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Sticky food driving inflation higher

CPI print came in at 5.55%, slightly lower compared to our estimate of 5.7%. This is attributable to 209bps YoY jump in food inflation especially items such as vegetables, pulses. Excluding vegetables and pulses, CPI inflation is at 4.4%. Comfort continue to come from core inflation. However, the sequential picture of core showed some demand side momentum is there on the back of resilient growth picture.

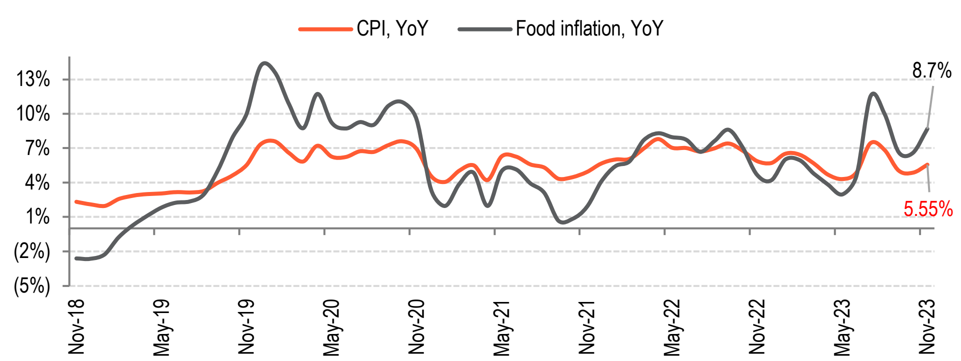
Going forward, the outlook of food inflation is murky. Rabi sowing trailing behind last year, transient reoccurrence of veggie price shock and reversal of favourable base could keep food inflation elevated in the near term. The high frequency price data of Nov'23 also reflects pressure building up for items such as salt, tea, sugar, potato, Urad dal and Rice. Our in house BoB ECI is running at 4.9% YoY, higher than last month, thus we do foresee upside risks to our forecast. For FY24, we expect headline CPI to be in the range of 5-5.5%. The possibility of a rate cut remains only in Q2 of next year when inflation comes down to 4%.

CPI inflation inched up

Food driving CPI higher: CPI inflation rose to its three month high of 5.55% in Nov'23 and slightly lower than our estimate of 5.7%. This is attributable to 209bps jump in food inflation which rose to 8.7% in Nov'23 from 6.6% in Oct'23, on YoY basis. Among major food items, vegetable prices rose at the sharpest pace by 17.7% in Nov'23 from 2.8% in Oct'23. Even fruit prices rose by 11% from 9.3%. Pulses inflation maintained its double digit pace of 20.2% from 18.8%. Even inflation in sugar and confectionary category rose by 6.6% from 5.5%. Cereal and spices inflation have also remained stickier at 10.3% and 21.5% respectively. Notably, 6 of the 12 broad categories of food inflation have remained above 6%.

On sequential basis, food inflation has risen by 1.1% in Nov'23 as well (seasonally adjusted basis: +0.5% increase). The sequential increase was driven by cereals, oils and fats, vegetables and sugar and confectionary products. Going forward, upward risks to food inflation remains. Certain cereals are likely to exhibit pressure due to suboptimal sowing, supply side issues may cloud prices of oilseeds. However, transient shock in vegetable prices might also persist longer than anticipated due to erratic weather conditions.

Figure 1: CPI pushed up by food

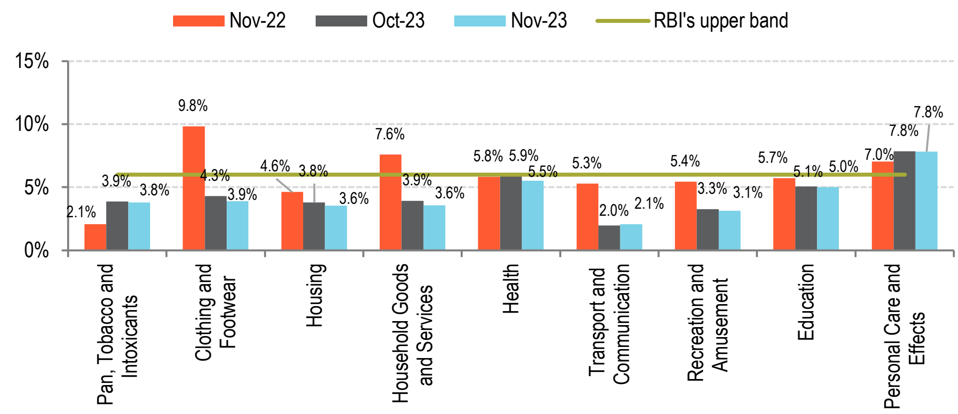


Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) has moderated further to 4.1%. All broad sub components of core noticed a drop in inflation in Nov'23. Amongst them, components such as household goods and services (3.6% in Nov'23 from 3.9% in Oct'23), clothing and footwear (3.9% from 4.3%) and housing (3.6% from 3.8%) have noticed fair degree of moderation. However, health, education and personal care items of inflation have remained stickier.

