

INFLATION AND IIP

12 November 2020

Growth improves; inflation firms up

Industrial production rebounded sharply to 0.2% in Sep'20 from a decline of 7.4% in Aug'20 with improvement across sectors. CPI inflation rose to 7.6%, a 77-month high, led by food especially vegetables and pulses. Protein inflation may not fall soon. Core inflation remained sticky at 5.9% with jump in housing and recreation and amusement. While inflation is expected to fall to 5.5% in H2FY21 and 4.4% in FY22, the continuous overshoot of inflation over RBI's trajectory shows no room for rate reduction in the coming months.

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Broad based increase in IIP: Industrial output rose sharply to a 7-month high of 0.2% in Sep'20 from a decline of 7.4% in Aug'20 led by mining and electricity at 1.4% and 4.9% respectively. Manufacturing declined by only 0.6% in Sep'20 compared with a decline of 7.9% in Aug'20. Within manufacturing, across the board improvement was visible with consumer durables, FMCG and infra sectors registering positive growth. Capital goods too contracted only by 3.3% compared with 14.8% in Aug'20. Primary goods also contracted only by 1.5% (10.8% decline in Aug'20). The recovery has continued in Oct'20 and Nov'20 as visible in a number of high frequency indicators.

CPI at 77-month high: CPI print rose to 7.6% in Oct'20 from 7.3% in Sep'20. This was on account of higher food inflation (11.1% from 10.7% in Sep'20). Vegetable inflation rose by 22.5% compared with 20.8% in Sep'20. Out of ten items, six items of food inflation continued to post double digit inflation consecutively for three months. Significant jump in inflation was noticed for pulses (18.3% from 14.7% in Sep'20) and eggs (21.8% from 15.6% in Sep'20). While vegetable (seasonal) and cereal (abundant food stocks) inflation may decrease, protein based inflation may only come down with a lag.

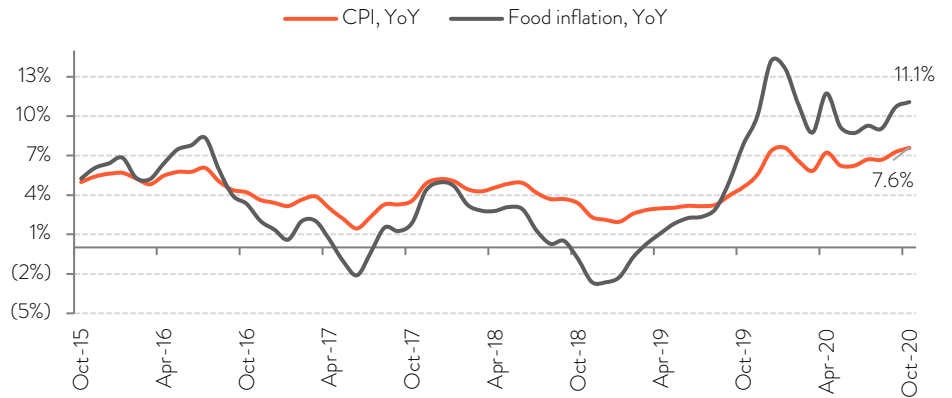
Core inflation at 5.9%: CPI excluding food and fuel inched up by 10bps to 5.9% in Oct'20 from 5.8% in Sep'20. This was led by significant jump in housing inflation (3.3% from 2.8%), recreation and amusement (4.7% from 3.7% in Sep'20) and health (5.2% from 4.9% in Sep'20). Transport and communication (11.2% from 11.5% in Sep'20) and personal care items (12.1% from 12.4% in Sep'20) showed some moderation. We believe the continuous overshoot of inflation over and above RBI's trajectory implies no room for further rate cuts when underlying growth is recovering as India's Covid-19 infection rate continues to fall.

KEY HIGHLIGHTS

- CPI inflation rises to 7.6% in Oct'20 from 7.3% in Sep'20 led by food inflation.
- Core inflation inched up by 10bps to 5.9%.
- IIP rose sharply to 0.2% versus a dip of 7.4% in Aug'20.

