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CPI cools, IIP growth stable

CPI print in Mar'23 got comfort from a favourable statistical base. For FY23, inflation averaged to 6.7%, 20bps higher than RBI's estimate. Going forward, even in H1FY24, favourable base would comfort India's CPI. Apart from this, normal monsoon would comfort cereal inflation, which is noting some moderation off late. However, any upside risks cannot be absolutely ruled out in the current juncture. This is on account of volatility in oil and gold prices. Apart from this, deviations of monsoon from its normal pattern is also likely in the face of El Nino. Also generally in H1, vegetable prices see an uptrend due to seasonal factors. However, we do not foresee any significant uptick in inflation H1FY24. This is likely to keep RBI in a wait and watch mode. Any deviation of the actual print from its forecast will be viewed with caution and the' pivot' action might swing both ways contingent on the inflation trajectory in the near term. On the growth front, IIP data came in above our expectation, driven by a favorable base. The sequential numbers reflect some pain underneath. Going forward, weak exports due to uncertainty on external front also poses considerable risks to production data.

CPI inflation moderates

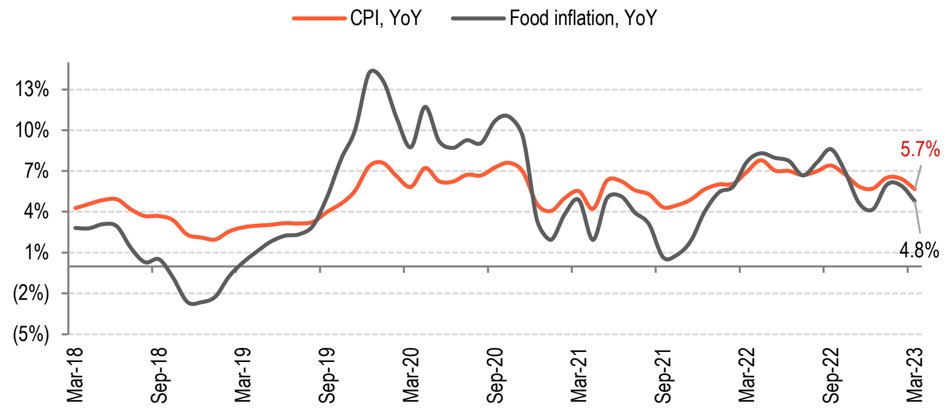
CPI inflation eased: CPI inflation eased to its lowest since Dec'22 to 5.7% in Mar'23 compared to 6.4% in Feb'23 and against our estimate of 5.8%. This was on account of favourable base (7% in Mar'22 from 6.1% in Feb'22). For FY23, headline CPI averaged to 6.7% against RBI's estimate of 6.5%.

Food inflation: CPI food index moderated to 4.8% in Mar'23 from 6% in Feb'23, on YoY basis. Amongst major food items, oils and fats (-7.9% in Mar'23 from -0.5% in Feb'23), meat and fish (-1.4% from 3.3%), spices (18.2% from 20.2%-albeit double digit) and cereals (15.3% from 16.7% -albeit double digit), showed moderation.

On a MoM basis, cereals, egg, oils and fats and sugar prices showed decline in Mar'23. However, fruits, vegetables, pulses and milk prices showed an uptick. In Apr'23, amongst major essential commodities, milk and pulses prices have shown an increase. On the other hand, comfort would persist from cereals, due to falling rice and wheat prices as well as from edible oil prices.

In FY23, food inflation rose to 6.6% from 3.8% in FY22. Going forward we expect, food inflation to soften on account of normal monsoon, falling commodity prices and progressive normalization of supply chains.

Figure 1: CPI cools down; led by food

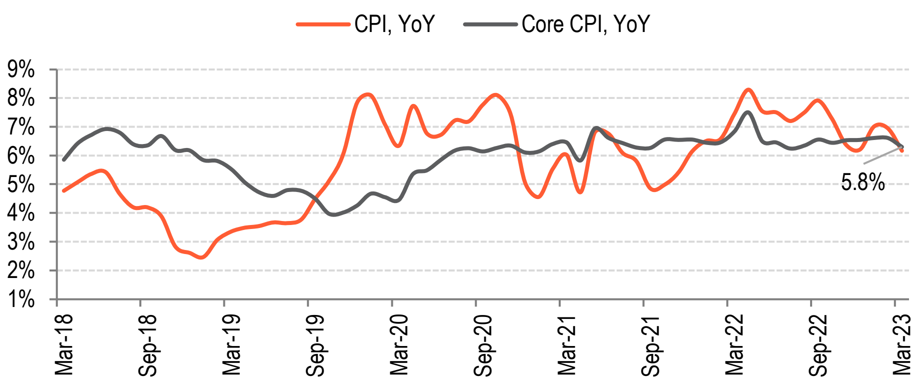


Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) came down to 5.8% in Mar'23 from 6.1% in Feb'23. Major comfort came from moderation in personal care and effects (8.3% from 9.4%). This is despite ~3.3% increase in international gold prices in Mar'23 on MoM basis. Apart from this, recreation and amusement (4.3% from 4.9%), transport and communication (4% from 4.5%) and household goods and services (7% from 7.4%) also comforted core.

