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CPI cools, IIP growth slips

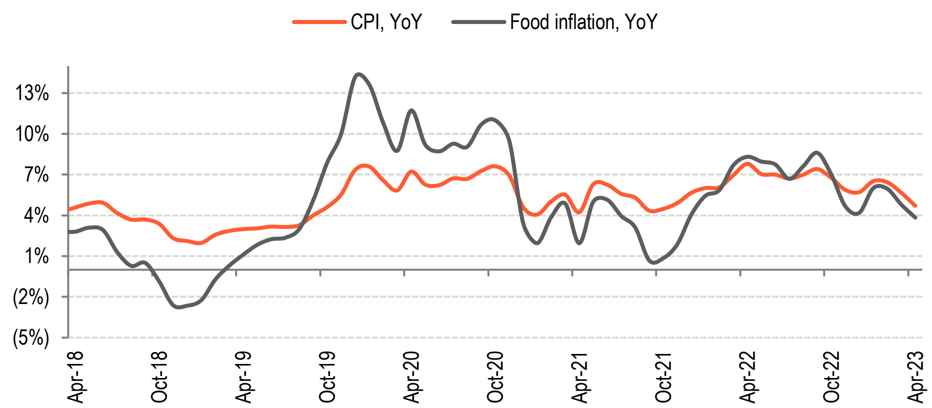
CPI print cooled off to 18-month low in Apr'23 to 4.7% against 5.7% in Mar'23. Food inflation eased to 3.8% in Apr'23 (from 4.8%) led by moderation in the following components including oils & fats, cereals, eggs and milk. Core CPI slipped down to 5.2% (from 5.8%) in Apr'23. Transport and communication and clothing and footwear dragged it down. Going forward, we expect inflationary pressures to remain in H1, supported by base effect. Weather and monsoon will hold the key in determining trajectory of food inflation. RBI will remain and wait and watch mode and deviation in inflationary trajectory will determine its 'pivot'. On the growth front, IIP data came in below our expectation. Going forward, uncertainty in global environment might see some impact on domestic economy. However, favorable base, PLI scheme, capex will play strongly in favour of manufacturing sector

CPI inflation eases further

CPI inflation eased: CPI inflation eased to its 18-month low of 4.7% in Apr'23 compared to 5.7% in Mar'23 and broadly in line with our estimate of 4.6%. This was on account of favourable base (7.8% in Apr'22 from 7% in Mar'22).

Food inflation: CPI food index moderated to 3.8% in Apr'23 from 4.8% in Mar'23, on YoY basis. Amongst major food items, index for oils and fats fell further (-12.3% versus -7.9%), while that for cereals (13.7% versus 15.3%), eggs (3.1% versus 4.4%), milk (8.8% versus 9.3%), fruits (2.1% versus 7.6%), and spices (17.4% versus 18.2%) eased. On the other hand, price index for pulses (5.3% versus 4.4%), and sugar (1.9% versus 1%) inched up. Pace of contraction in meats and fish (-1.2% versus -1.4%) and vegetables (-6.5% versus -8.4%) slowed. On a MoM basis, CPI food index inched up. Barring vegetables, price pressures were broad-based, including items like meat and fish, fruits, pulses, cereals, eggs, oils & fats, and sugar. Going forward we can expect food inflation to ease, owing to normal monsoon, dip in commodity prices and normalisation of supply chains.

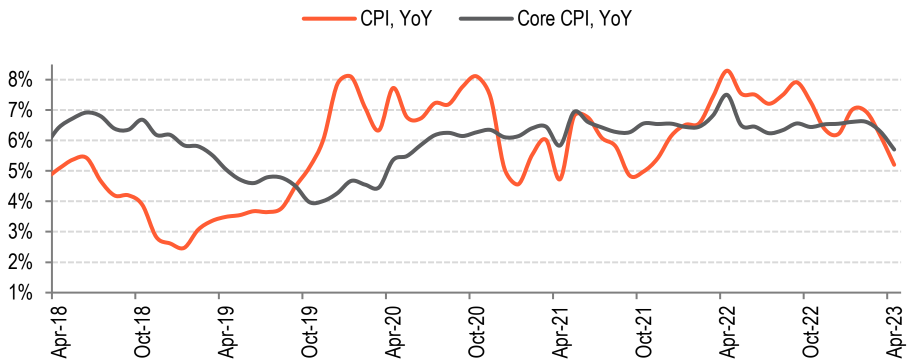
Figure 1: CPI cools down; led by food



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) came down to 5.2% in Apr'23 from 5.8% in Mar'23. Barring higher inflation seen in case of pan and tobacco, education and personal care effects, amongst other sub-components moderation was broad-based. Significant amount of support was provided by easing price index for transport and communication (1.2% versus 4%), followed by clothing & footwear (7.5% versus 8.2%), household goods and services (6.5% versus 7%) and housing (4.9% versus 5%). However, on MoM basis again there are mixed signs. While on one hand components like housing, pan/tobacco, education, personal care and effect and transport inched up in Apr'23, items like household goods and services and health showed downward movement.

