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SBI Composite Index for January 2015 shows declining m-o-m momentum

SBI Composite Index, a leading indicator for tracking primarily manufacturing activity in Indian Economy, for Jan'15 inched up to **52.1 (moderate growth)** from **50.6 (low growth)** in Dec'14. In contrast, the Monthly Index has slipped from **55.4 (high growth)** in Dec14 to **51.5 (low growth)** in Jan'15. Increase in automotive sales, and benign inflation are the positive factors contributing to the index. But, sluggish credit growth to major sectors and elevated interest rate has dragged the index downwards. Bank credit continues to remain sluggish and our internal model indicates there is typically a 2-6 month lagged impact on manufacturing activity from SBI credit portfolio. Interestingly, the impact is more pronounced in export intensive sectors, mining and automotive.

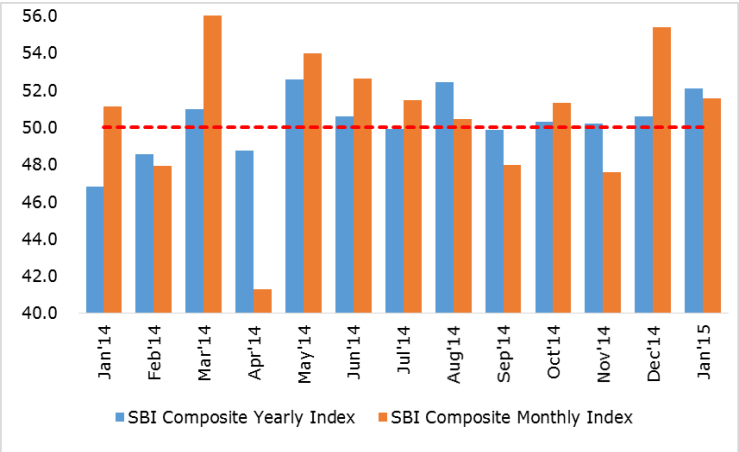
- The SBI Composite Index is a leading indicator for manufacturing activity in Indian Economy aiming to foresee the periods of contraction and the expansion.
- The Composite Index have mainly two indices namely SBI Monthly Composite Index and SBI Yearly Composite Index. Both the indices fulfill complementary purposes such as month on month sentiment movement vs. year on year growth forecast respectively. Both the components of the index are scaled from 0 to 100. Index above 50 implies growth over previous respective period and less than 50 will suggest a contraction over respective period.
- The complementary nature of these indices help user to gauge the sentiments in the markets. A consistent negative (positive) month on month forecast in the index will lead to negative (positive) growth rate in year on year index after a while.
- The yearly SBI Composite Index for Jan'15 inched up to **52.1 (moderate growth)** from **50.6 (low growth)** in Dec'14. In contrast, the Monthly Index has slipped from **55.4 (high growth)** in Dec'14 to **51.5 (low growth)** in Jan'15.
- Increase in commercial vehicle sales and benign inflation are one of the positive factors contributing to the index. But, sluggish credit growth to major sectors and elevated interest rate has dragged the index downwards. Bank credit continues to remain sluggish and our internal model indicates there is typically a 2-6 month lagged impact on manufacturing activity from SBI credit portfolio (*refer Credit Impulse Response Function graph)*. Interestingly, the impact is more pronounced in export intensive sectors, mining and automotive. It may be noted that the recent marginal pick up in bank credit growth is being driven to some extent by pick up in personal loans, primarily credit card outstanding. We believe that such increase may be attributed to the emergence of e-retail platforms, and it remains to be seen whether this augurs well for the revival in consumer sentiment.

Table 1: How to read SBI Composite Index

SBI Composite Index	Index Value
Less than 42	Large Decline
42 to 46	Moderate Decline
46 to 50	Low Decline
50 to 52	Low Growth
52 to 55	Moderate Growth
55 & Above	High Growth

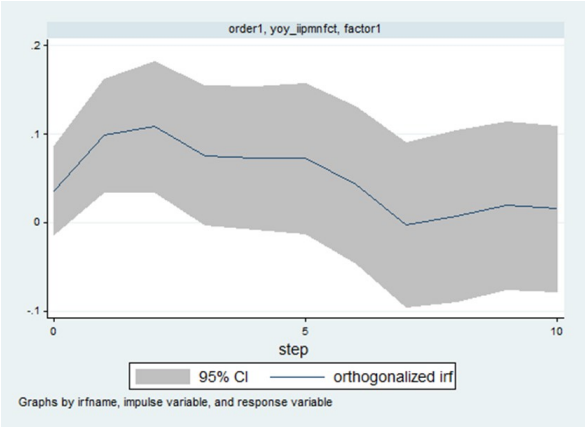
Source: SBI Research

Chart 1: SBI Yearly and Monthly Composite Index



Source: SBI Research

Chart 2: Credit Impulse Response Function



Source: SBI Research

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