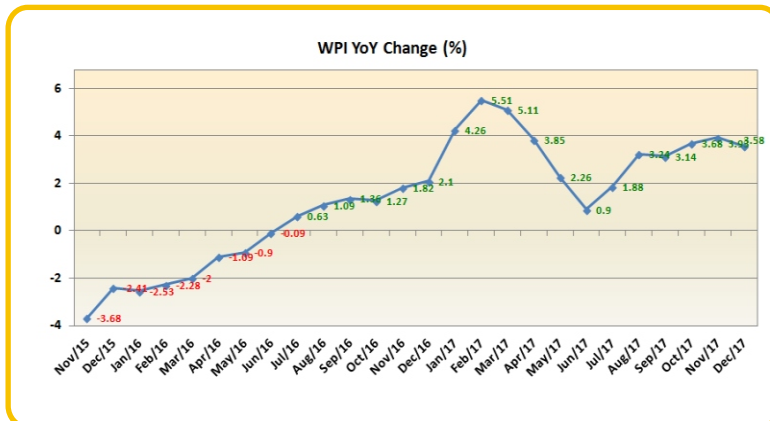
Retail inflation for major items in the past 6 months

Group	July-17	Aug-17	Sept-17	Oct-17	Nov-17	Dec-17
CPI	2.36	3.28	3.28	3.58	4.88	5.21
Food & beverages	0.43	1.96	1.76	2.26	4.41	4.85
Pan tobacco & intoxicants	6.39	6.85	6.95	6.91	7.89*	7.76
Clothing & footwear	4.22	4.58	4.63	4.68	5.04*	4.80
Housing	4.91	5.58	6.10	6.68	7.36	8.25
Fuel & lighting	4.86	5.02	5.56	6.36	8.24*	7.90
Miscellaneous	3.28	3.85	3.83	3.48	3.72*	3.79

*Revised

WPI inflation eases in December

- The Wholesale Price Index (WPI) based inflation for India declined marginally in Dec'17. The year-on-year growth in the WPI for Dec'17 came in at 3.6%, slightly lower than the growth of 3.9% (prov.) recorded in Nov'17. It was however higher than the growth of 2.1% in Dec'16. Core WPI remained steady at 3.1% in December 2017 in line with the print for November 2017.
- The moderation in WPI in Dec'17 can be attributed to the easing of prices of food articles. At the same time, the rise in price levels of fuel and power products along with the stability in prices of manufactured products limited the decline in the overall index.
- Food Articles registered a price growth (y-o-y) of 4.7% in Dec'17, lower than the 6.0% growth registered in the previous month. However, when compared with year ago levels (0.1% in Dec'16) it was notably higher and can in part be attributed to the statistical base effect.
- The decline in prices growth of Pulses (-34.6%), wheat (-8.5%) and potatoes (-8.4%) helped lower the rise in food inflation. At the same, uptick in prices of vegetables (56.5%), Fruits (12.0%), Onions (197%) s attributed to the supply disruptions caused by unseasonal weather patterns curtailed the decline in food inflation.
- Fuel & power segment saw a rise in inflation during the month driven by the rise in LPG (21.1%), HSD (12.7%) and Petrol (8.8%) The price rise in this segment can be ascribed to the rise in global crude oil prices in recent months.
- Inflation in the Manufactured Products category was largely stable at 2.6% in Dec'17 compared with 2.5% in Dec'16. Some of the sectors that witnessed a rise in inflation were Manufacture of Basic Metals (10.0%), Chemicals and Chemical Products (2.4%), Wearing Apparel (4.8%), Paper and Paper Products (3.5%) and Cement (3.5%) over year ago levels.
- Manufacture of Leather and Related Products recorded a contraction in price levels for the 12th month in a row and was recorded at (-) 0.2% against (-) 1.9% in Dec '16.



Outlook

- Upward pressure on price could ensue in case rabi production falls short especially for wheat and mustard and the nearly 3% decline in kharif crop output. In addition, the sustained rise in global commodity prices could further aggravate prices.

WPI inflation for major items in the past 6 months

Group	July'17	Aug'17	Sept'17	Oct'17	Nov'17	Dec'17
All Commodities	1.88	3.24	3.14	3.68*	3.93	3.58
Primary Articles	0.61	2.97	0.69	3.72*	5.28	3.86
Food Articles	2.35	5.82	2.04	4.30	6.06	4.72
Non Food Articles	-6.09	-3.44	-2.60	-1.25*	-0.68	-0.34
Fuel & Power	4.37	9.86	10.46	10.87*	8.82	9.16
Manufactured products	2.09	2.36	2.99	2.62	2.61	2.61

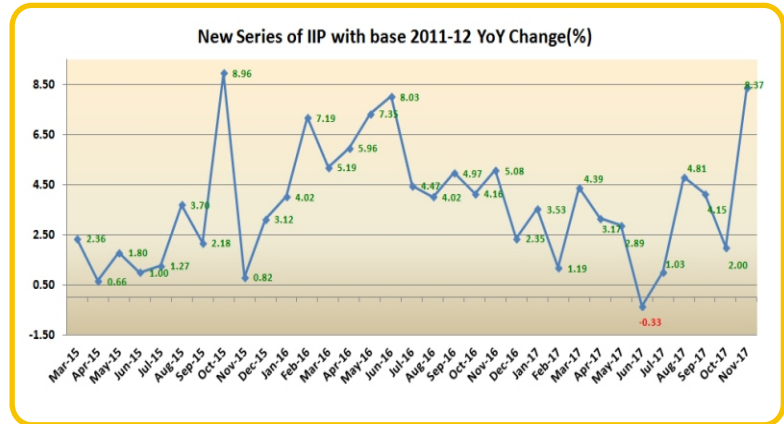
*Revised

Industrial output growth soars in November

India's industrial output reversed the moderation of the previous month and surged to a 2 year high in November'17, surpassing expectations. The IIP grew by 8.4% (y-o-y) in November'17, the highest monthly growth recorded since October'15. The improvements in industrial output during November'17 can be attributed to the restocking that has taken place in various industries in the aftermath of the implementation of GST coupled with the improvement in demand conditions in certain segments.