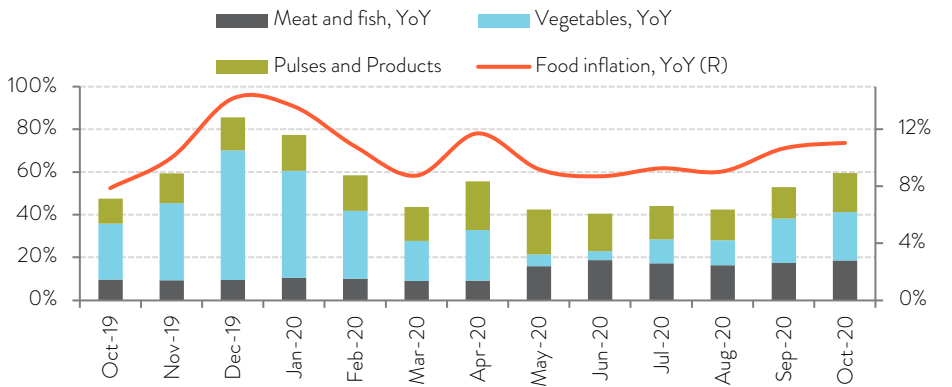


FIG 1 – CPI INFLATION ROSE TO A 77-MONTH HIGH DRIVEN BY FOOD



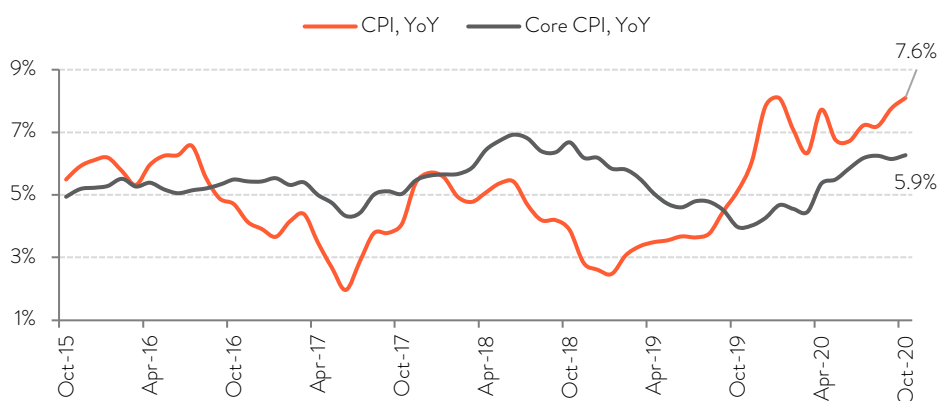
Source: CEIC, Bank of Baroda Research

FIG 2 – VEGETABLE & PULSES LED THE INCREASE

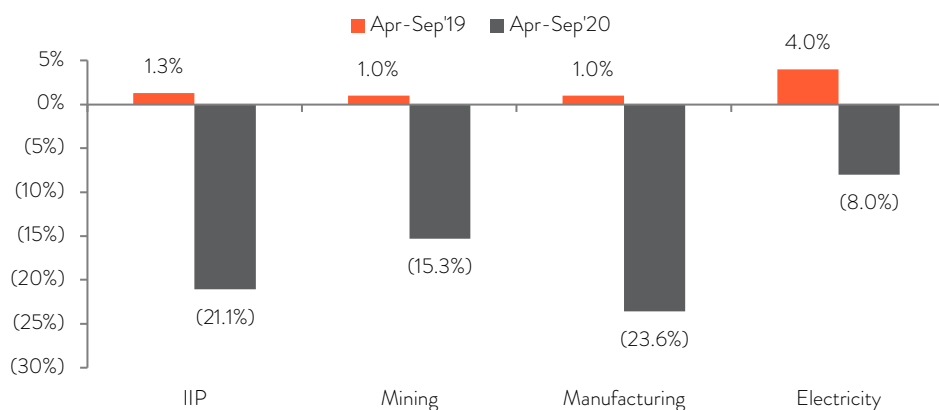


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE INFLATION ROSE BY 10BPS TO 5.9% IN OCT'20



Source: CEIC, Bank of Baroda Research

FIG 4 – BROAD BASED SLOWDOWN ON FYTD BASIS

Source: CEIC, Bank of Baroda Research

FIG 5 – IIP GROWTH RECOVERS IN SEP'20

Sectoral (%)	Weight	Sep-20	Aug-20	Sep-19	Apr-Sep'20	Apr-Sep'19
IIP	100.0	0.2	(7.4)	(4.6)	(21.1)	1.3
Mining	14.4	1.4	(9.0)	(8.6)	(15.3)	1.0
Manufacturing	77.6	(0.6)	(7.9)	(4.3)	(23.6)	1.0
Electricity	8.0	4.9	(1.8)	(2.6)	(8.0)	4.0
Use-Based						
Primary Goods	34.1	(1.5)	(10.8)	(5.2)	(14.3)	1.2
Capital Goods	8.2	(3.3)	(14.8)	(20.5)	(40.5)	(10.1)
Intermediate Goods	17.2	(1.4)	(6.0)	6.8	(23.4)	9.5
Infrastructure and Construction Goods	12.3	0.7	(1.6)	(7.0)	(25.6)	(1.4)
Consumer Durables Goods	12.8	2.8	(9.6)	(10.5)	(39.1)	(5.1)
Consumer Non-Durables Goods	15.3	4.1	(2.3)	(1.1)	(7.8)	5.1

Source: CEIC, Bank of Baroda Research

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