13 March 2025

RESEARCH

BOB ECONOMICS RESEARCH | CPI

Food – A sigh of relief

BOB ECONOMICS RESEARCH | IIP

IIP growth accelerates

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Trump-onomics to guide global markets

SUMMARY

INDIA ECONOMICS: CPI

CPI inflation got the respite from a considerable correction in food inflation led by seasonality factors and better arrival statistics of TOP vegetables (Tomato, Onion and Potato). The high frequency price data for Mar'25 is also on the downside. Notably, few broad items of CPI are also in deflation, which has not been observed in the recent past. For core, the stickiness is transient and largely a "gold-led" phenomenon. Excluding gold, personal care and effects inflation was largely capped. Even household goods and services inflation were stable, thus not pointing to immediate demand side pressure. With the current print in line, we believe CPI would undershoot RBI's target in Q4, thus opening more policy space by RBI in terms of easing, to support growth. We expect CPI to be at 4.6% (RBI: 4.8%) in FY25 with Q4 now at 3.8% (RBI: 4.4%).

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INDIA ECONOMICS: IIP

Manufacturing sector made a remarkable recovery and pushed IIP growth higher in Jan'25. Stronger growth from mining sector provided much need support. Within use-based classification, output of primary goods, infrastructure and capital goods registered an uptick in Jan'25 against growth noted in Jan'24. Overall, on a FYTD basis, IIP growth weakened to 4.2% against 6% growth registered last year. Despite the moderation, we expect growth in Q4 to fare better amidst the pickup in investment activity with thrust on capex and policy continuity by RBI. However, escalated concerns surrounding global tariff war poses as headwinds to exports and requires careful monitoring.

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BOBCAPS Research
research@bobcaps.in

INDIA ECONOMICS: MONTHLY CHARTBOOK

Global factors have increasingly come into play in shaping macro and market dynamics. Tariff and counter tariff between US and its major trading partners continues. On India as well, reciprocal tariffs have been imposed. India has a trade surplus of over US$ 30bn with the US. The coming days will shed more light whether the impact will be inflationary or not. However, dependence of inflation in our domestic basket is more, hence as of now impact is likely to be capped. Other domestic macro indicators show a varied picture. Urban demand remains mixed with improved electronic imports but patchy auto sales. Government spending remains supportive to meet budgetary targets. This will also be conducive of domestic liquidity conditions. RBI’s measures have brought back durable liquidity into surplus.

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CPI

12 March 2025

Food – A sigh of relief

Dipanwita Mazumdar
Economist

CPI inflation got the respite from a considerable correction in food inflation led by seasonality factors and better arrival statistics of TOP vegetables (Tomato, Onion and Potato). The high frequency price data for Mar'25 is also on the downside. Notably, few broad items of CPI are also in deflation, which has not been observed in the recent past. For core, the stickiness is transient and largely a "gold-led" phenomenon. Excluding gold, personal care and effects inflation was largely capped. Even household goods and services inflation were stable, thus not pointing to immediate demand side pressure. With the current print in line, we believe CPI would undershoot RBI's target in Q4, thus opening more policy space by RBI in terms of easing, to support growth. We expect CPI to be at 4.6% (RBI: 4.8%) in FY25 with Q4 now at 3.8% (RBI: 4.4%).

Food comforted headline

CPI inflation was at its lowest since Jul'24: CPI inflation softened significantly to 3.6% in Feb'25 compared to 4.3% in Jan'25 (BoB est.: 4.1%), on YoY basis. 6 out of 12 broad categories of food showed softening. Among them, the slowing down of vegetable inflation was noteworthy. Since May'23, it is for the first time that the YoY series of vegetable inflation went into negative territory. It declined by -1.1% in Feb'25 compared to 11.3% in Jan'25. This is led by better arrivals of winter harvest, which has supported prices. Apart from this inflation of protein-based items, also softened. Meat and fish inflation edged down to 2.1% in Feb'25 from 5.3% in Jan'25. Eggs inflation went into negative territory falling by -3% in Feb'25 compared to 1.3% in Jan'25. The fear of bird flu in few pockets has contributed towards the same. Inflation of pulses also inched down to -0.3% in Feb'25 compared to 2.5% in Jan'25. Notably, 4 out of 12 broad food and beverages (F&B) items have registered a negative print, which was not visible in earlier months (only Spices was in the deflation territory). Now 9 out of 12 broad items of F&B are under 6% tolerance band.

On a sequential basis, a major slump was visible in the case of vegetable inflation series followed by eggs and pulses.

Importantly, CPI excluding vegetables and pulses, the items which have seen significant decline in the series have also been at 4%. The outlook for food inflation remains supportive as of now. However, upside risks remain from higher-than-normal temperatures in few TOP (Tomato, Onion and Potato) producing States such as Maharashtra, West Bengal, Rajasthan, MP and Bihar (IMD data).

