



ECONOMIC RESEARCH

INFLATION AND IIP REVIEW

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Inflation and IIP Trends; Time for RBI to closely monitor growth-inflation dynamics

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Contacts

Dr M Govinda Rao
Chief Economic Adviser

Anita Shetty
Senior Research Analyst

Investors & Media Contact
+91 95133 99706
1-860-425-2742
investordesk@brickworkratings.com
media@brickworkratings.com

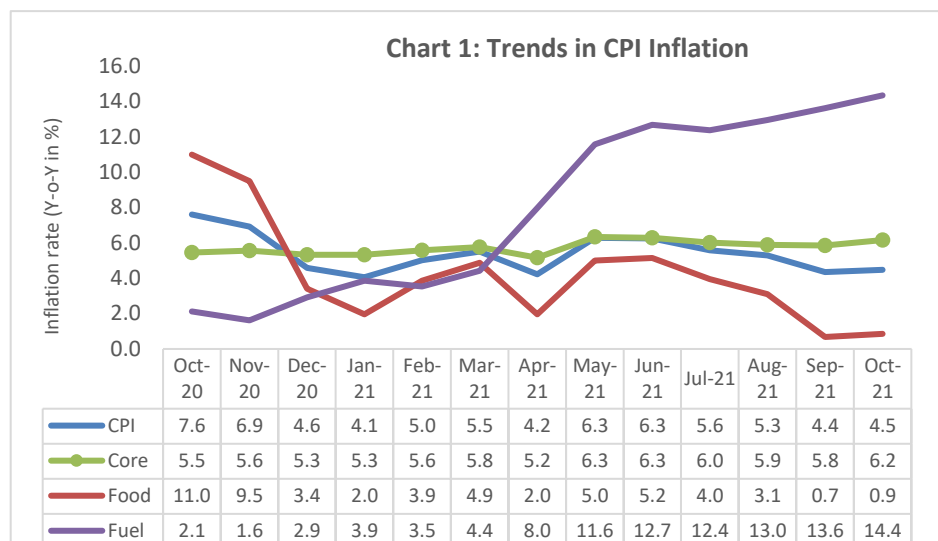
CPI inflation increased to 4.48% in October 2021 from 4.35% in the previous month

As per data put out by the Ministry of Statistics and Programme Implementation (MOSPI), Consumer Prices Index (CPI), inched up by 13 basis points over the previous month to 4.48% (provisional estimates, measured by y-o-y change) in October 2021. The marginal increase in inflation in October over that in September 2021 was largely driven by rising fuel prices.

After gradually easing for the last 4 months, the core inflation (excluding food and fuel items) moved up again and crossed 6% in October. The Food Price Inflation (CFPI) constituting 39% of the overall inflation basket, also increased slightly from 0.68% in September to 0.85% in October. Although the food inflation as a whole is marginally higher than in the previous month, within the group, pulses have risen by 5.42%. The inflation in fuel and light group continued to rise due to high international crude oil prices (Chart 1 and Table 1). The fuel inflation is likely to show an upward trend in November due to continued elevation in crude oil prices, despite some of the States reducing their VAT rates. Similarly, unseasonal rains have driven the prices of vegetables northwards. Increasing raw material prices and transportation cost too have been reported. Thus, inflation outlook, although driven by supply situation, is a cause for some concern and needs close monitoring.

Groups	Weights (%)	Inflation Rate (y-o-y changes in %)				
		FY21	April to Oct 2021	Oct-20	Sep-21	Oct-21
CPI Combined (1+2+3+4+5+6)	100	6.16	5.21	7.61	4.35	4.48
1. Food and beverages	45.9	7.31	3.55	10.09	1.61	1.82
2. Pan, tobacco and intoxicants	2.38	9.92	5.69	10.59	4.23	4.27
3. Clothing and footwear	6.53	3.38	6.13	3.10	7.22	7.53
4. Housing	10.07	3.33	3.74	3.27	3.58	3.54
5. Fuel and light	6.84	2.70	12.25	2.13	13.63	14.35
6. Miscellaneous	28.32	6.56	6.70	6.88	6.38	6.83
Consumer Food Price Index	39.06	7.70	2.92	11.00	0.68	0.85

Note: The weights are indicative to show relative importance of groups.
Source: MOSPI, BWR Research



Note: Core inflation is calculated (excluding 'Food & Beverages', 'Pan, Tobacco & Intoxicants' and 'Fuel & Light'), Data for the latest month is provisional.

