

## INFLATION AND IIP

12 April 2021

### Industrial output falls, inflation inches up

India's industrial output fell by 3.6% in Feb'21 from 0.9% in Jan'21 led by dip in mining and manufacturing. CPI inflation rose to 5.5% in Mar'21 from 5% in Feb'21 led by jump in food inflation to 4.9% (3.9% in Feb'21). Core inflation remained sticky at 5.9% in Mar'21. Localised lockdowns across states pose a downside risk to our FY22 growth estimate of 11.5%. Food inflation too may be higher than our baseline estimate. Given RBI's lexicographic preference of growth over inflation, we expect a reverse repo hike in H2FY22.

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**IIP contracts sharply:** Industrial output contracted at the highest pace in six months at 3.6% in Feb'21 from 0.9% in Jan'21. This was led by sharp drop in both mining and manufacturing output at 5.5% (-2.5% in Jan'21) and 3.7% (-1.3% in Jan'21) respectively in Feb'21. Electricity was the only bright spot as it registered an improvement of 0.1% in Feb'21. Output of primary and intermediate goods contracted at an accelerated pace of 5.1% (+0.7% in Jan'21) and 5.6% (+0.9% in Jan'21) respectively in Feb'21. FMCG and Cap goods output contracted at a slower pace of 3.8% and 4.2% respectively in Feb'21. Consumer durable output surprised positively at 6.3% in Feb'21.

**CPI rises further:** CPI inflation rose for the third straight month to 5.5% in Mar'21 from 5% in Feb'21. Food inflation accelerated to 4.9% in Mar'21 versus 3.9% in Feb'21. Vegetable prices contracted by 4.8% in Mar'21 versus a decline of 6.3% in Feb'21. On the other hand, prices of fruits rose at a 33-month high of 7.9% (6.3% in Feb'21). Prices of meat and fish too accelerated to 15.1% (11.3% in Feb'21). Oil and fat index remained elevated at 24.9% versus 20.8% in Feb'21. Inflation in pulses (13.3%) and eggs (10.6%) also remained high. The only piece of good news was decline in cereal inflation at 0.7% from 0.3% in Feb'21. Localised lockdowns may drive food inflation higher.

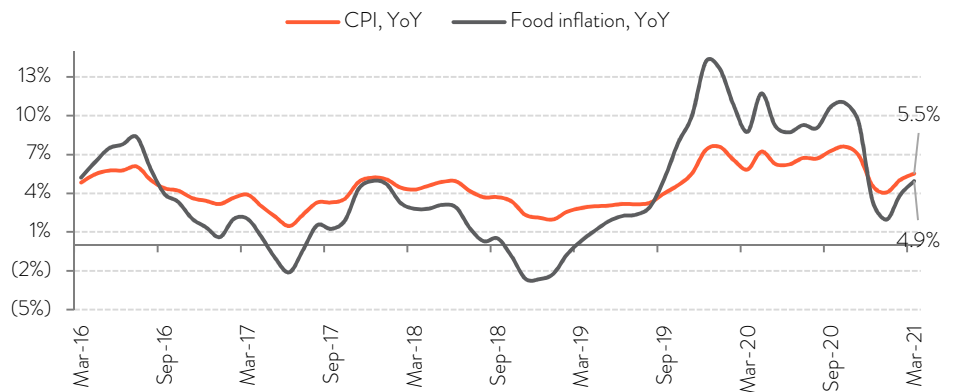
**Core inflation elevated:** Core inflation remained steady at 5.9% in Mar'21. Moderation in personal care and effects (5.9% from 8.6% earlier) and health (6.2% from 6.3%) was offset by increase in transport and communication to 12.5% in Mar'21 (highest in the current series) from 11.4% in Feb'21, clothing and footwear to 4.4% (from 4.2%), housing to 3.5% (from 3.2%) and recreation and amusement to 6.1% (from 5.8%). State specific lockdowns pose a risk to our growth estimate of 11.5%. Inflation, in particular food inflation may also remain elevated compared to our current baseline forecast.

#### KEY HIGHLIGHTS

- CPI inflation edged up to 5.5% in Mar'21 from 5% in Feb'21.
- Core inflation remained elevated at 5.9%.
- IIP contracts by 3.6% in Feb'21 from a decline of 0.9% in Jan'21.

