

INFLATION AND IIP

12 September 2019

Food accelerates, core stable

Industrial activity surprised positively at 4.3% in Jul'19 led by mining and manufacturing. CPI inflation saw a mild acceleration to 3.2% in Aug'19 (3.1% in Jul'19) led by food at 3% (2.4% in Jul'19). Despite higher gold prices, core remained stable at 4.2% with a broad based decline. Given the economic slowdown, core inflation is expected to be benign in the year. So is the case with CPI which is estimated at 3.3% in FY20 (3.4% in FY19). This opens up room for further reduction in repo rate by 40bps by RBI as early as Oct'19.

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IIP growth accelerates: Industrial output in Jul'19 increased by 4.3% compared with 1.2% in Jun'19 on the back of improvement in mining to 4.9% (1.5% in Jun'19) and manufacturing to 4.2% (0.2% in Jun'19). Within manufacturing, intermediate goods output accelerated to a high of 13.9% (12.6% in Jun'19) led by fragrances, MS slabs and copper bars. FMCG production too increased to 8.3% (7.1% in Jun'19). Primary goods output rose by 3.5% on the back of favourable base. On the other hand, capital and consumer durable output contracted by (-) 7.1% and (-) 2.7% respectively in Jul'19. Electricity production decelerated to 4.8% in Jul'19 (8.2% in Jun'19).

Food drove CPI higher: CPI inflation rose to 3.2% in Aug'19 from 3.1% in Jul'19 on account of 60bps jump in food inflation (3% in Aug'19 from 2.4% in Jul'19). Prices of vegetables increased by 6.9% in Aug'19 (2.8% in Jul'19), pulses by 6.9% (6.8% in Jul'19), spices by 2.4% (2% in Jul'19) and milk by 1.4% (1% in Jul'19). Cereal inflation remained stable at 1.3%. Despite an unfavourable base of 0.2% in FY19, muted global food prices and above normal monsoon will anchor food inflation at 3%-3.2% in FY20.

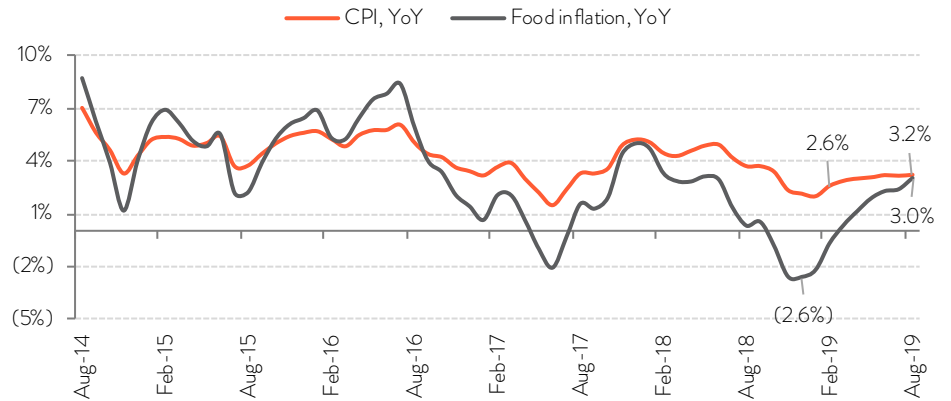
Core remains stable: Core inflation was stable at 4.2% in Aug'19. While personal care and effects index saw a jump due to higher gold prices to 6.4% (4.3% in Jul'19), all other core components saw a deceleration in inflation momentum. For instance, housing at 4.8% in Aug'19 (4.9% in Jul'19), clothing and footwear at 1.2% (1.4% in Jul'19), transport and communication at 1.2% (1.6% in Jul'19), household goods and services at 3.7% (4% in Jul'19) and education at 6.1% (6.4% in Jul'19). Outlook on core inflation is benign as the current economic slowdown will ensure that pricing power with producers is limited. Our projection for core inflation in FY20 is 4.2% (5.8% in FY19).

KEY HIGHLIGHTS

- CPI inflation rose by 3.2% in Aug'19 vs 3.1% in Jul'19.
- Core inflation stable at 4.2% in Aug'19.
- IIP growth improves to 4.3% in Jul'19 from 1.2% in Jun'19.