IIP

12 March 2025

IIP growth accelerates

Jahnavi Prabhakar
Economist

Manufacturing sector made a remarkable recovery and pushed IIP growth higher in Jan'25. Stronger growth from mining sector provided much need support. Within use-based classification, output of primary goods, infrastructure and capital goods registered an uptick in Jan'25 against growth noted in Jan'24. Overall, on a FYTD basis, IIP growth weakened to 4.2% against 6% growth registered last year. Despite the moderation, we expect growth in Q4 to fare better amidst the pickup in investment activity with thrust on capex and policy continuity by RBI. However, escalated concerns surrounding global tariff war poses as headwinds to exports and requires careful monitoring.

IIP growth expands: IIP growth rose to 5% in Jan'25 compared with a growth of 4.2% in Jan'24. This was much higher than our estimate of 3% increase. The improvement was led by manufacturing sector which expanded to 5.5% in Jan'25 (3.6% in Jan'24). Mining sector growth decelerated to 4.4% against a growth of 6.6% last year. Electricity output also moderated down to 2.4% (3-month low) compared with a growth of 5.6% in Jan'24. On a FYTD basis, IIP growth eased to 4.2% (6% growth last year) and registered much slower growth across the board. Mining and manufacturing growth eased down to 3.4% (from 8.3%) and 4.2% (5.5% last year) respectively in FYTD'25. Even electricity growth turned out to be slower at 5.1% against 6.8% growth noted last year for the same period.

Within manufacturing, out of 23 sub-sectors, 13 of them resulted in stronger growth in Jan'25. These included, manufacture of other transport equipment, pharma, other non-metallic minerals, coke & refined products, food products and motor vehicles amongst a few. Notably, only 10 sectors have recorded weaker growth during this period including, manufacture of electrical equipment, wood products, machinery equipment, printing and leather products.

Primary good strengthens: Within use-based classification, primary good outshined and registered a growth of 5.5% (6-month high) against a growth of 2.9% in Jan'24. Infrastructure and construction good output registered higher growth of 7% in Jan'25 (5.5% in Jan'24). This was led by improvement in cement output. Output of Capital goods edged up, registering a growth of 7.8% in Jan'25 compared with 3.2% growth in Jan'24. On the other hand, FMCG output contracted to (-) 0.2% in Jan'25 compared with a 0.3% increase in Jan'24. Marginally slower growth was noted for intermediate goods at 5.2% in Jan'25 compared with a growth of 5.3% last year for the same period. Moreover, consumer durable output softened to 7.2% in Jan'25 from 11.6% growth in Jan'24.

MONTHLY CHARTBOOK

12 March 2025

Trump-onomics to guide global markets

Economic Research Department
Dipanwita Mazumdar | Sonal Badhan
Aditi Gupta | Jahnavi
Economist

Global factors have increasingly come into play in shaping macro and market dynamics. Tariff and counter tariff between US and its major trading partners continues. On India as well, reciprocal tariffs have been imposed. India has a trade surplus of over US$ 30bn with the US. The coming days will shed more light whether the impact will be inflationary or not. However, dependence of inflation in our domestic basket is more, hence as of now impact is likely to be capped. Other domestic macro indicators show a varied picture. Urban demand remains mixed with improved electronic imports but patchy auto sales. Government spending remains supportive to meet budgetary targets. This will also be conducive of domestic liquidity conditions. RBI's measures have brought back durable liquidity into surplus.

Demand picture: India's GDP for Q3FY25 quickened to 6.2% supported by pick up in consumption demand, with PFCE clocking a 6.9% growth and GFCE growing at an accelerated pace of 8.3%. There is expectation of further improvement in consumption demand on the back of the recent budget annoucement under new tax regime. Improvement in the urban demand is also reflected by growth in electronic imports, power demand and recovery in non-oil-non-gold imports. However, moderation in auto sales and digital payments was also noted for the same period. On agriculture front, as per the 2nd AE overall foodgrain production is estimated at 3,309 lmt tonne for 2024-25 (3,322 lakh ton previously).

Central government finances: Centre's fiscal deficit rose to 5.3% as of Jan'25 (12MMA basis), up from 4.9% as of Dec'24. Till Jan'25 (FYTD basis), total expenditure jumped to 74.7% of FY25RE versus 68.5% as of Dec'24, thus registering 6.4% growth (5.8% as of Dec'24). Of this, revenue expenditure has reached 74.4% of the targeted expenditure (Dec'24: 68.9%) and capex is at 75.9% (Dec'24: 67.3%). On the income side, centre's net revenue has reached 82.8% of FY25RE (Dec'24: 74.2%), noting 6.9% growth, down from 12.2% in Dec'24. Within this, direct tax collection growth eased to 10.7% as of Jan'25 (Dec'24: 12.2%), and indirect tax collection growth accelerated to 9.8% (9%). Fiscal deficit in absolute terms is only at 63.6% of RE (Dec'24: 58.2%).

Yields continued to remain stable: India's 10Y yield was fairly rangebound albeit some tightness seen in liquidity. RBI's measures remained supportive of the narrative. Importantly, measures targeted towards durable alignment of liquidity to ease financing and credit conditions, were welcoming. RBI's OMO purchase in the secondary market in Feb'25 was Rs 80,000 crore.

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
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