Figure 2: Core inflation moderates:



Source: CEIC, Bank of Baroda Research

Fuel and Light inflation softened to 5.5% in Apr'23 from 8.8% in Mar'23. Going forward, we expect this component to come down further owing to dip in international oil prices and cut in commercial cylinder prices.

Way forward: The latest CPI print was helped largely by a favourable base. This support will remain through the entire H1FY24. However there might be other factors that may pose upside risks to inflation. Milk prices may get impact by demand-supply concerns and fodder prices. Vegetable index may put upward pressure in H1. Further, actual amount of rainfall in the coming months will decide whether food inflation will remain in check or not. While IMD has forecasted a normal monsoon, private forecaster Skymet expect below normal monsoon. In addition, persist heatwaves may also pose problems. On the external front, weak global activity is likely to keep oil prices in check, thus supporting our fuel inflation. International commodity prices are expected to remain low. However, volatility in dollar can impact prices of gold and thus the personal care and effects item in core. We expect RBI to remain in wait and watch mode at least for the next few months. Deviation in inflation trajectory will be key in determining RBI's 'pivot'.

Industrial Production slows

IIP growth moderates: IIP growth came in below our expectations (3.5%) at 1.1% in Mar'23 compared with a growth of 5.6% in Feb'23. Electricity output contracted (-1.6%) for the first time since Sep'20 (-4.4%) and was down from 8.2% in Feb'23. Manufacturing output moderated to 5-month low of 0.5% in Mar'23 from 5.3% in Feb'23. Within manufacturing, 10 of the subcomponents (out of 23) have registered a contraction in output with pharma (-2.5% versus 22.9), computer, electronics (-28.7% versus -12.2%), wearing apparel (-30.7% vs -16.8%) and food products (-5.8% versus 4.2%) dropping the most. Surprisingly, mining output was the only bright spot registering an improvement in Mar'23 (6.8% vs 4.6%).

For FY23, IIP growth has slowed down to 5.1% against a growth of 11.4% in FY23. Mining and manufacturing have also recorded much slower growth at 5.8% (12.2% last year) and 4.5% (11.8% in FY22) respectively in FY23. Electricity output has improved to an 8-year high of 8.9% in FY23 against a growth of 7.9% in the previous year.

Consumer non-durables a drag: Within use-based too, broad based moderation continued across all sectors. Output of consumer non-durables contracted in Mar'23 (-3.1%) after returning to growth in Feb'23 (12.1%). Consumer durables output declined at a much faster pace to (-) 8.4% from (-) 4.1% in Feb'23. Amongst others, sharp moderation was registered under primary goods (3.3% versus 6.9%), infrastructure and construction goods (5.4% versus 8.4%) and capital goods (8.1% versus 10.5%). A marginal glimmer of hope was offered by intermediate goods wherein the output improved by 1% against a growth of 0.7%. For FY23, consumer durable (0.5% versus 12.5%) and intermediate goods (3.7% versus 15.4%) disappointed the most.

Way forward: The global environment continue to lace with uncertainty, spillovers of the same on the domestic economy is largely expected (impact on exports). However, with resilient domestic demand (robust manufacturing PMI, high demand for electricity in coming months, capex revival) and favorable base effect will play in favour of the manufacturing sector in FY24.

Table 1: IIP growth eases to 5-month low

Sectoral (%)	Weight	Mar-23	Feb-23	Mar-23	Apr-Mar'23	Apr-Mar'22
IIP	100.0	1.1	5.8	2.2	5.4	17.9
Mining	14.4	6.8	4.8	3.9	5.7	13.8
Manufacturing	77.6	0.5	5.6	1.4	4.9	22.9
Electricity	8.0	(1.6)	8.2	6.1	9.2	8.5
Use-Based						
Primary Goods	34.1	3.3	6.9	5.7	7.6	10.5
Capital Goods	8.2	8.1	10.5	2.4	14.1	20.3
Intermediate Goods	17.2	1.0	0.7	1.8	3.9	28.3
Infrastructure and Construction Goods	12.3	5.4	8.4	6.7	8.2	62.0
Consumer Durables Goods	12.8	(8.4)	(4.1)	(3.1)	3.2	16.9
Consumer Non-Durables Goods	15.3	(3.1)	12.1	(4.4)	0.5	3.5

Source: CEIC, Bank of Baroda Research

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