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Dipanwita | **Jahnavi**
Economist | *Economist*

Still some pain points on inflation

CPI print came in at 5.1%, considerably higher than our estimate of 4.7% and market consensus (Bloomberg est.) of 5%. Food inflation has been still at an elevated level, with 6 out of 12 broad categories of food inflation remaining above 6%. The surprise bit of inflation came from an elevated meat and fish inflation, which noted a considerable sequential jump. Even much of the correction in vegetable prices have been behind us, as also visible in the high frequency price data of Feb'24.

RBI's wait and watch move at this current juncture is thus justified. Core provided the desired comfort. However, for housing inflation, there has been a considerable sequential jump (mainly on account of increase in House Rent, Garage Rent and Residential Building and Land component) which needs to be closely monitored.

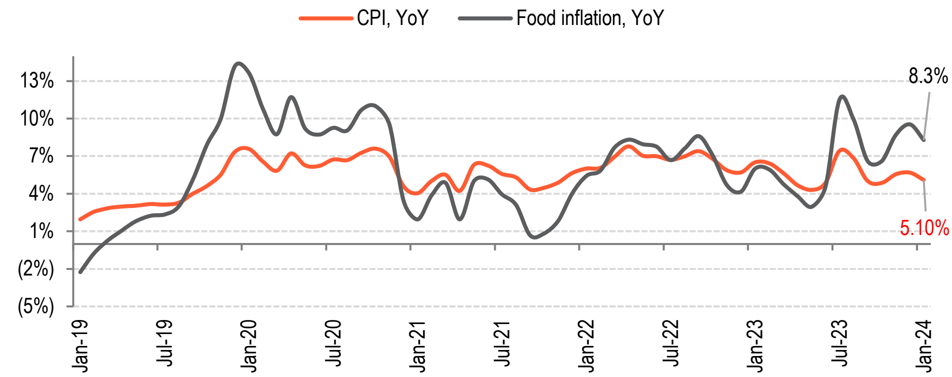
Not much comfort on inflation

CPI inflation higher than expected: CPI inflation moderated to 5.1% in Jan'24 from 5.7% in Dec'23, on YoY basis. However, the print is slightly higher than market consensus of 5% and considerably higher compared to our estimate of 4.7%. The major discrepancy was in terms of higher protein based inflation such as meat and fish and egg, which was not incorporated in our forecast. Even the fall in vegetable prices for this month has also been at a less than sharper pace, than anticipated in our projection.

Food inflation still elevated: Consumer food price index came in at 8.3% in Jan'24 from 9.5% in Dec'24, on YoY basis. Despite some softening, inflation in categories such as cereals and products (7.8% in Jan'24), vegetables (27%), fruits (8.7%), pulses (19.5%), sugar and confectionery (16.4%) and spices (16.4%) remained above 6%. Notably, CPI excluding vegetables is running at 3.9% in Jan'24 from 4.5% in Dec'23. However, the momentum of price increase for majority of these items (except Sugar and confectionery) have shown some degree of softening in Jan'24 compared to Dec'23 (especially for spices, fruits, cereal and products and pulses). On the other hand, items such as egg (5.6% in Jan'24 from 4.4% in Dec'23), meat and fish (1.2% from 1.1%), noted increase in inflation.

On sequential basis, food inflation has fallen by 0.7%, which is at a less than sharp pace compared to previous month's decline of 0.9%. Meat and fish inflation (amongst sub-indices, most notable sequential jump observed for chicken inflation) noted quite a bit of monthly jump. Apart from this, vegetable inflation has declined at a less than sharp pace compared to Dec'23. Major comfort came from pulses, sugar and confectionery and oils and fats.

Figure 1: Food moderating yet above 6%

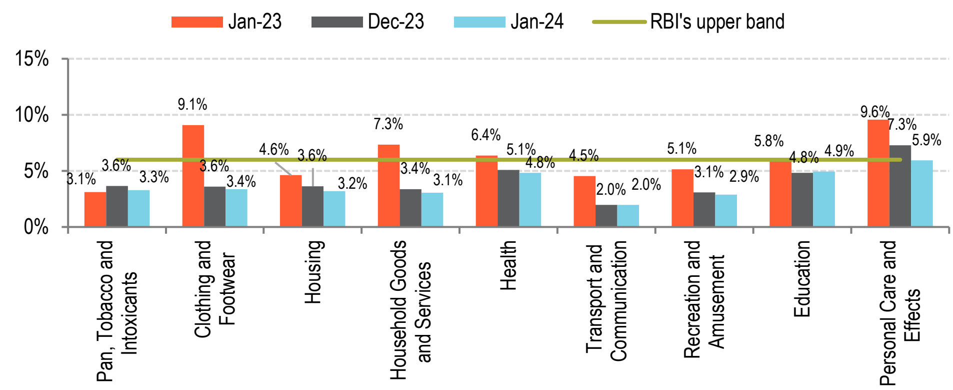


Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) has moderated further to 3.6%. Except education, all broad sub components of core noticed a drop in inflation in Jan'24 compared to Dec'23, on YoY basis. Amongst them, components such as personal care and effects (5.9% from 7.3%), household goods and services (3.1% from 3.4%), housing (3.2% from 3.6%) and clothing and footwear (3.9% from 4.3%), showed notable moderation. For personal goods and services, moderation was on account of fall in gold prices.