The sequential picture however shows some momentum for education, personal care items (due to increase in gold prices in Nov'23) and household goods and services items of inflation, thus reflecting that the demand picture still remain buoyant. Notably, this has been the festive month as well.

Figure 2: Core remains comfortable



Source: CEIC, Bank of Baroda Research

Fuel and Light inflation fell by 0.8% in Nov'23 from -0.4% in Oct'23, on YoY basis and by 0.1% from 0.3%, on a sequential basis, due to moderation in prices of Kerosene.

Way forward: CPI print in Dec'23 is expected to be choppy. We are not ruling out the possibility of an above 6% print in Dec'23, on account of unfavourable base coupled with the continuation of bumpiness in onion, potato and garlic prices. Erratic weather conditions have resulted in the same. Notably, if we exclude the usual seasonal slump in vegetables such as cauliflower, cabbage and brinjal, the increase in vegetable index would be sharper. The high frequency price data of some essential items such as salt, tea, sugar, potato, Urad dal and Rice are already seeing some momentum building up in Dec'23. However, with steps taken by the government such as extension of export curb on onion, some correction in prices is already seen. But all is contingent on how the arrival of the late Khariff harvest of the crop would pan out.

Apart from this, threat also remains with regard to Rabi sowing trailing behind last year, which might impact crops such as wheat and pulses. Even the Khariff output of pulses have been far below last year. The demand side story of Indian economy also remain fairly resilient with services and manufacturing sector holding up well. Q2 financials also spoke of rural demand gaining ground. Thus concomitantly, we do not rule out upside risks to inflation. Our forecast for FY24 is ~5-5.5%.

Growth in Industrial Production shines

IIP growth accelerates: IIP growth expanded to a 16-month high clocking double digit growth of 11.7% in Oct'23, above our expectations (8.5%) and compared with a growth of 6.2% in Sep'23. This was largely led by broad based improvement across all sectors. Growth in mining and electricity sector expanded to 13.1% and 20.4% against a growth of 11.5% and 9.9% respectively in Sep'23. Output of manufacturing moved up to 10.4% in Oct'23 against a growth of 4.9% in Sep'23. Amongst manufacturing sectors, at least 14 out of 23 subdivisions have registered positive growth in Oct'23. Manufacture of machinery and equipment (26.1% versus 4.8% in Sep'23), other transport equipment vehicles (26.4% versus 7.1%), leather (16.5% versus -0.7%) and motor vehicles (24.4% versus 11.4%) recorded highest improvement. Slower pace of contraction was registered in manufacture of furniture (-7.2% versus -20%), wearing apparel (-5% versus -18.2% in Sep'23) and computer, electronic (-5.3% versus -8.7%) amongst others.

On a FYTD basis (Apr-Oct), industrial growth has rose to 6.9% in FYTD'24 from 5.3% in FYTD'23. Mining and manufacturing growth has expanded to 9.4% and 6.4% respectively in FYTD'24, while electricity growth has moderated by 8% in FYTD'24 (9.4% in FYTD'23).

Broad based improvement: Within use-based, all the sectors have registered much higher growth in Oct'23. Growth in capital goods jumped up to 22.6% against a growth of 8.4% in Sep'23. Even intermediate and primary goods scaled higher to 9.7% (6.1% in Sep'23) and 11.4% (8% in Sep'23) respectively in Oct'23. Strong movement in construction and real estate activity supported the growth in infra and construction output, recording a growth of 11.3% in Oct'23. Scaling to a 16-month high, consumer durable goods reported growth of 15.9% against a growth of 1.1% signaling some pick up in discretionary demand. Even slow but steady recovery is visible in consumption led by FMCG output which edged up to 8.6% in Oct'23 after moderating to 3% growth in Sep'23 on the back of festive demand.

Way Forward: On the back of positive momentum, IIP growth has climbed upwards in Oct'23. Going ahead, domestic demand continues to showcase a mixed picture with strong GST collections, manufacturing PMI and robust credit growth. However, slower pace of rabi sowing, might have some impact on inflation and on rural demand, thereby requires careful monitoring. Slower export demand due to weaker global demand economic also remains watchful.

Table 1: IIP growth scales up

Sectoral (%)	Weight	Oct-23	Sep-23	Oct-22	Apr-Oct'24	Apr-Oct'23
IIP	100.0	11.7	6.2	(4.1)	6.9	5.3
Mining	14.4	13.1	11.5	2.6	9.4	4.0
Manufacturing	77.6	10.4	4.9	(5.8)	6.4	5.0
Electricity	8.0	20.4	9.9	1.2	8.0	9.4
Use-Based						
Primary Goods	34.1	11.4	8.0	2.1	7.0	8.2
Capital Goods	8.2	22.6	8.4	(2.9)	9.0	14.0
Intermediate Goods	17.2	9.7	6.1	(2.3)	5.1	5.4
Infrastructure and Construction Goods	12.3	11.3	8.9	1.7	12.3	6.8
Consumer Durables Goods	12.8	15.9	1.1	(18.1)	1.4	5.4
Consumer Non-Durables Goods	15.3	8.6	3.0	(13.0)	7.1	(4.0)

Source: CEIC, Bank of Baroda Research

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