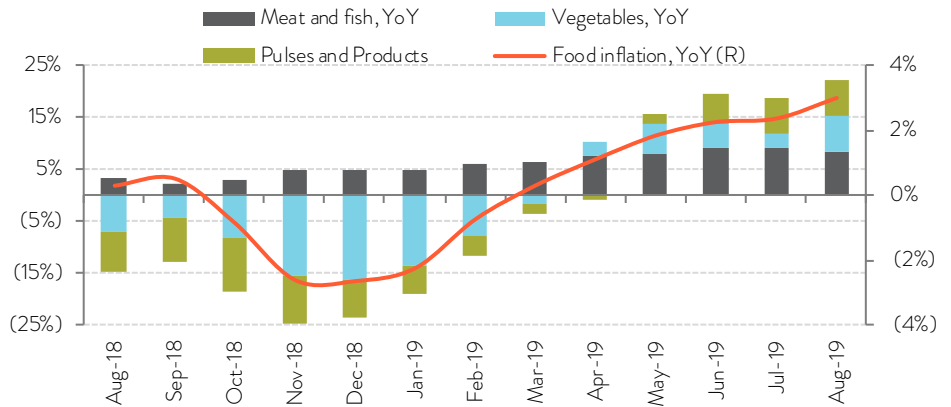


FIG 1 – CPI ROSE TO 3.2% IN AUG'19 FROM 3.1% IN JUL'19



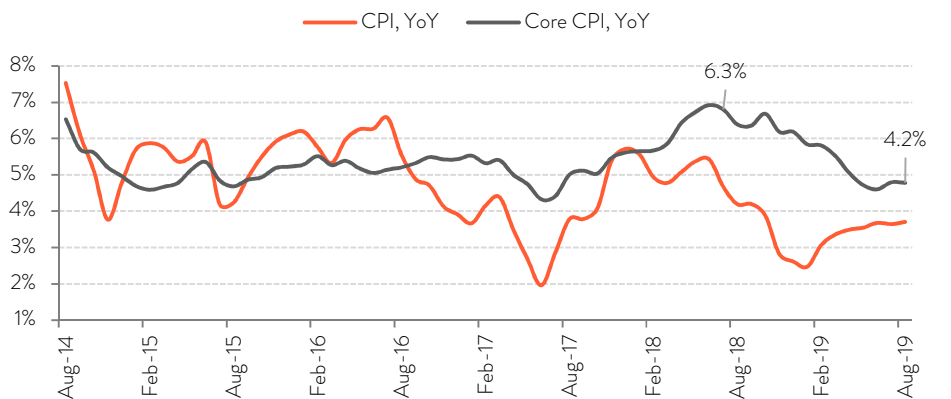
Source: CEIC, Bank of Baroda Research

FIG 2 – ...FOOD INFLATION PICKED UP LED BY VEGETABLES

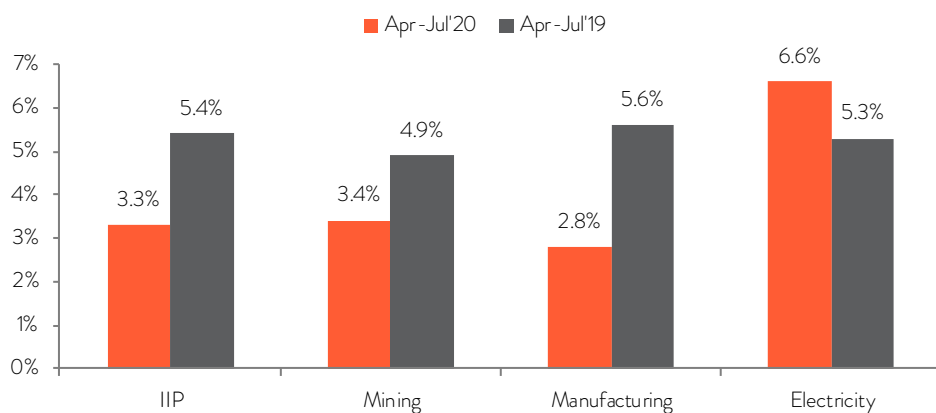


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE STABLE AT 4.2% IN AUG'19



Source: CEIC, Bank of Baroda Research

FIG 4 – MINING AND MANUFACTURING DRAGGING IIP LOWER ON CUMULATIVE BASIS


Source: CEIC, Bank of Baroda Research

FIG 5 – IIP ACCELERATES IN JUL'19

Sectoral (%)	Weight	Jul-19	Jun-19	Jul-18	Apr-Jul'20	Apr-Jul'19
IIP	100.0	4.3	1.2	6.5	3.3	5.4
Mining	14.4	4.9	1.5	3.4	3.4	4.9
Manufacturing	77.6	4.2	0.2	7.0	2.8	5.6
Electricity	8.0	4.8	8.2	6.6	6.6	5.3
Use-Based						
Primary Goods	34.1	3.5	0.4	6.8	2.7	6.1
Capital Goods	8.2	(7.1)	(6.8)	2.3	(4.3)	7.1
Intermediate Goods	17.2	13.9	12.6	1.3	10.8	0.8
Infrastructure and Construction Goods	12.3	2.1	(1.9)	9.2	0.4	8.7
Consumer Durables Goods	12.8	(2.7)	(10.2)	14.1	(2.7)	9.5
Consumer Non-Durables Goods	15.3	8.3	7.1	5.3	7.2	2.8

Source: CEIC, Bank of Baroda Research

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