12 Jan 2024

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Economist | *Economist*

Some degree of comfort on inflation

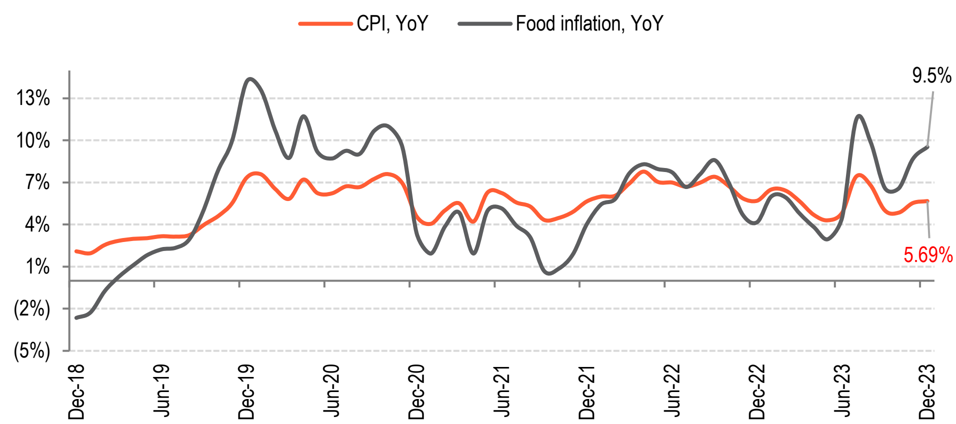
CPI print came in lower than expected at 5.69% (BoB estimate at 5.55%). Food inflation picture is better understood this month by looking at the sequential picture. Major correction was seen in vegetable prices. Notably, CPI excluding vegetables and pulses is at 4% in Dec'23. Core continued to be on the downside and major driven demand components showed moderation. In Jan-24, CPI is likely to moderate further as seen in softer high frequency indicator of prices. Even the current flare up of tensions in the Red Sea is likely to have limited impact on retail inflation as pump prices have remained sticky. So we don't see significant upside risk to inflation going ahead.

CPI inflation slightly higher due to base effect

CPI below estimates: CPI inflation surprised, coming in at lower than expected at 5.69% in Dec'23, on YoY basis (BoB Best: 5.55%) and against street estimate of 5.9%. The moderate inching up of CPI is on account of a slight unfavourable base. Food inflation remained sticky inching up to 9.5% from 8.7% in Nov'23. This was led by firming up of prices in vegetables (27.6% from 17.7%), pulses (20.7% from 20.3%) and sugar (7.1% from 6.6%). Despite some stickiness, moderation in 7 out of 20 broad categories of food has been observed. Among them, the most notable was meat and fish (1.1% from 2.2%), cereals (9.9% from 10.3%), spices (19.7% from 21.5%), amongst others.

On sequential basis, food inflation has fallen for the first time since Sep'23 by 0.3%. Among major commodities, the drop was sharpest for vegetables, fruits, pulses, sugar and spices. Correction in tomato, onion prices have provided the comfort to inflation. Seasonality came into play in bringing down prices as on a seasonally adjusted basis, food inflation inched up subtly by 0.8%.

Figure 1: CPI inched up slightly led by food



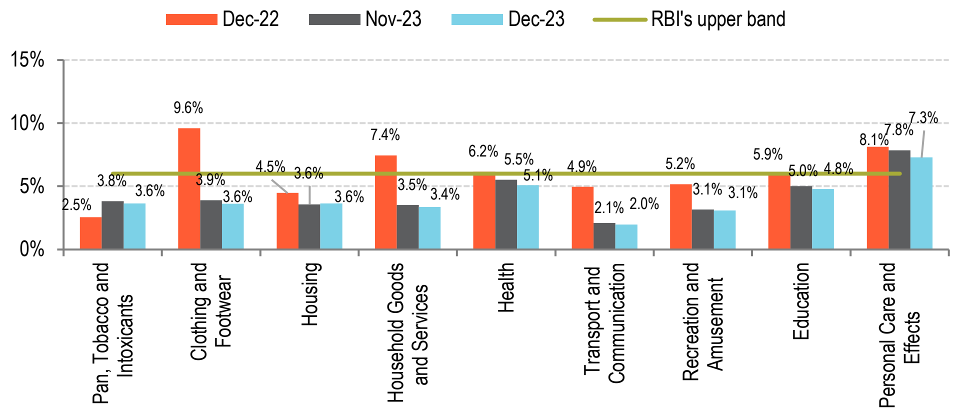
Source: CEIC, Bank of Baroda Research

Notably, CPI excl. vegetables is at 4.5% and CPI excl. vegetables and pulses has reached 4% in Dec'23.

Core CPI (excl. food and fuel) has moderated further to 3.9%. All broad sub components of core noticed a drop in inflation in Dec'23. Especially the demand driven components such as clothing and footwear (3.6% from 3.9%), household goods and services (3.4% from 3.5%), personal care and effects (7.3% from 7.8%), are easing considerably. Apart from this, other services inflation such as health (5.1% from 5.5%), education (4.8% from 5%) and recreation and amusement (at 3.1%) are all losing its earlier stickiness. Some of it is partly attributable to base effect. In fact core services inflation as per our analysis is trailing ~3-3.1%.

The sequential picture also shows moderation (0% against 0.2% increase in Nov'23) led by education, personal care and effects (due to lower gold prices in Dec'23) and transport and communication component. However, the sequential built up of household goods and services remains to some extent.

Figure 2: Core remains comfortable



Source: CEIC, Bank of Baroda Research

Fuel and Light inflation has fallen by 1% from 0.8% decline seen in Nov'23, on YoY basis. This is on account of lower Kerosene prices.

Way forward: CPI print came in slightly higher than our estimate. However, the moderation of prices was evident from the correction in major items of vegetables, which is now coinciding with the harvest month. Further correction is also forthcoming. The high frequency price data of Jan-24 enumerates the same. Our in house BoB ECI has fallen by 0.8% in Jan-24, with major sequential drop seen in onion, tomato, salt, sugar, pulses and cereals. Rabi sowing is also slightly lagging behind.

Thus we do not see any immediate upside risk to inflation. However, the recent developments in Red Sea might pose upside risk to international crude prices. The transmission to domestic prices is limited, as pump prices are unlikely to change in the immediate to medium term. The next two months will also witness favorable base and CPI is likely to be in the range of 4.5-5%.

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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