The sequential picture however showed inflation rising moderately for housing, education and health inflation. Except housing, where monthly inflation went up from -0.6% in Dec'23 to 0.4% in Jan'24, rest is range bound and not a cause of worry.

Figure 2: Core remains comfortable



Source: CEIC, Bank of Baroda Research

Fuel and Light inflation fell by 0.6% in Jan'24 from -1% in Dec'23, on YoY basis and increased by 0.4% from 0.2%, on a sequential basis, as Kerosene prices showed some pickup.

Way forward: High frequency price data of Feb'24 is showing some moderation. However, the pace is slower compared to Jan'24. Especially for major vegetables such as potato, onion and tomato majority of the price correction is behind us. Thus, the evolution of their trajectory can be choppy and is closely watchable in the near term. In fact for the first 11 days of Feb'24, tomato prices have gained some momentum. This might prevent inflation from nearing the 4% target in the near term. Thus wait and watch move of RBI seems justified for now. Based on RBI's inflation forecast, space for policy rate cut remains only in Q2 of FY25.

Growth in Industrial Production advances

IIP growth improves: IIP growth edged up to 3.8% in Dec’23 higher than our expectations (2%) and compared with a growth of 2.4% in Nov’23. The improvement was primarily attributable to acceleration in manufacturing sector growth (3.9% from 1.2% in Nov’23) which commands a weight of more than 77%. Growth in mining and electricity sector moderated down to 5.1% (7.0% in Nov’23) and 1.2% (5.8% in Nov’23) in Dec’23. Amongst manufacturing sectors, out of 23 subsectors, 18 have delivered improvement in Nov’23. These include manufacture of other transport equipment (29.4% versus 9.8%), electrical equipment (4.1% versus -16.8%), fabricated metal (8.9% versus -5.2%) and pharma (3% versus -3%). Certain subsectors have registered slower pace of contraction which includes, manufacture of furniture (-1% versus -30.5%), computer products (-5.2% versus -25%), wearing apparel (-10.3% versus -20.5%) and leather products (-4% versus -16.2%) in Dec’23.

Industrial output for Q3FY24 has eased to 5.8% against a growth of 7.8% in Q2FY24. This is led by broad based moderation across all the sectors. Manufacturing growth (5% versus 6.8%), mining (8.2% versus 11.1%) and electricity (9% versus 11.1%) growth recorded lower growth in Q3FY24. On a FYTD basis (Apr-Dec), industrial growth has edged up to 6.1% in FYTD’24 from 5.5% in FYTD’23. Mining and manufacturing growth has expanded to 8.5% and 5.6% respectively in FYTD’24, while electricity growth has slowed down by 7% in FYTD’24 (9.9% in FYTD’23).

Capital and consumer goods output strengthen: Within use-based, apart from primary goods output all the other sectors have registered a much higher growth in Dec’23. Infrastructure goods output registered an improvement (4.1% from 1.7%) led by growing pace of construction activity. Support from capex has pushed capital goods higher at 3.2% after declining by (-) 1.1% in Nov’23. Output of consumer durable goods advanced by 4.8% after contracting by (-) 5.5% in Nov’23. Favorable base effect further aided the growth. Strong recovery in consumption demand has bolstered hopes of further growth in this sector. Consumers also remain optimistic as has been reflected by RBI consumer confidence survey. FMCG output too expanded by 2.1% after declining by (-) 3.3% in Nov’23. Rural demand is also showing signs of traction with much lower demand for MGNREGA and uptick in two-wheeler sales.
With the exception of consumer durable, all the other sectors have registered lower growth in Q3FY24 compared with Q2FY24.

Way Forward: Indian economy remains on strong footing supported by factors such as strong manufacturing PMI, uptick in GST collections and credit growth. Sustained pickup in economic activity is expected to drive the growth higher. RBI has also recently revised its growth forecast upwards for FY25. However, some weakness in exports could be visible given uncertainty in global growth, escalating tension in Middle East and thus requires careful monitoring.

Table 1: IIP growth improves

Sectoral (%)	Weight	Nov-23	Dec-23	Dec-22	Apr-Dec'22	Apr-Dec'23
IIP	100.0	2.4	3.8	5.1	5.5	6.1
Mining	14.4	7.0	5.1	10.1	5.5	8.5
Manufacturing	77.6	1.2	3.9	3.6	5.0	5.6
Electricity	8.0	5.8	1.2	10.4	9.9	7.0
Use-Based						
Primary Goods	34.1	8.5	4.6	8.5	7.9	6.9
Capital Goods	8.2	(1.1)	3.2	7.8	13.9	7.0
Intermediate Goods	17.2	3.1	3.4	1.5	4.7	4.7
Infrastructure and Construction Goods	12.3	1.7	4.1	11.0	8.2	10.4
Consumer Durables Goods	12.8	(5.5)	4.8	(11.2)	3.2	1.0
Consumer Non-Durables Goods	15.3	(3.3)	2.1	7.9	(1.0)	5.2

Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com