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Quarterly update on Indian economy Q1-FY15: CARE

CARE Ratings - Quarterly update on Indian economy: Q1-FY15

The Indian economy has entered the second quarter of fiscal '15. The performance of the economy has been mixed so far in FY15 with a stable rupee, strong stock market performance, rising inflation, stagnant industrial production and narrowing trade deficit. Further, there have been developments across the globe with signs of recovery in the US, continued stimulus by the ECB to foster growth in the Euro region and most recent Iraq crisis which triggered off a spike in oil prices.

With all eyes transfixed on the upcoming Union Budget FY15, this report provides a brief quarterly update of the economy. The report is divided into two sections- global and Indian with details given therein.

A. Global

Stock Indices- Modest growth continues throughout the quarter

The Dow Jones industrial Average Index moved higher from 16,573 at the start of April '14 to 16,827 on 30th June '14. However, Dow broke records on multiple occasions during the quarter amid positive economic news regarding growth and employment after the prolonged winter.

The FTSE 100 index of the UK has edged higher from 6,659 to 6,744 as of 30th June '14. The average index in Q1 FY15 is 6,763

Expectations abound of a continued rise in indices given the positive outlook relating to economic growth in the advanced world.

Lastly, the USA in particular is highly insulated from oil price shocks since the country has moved towards self-sufficiency in oil production.

Crude Oil - Violence in Iraq triggers price rise towards end of the quarter

Oil price rose from \$104.79 per barrel at the start of April '14 to \$112.26 per barrel as of 30th June '14.

Towards the end of the quarter, prices increased overnight from \$109.95 per barrel to \$113.02 per barrel when news of the outbreak in Iraq surfaced.

Going ahead, while the demand-supply fundamentals will keep price under check, the uncertainty clouding over Iraq may continue to pressurize the Crude price.

Gold -Largely range-bound, ends little changed for the quarter

Gold prices were subdued for larger part of the quarter as the US economy continued to show signs of recovery with falling unemployment and soaring stocks even as the Fed continued to trim its stimulus by \$10 bn every month.

However, upon its safe haven appeal the metal gained in recent times when the violence in Iraq escalated.

The metal edged up from \$1,292 at the start of the quarter to \$1,328 an ounce as of June end.

Inflation- Upward bias prevails

Inflation gauged by the Wholesale Price Index (WPI) has moved higher from 5.2% in April'14 to 6% in May'14. These early indications suggest that inflation woes continue to prevail at the end of Q1 FY15.

Inflation measured by the Consumer Price index (CPI) has increased slightly from 8.6% in April'14 to 8.9% in May'14.

Judging by the sub-normal monsoon thus far and potential rise in imported inflation (increasing oil prices) an absolute reversion in inflationary trend seems unlikely in the immediate future.

Early estimations suggest WPI to be around 6.5% by the end of fiscal'15 and CPI around 8% in the worst case scenario of a failure in monsoon.

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