The manufacturing sector recorded a y-o-y of 10.2% in November'17 (4.1% in November'16), the highest growth in over 4.5 years. Consumer non-durables too grew by a record high 23.1% during the month (3.3% in November'16).

15 of the 23 industry groups in the manufacturing sector recorded positive growth during November'17. Growth (y-o-y) during the month was the highest in case of the pharmaceuticals (40%), computers & optical products (29%), transport equipment (23%), food products (18%), motor vehicles (18%), basic metal (13%), non-metallic mineral products (10%), fabricated metal products (9%) and wood products (9%). The growth in pharmaceuticals and food products can be largely attributed to restocking. The increase in output of computers and electronic goods is indicative of the improvement in demand for these products. Higher growth in metals is indicative of higher construction activity. The improvement in construction is further attested the higher infrastructure sector growth of 13.5% during the month.



The sectors that registered negative growth during the month include apparels (-13%), electrical equipment (-11%), rubber products (-8%), tobacco products (-5%), recording media (-4%), furniture (-4%) and paper (-0.1%).

The output of the mining sector grew by a mere 1.1% in November'17 compared with the 8.2% growth in the corresponding month last year. The sector output during the month was however higher than that in October'17 (0.2%).

Electricity sector output at 3.9% was lower than the 9.5% growth in November'16 but was higher than the 3.2% growth of October'17.

The high growth in capital goods, emanating from non-electrical machinery has been supported by the growth in the non-passenger auto group which comes under this category.

Lower growth of consumer durable goods could be attributed to low rural demand as several parts of the rural economy has been affected by prices falling below MSP which has affected income and spending power. Further, the GDP growth forecast for the agriculture sector for the current year is quite low at 2.1%, which could pressure rural demand going forward.

Higher non-durable goods growth may be linked more to restocking than higher demand, as the latter tends to be stable over time.

Outlook

- It is vital whether the improvement in industrial activity will be sustained over the next two months to conclude that there is a real turnaround.
- Manufacturing growth is expected to remain robust in December 2017, benefiting from a favourable base effect related to the marginal 0.6% rise in December 2016, as well as the robust expansion displayed by sectors such as automobiles.

IIP growth in the past 6 months at base 2011-12

SECTOR	June-17	July-17	August-17	Sept-17	Oct-17	Nov-17(Prov)
All Industries	-0.3	1.0*	4.8*	4.2*	2.0*	8.4
Mining & Quarrying	0.1	4.5	9.3	7.8	-0.1*	1.1
Manufacturing	-0.7	-0.1	3.8	3.8	2.2*	10.2
Electricity	2.2*	6.6	8.3	3.4	3.2	3.9

*Revised

India's trade deficit high at \$14.9 billion in Dec'17

Increase in exports of engineering goods and petroleum products helped the country register a rise in overall goods exports (year-on-year) in December, 2017. This is the 16th month of growth over the last 17 months (exports fell in October 2017 mostly due to a decline in duty drawback rates) and exporters are hopeful of touching the \$300-billion mark in the current fiscal.

EXPORTS

- Exports during December 2017 valued at US \$ 27030.27 million as compared to US \$ 24056.48 million during December, 2016 which was 12.36% higher in dollar terms. In Rupee terms, exports were valued at Rs. 173648.73 crore as compared to Rs. 163344.45 crore during December, 2016, registering a rise of 6.31%.
- The major commodity groups of export with positive growth over the corresponding month of last year were engineering goods (25.32%), petroleum products (25.15%), gems and jewellery (2.38%), organic and inorganic chemicals (31.36%), and drugs and pharmaceuticals (6.95%).

IMPORTS

- Imports during December 2017 were valued at US \$ 41910.46 million (Rs 269242.54 crore) which was 21.12 % higher in Dollar terms and 14.59 % higher in Rupee terms over the level of imports valued at US \$ 34602.47 million (Rs. 234952.15 crore) in December, 2016.
- Major commodity groups of import showing high growth in December 2017 over the corresponding month of last year were petroleum, crude and products (34.94%), electronic goods (19.2%), pearls, precious and semi-precious stones (93.98%), gold (71.52%), and machinery, electrical and non-electrical (11.21%).
- In terms of oil, imports in December 2017 were valued at USD 10345.88 million, which was 34.94 % higher than oil imports valued at USD 7667.01 million in December 2016.
- On the other hand, non-oil imports during December 2017 were estimated at USD 31564.58 million, which was 17.19% higher than non-oil imports of USD 26935.46 million in December 2016.

TRADE BALANCE

Indian trade deficit widened during December'17 at \$14,880.19 million vs \$10,545.99 million in December'16. On a similar note, trade deficit widened on a month-over-month basis from \$13,829.2 million in November'17.

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