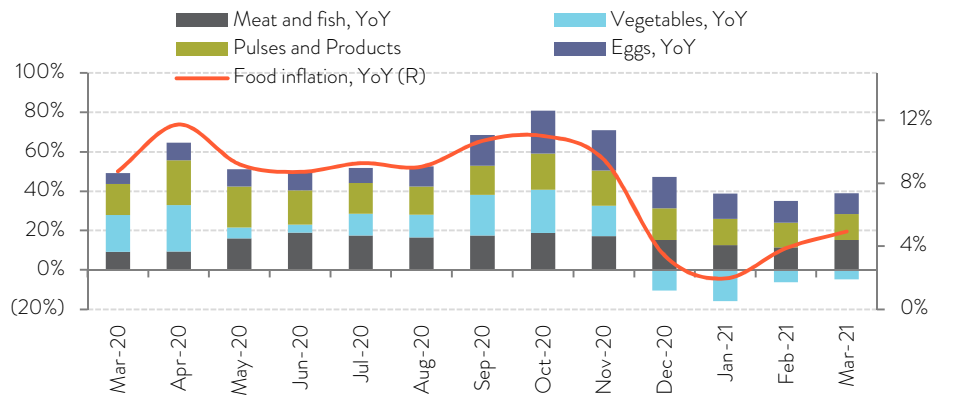


**FIG 1 – CPI INFLATION INCHED UP HIGHER FOOD INFLATION**



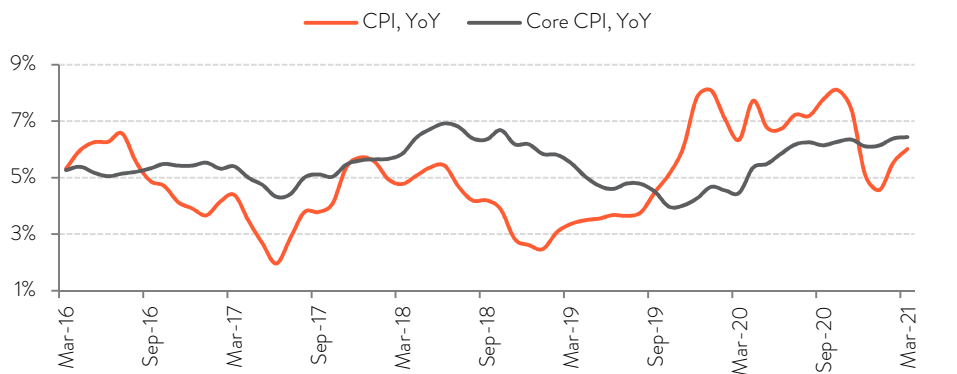
Source: CEIC, Bank of Baroda Research

**FIG 2 – PRICES OF MEAT AND FISH RISE**

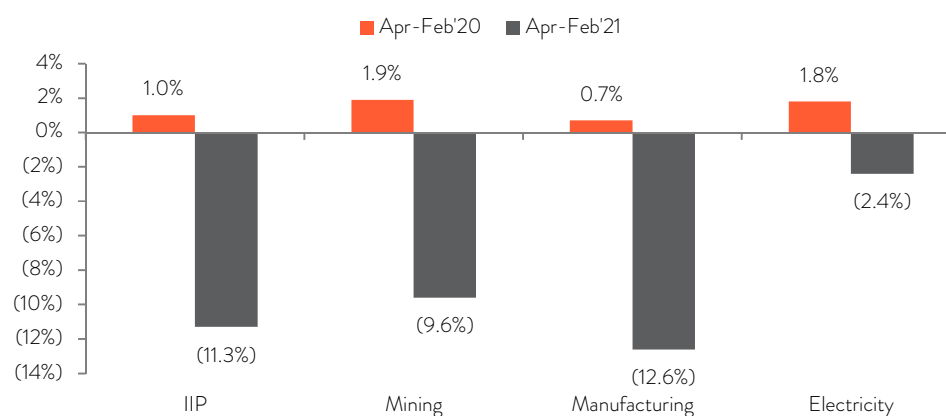


Source: CEIC, Bank of Baroda Research

**FIG 3 – CORE INFLATION REMAINS ELEVATED**



Source: CEIC, Bank of Baroda Research

**FIG 4 – BROAD BASED SLOWDOWN IN IIP ON FYTD BASIS CONTINUES**

Source: CEIC, Bank of Baroda Research

**FIG 5 – IIP GROWTH FALLS FURTHER IN FEB'21**

Sectoral (%)	Weight	Feb-21	Jan-21	Feb-20	Apr-Feb'21	Apr-Feb'20
IIP	100.0	(3.6)	(0.9)	5.2	(11.3)	1.0
Mining	14.4	(5.5)	(2.5)	9.6	(9.6)	1.9
Manufacturing	77.6	(3.7)	(1.3)	3.8	(12.6)	0.7
Electricity	8.0	0.1	5.5	11.5	(2.4)	1.8
<b>Use-Based</b>						
Primary Goods	34.1	(5.1)	0.7	8.2	(8.5)	1.2
Capital Goods	8.2	(4.2)	(9.0)	(9.6)	(23.5)	(11.4)
Intermediate Goods	17.2	(5.6)	0.9	23.0	(12.2)	12.2
Infrastructure and Construction Goods	12.3	(4.7)	1.8	2.8	(12.2)	(1.5)
Consumer Durables Goods	12.8	6.3	(0.2)	(6.2)	(19.6)	(6.2)
Consumer Non-Durables Goods	15.3	(3.8)	(5.4)	(0.3)	(4.6)	2.0

Source: CEIC, Bank of Baroda Research

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