However, on MoM basis, all components of miscellaneous items of core have inched up. Hence the moderation in YoY terms is purely a base phenomenon. Going forward risks to core inflation persists. Housing prices are likely to increase with the proposal of increase in stamp duty in Maharashtra. In FY23, core inflation averaged to 6.1% higher than 5.7% level seen in FY22.

Figure 2: Core inflation moderates:



Source: CEIC, Bank of Baroda Research

Fuel and Light inflation softened to 8.9% in Mar'23 from 9.9% in Feb'23. In FY23, it averaged to 10.4% from 11.3% in FY22. Going forward, we expect some comfort on this component of inflation as well as commercial cylinder prices have been slashed in Apr'23.

Some degree of softening expected despite risks

CPI print in Mar'23 was comforted by a favourable base. Even the entire H1FY24 would get comfort from statistical base. However, beyond that inflationary pressures on some front remains worrisome. This includes rising milk prices due to demand-supply mismatches and rising fodder prices. Uncertainty also looms with regard to vegetable index which have the seasonal nature of an upsurge in H1. Apart from this, crude oil which is currently comforting might reverse their trajectory once recovery in China space out post the stimulus measures. Another stickiness in core might emanate from volatility in gold prices, which is contingent on the movement in dollar. Weather vagaries is another factor, though at present we are incorporating a normal monsoon in our forecast, any deviation whether spatial or from the number predicted by IMD will have an impact on cereal inflation, which is showing some degree of comfort currently. Though on the forefront, we expect some degree of softening in the next two quarters, which will probably keep RBI in a wait and watch mode. Any deviation of the print from its forecast will be looked with caution and if need arises the 'pivot' call may be exercised in whichever way inflation swings.

IIP growth stable

IIP growth came in above our expectation (4.5%) at 5.6% in Feb'23, compared to 5.5% in Jan'23, on YoY basis. There was a comforting base (1.2% in Feb'22 from 2% in Jan'22) for this macro data as well. Manufacturing index showed growth of 5.3% from 4%. Within manufacturing, increase was visible in production of tobacco, textiles, wearing apparel, chemical and chemical products, pharma, computer, electronic and optical products and transport equipment. On the other hand, mining and electricity growth moderated to 4.6% and 8.2% respectively, from 8.8% and 12.7% in Jan'23.

Use based data: Capital goods production was broadly stable at 10.5% in Feb'23 from 10.7% in Mar'23. Even consumer durables production showed a slower pace of decline of -4% from -8.2% in Jan'23. The FMCG segment noted double digit growth of 12.1% from 6.3%. Primary and infrastructure goods disappointed with growth of 6.8% and -0.3% respectively in Feb'23 from 9.6% and 0.5% in Jan'23.

On a sequential basis, industrial production remained disappointed with all broad segments such as manufacturing, mining and electricity production noting considerable decline. The sharpest fall is visible in electricity production. In use based as well, there is sharp decline seen on a sequential basis, especially for primary goods, intermediate, infra and FMCG goods.

Going forward, uncertainty remains on the IIP picture, as gloomy uncertain external environment is likely to be a drag on exports.

Table 1: IIP growth stable

(%)	Feb-23	Jan-23	Feb-22	Apr-Feb'23	Apr-Feb'22
IIP	**5.6**	**5.5**	**1.2**	**5.5**	**12.5**
Mining	4.6	8.8	4.6	5.7	13.2
Manufacturing	5.3	4.0	0.2	4.9	13.0
Electricity	8.2	12.7	4.5	10.0	8.2
Primary Goods	6.8	9.6	4.6	7.9	10.0
Capital Goods	10.5	10.7	1.3	13.4	19.0
Intermediate Goods	(0.3)	0.5	4.1	3.8	17.0
Infrastructure and Construction Goods	7.9	9.8	8.6	8.1	20.3
Consumer Durables Goods	(4.0)	(8.2)	(9.7)	1.5	14.2
Consumer Non-Durables Goods	12.1	6.3	(6.8)	0.8	4.0

Source: CEIC, Bank of Baroda Research

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