Source: www.mospi.gov.in, BWR Research

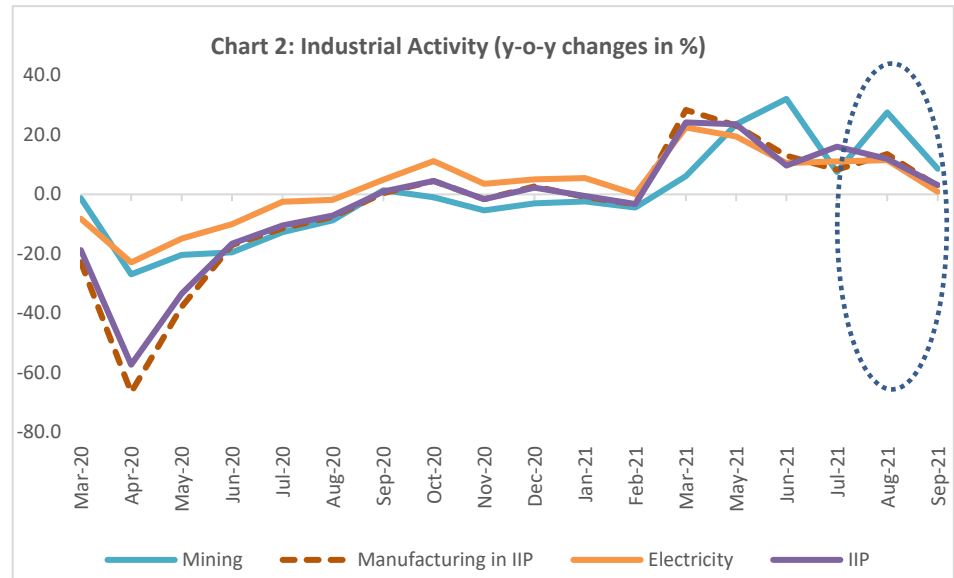
IIP growth moderated to 3.1% in September 2021

The progressive easing of lockdown restrictions should have helped to accelerate industrial production. However, as per the quick estimates of IIP for September 2021 released by MOSPI, the growth in Index of Industrial Production (IIP) showed a sharp deceleration to 3.1% from 11.9% growth reported in the previous month (Table 2 and Chart 2).

In the past few months, industrial activities reported significant improvements, led by better manufacturing activity following the easing of restrictions. However, due to severe power shortages owing to severe supply shortage in coal has affected manufacturing activity across industries in September. In addition, the chip shortage has severely affected the auto industry. Industrial output, as classified by the end-use of goods experiencing declining growth trends reflecting mixed picture of economic recovery. Capital goods reported only 1.3% growth, and both consumer durables and non-durables production contracted by 2% and 0.5%, respectively.

Table 2: IIP and Sectoral growth rates in IIP (y-o-y changes in %)						
	Weights	2020-21	April to Sept 2021	Sep-20	Aug-21	Sep-21
IIP (General)	100.0	-8.4	23.5	1.0	12.0	3.1
Mining	14.4	-7.8	22.3	1.4	23.6	8.6
Manufacturing	77.6	-9.6	25.3	0.4	9.9	2.7
Electricity	8.0	-0.5	12.8	4.9	16.0	0.9
Use-based category						
Primary goods	34.0	-7.0	15.8	-1.5	17.0	4.6
Capital goods	8.2	-18.6	44.9	-1.2	19.9	1.3
Intermediate goods	17.2	-9.4	32.4	-0.4	10.5	4.9
Infrastructure/ construction goods	12.3	-8.7	36.9	4.0	11.4	7.4
Consumer durables	12.8	-15.0	38.4	5.3	8.2	-2.0
Consumer non-durables	15.3	-2.2	8.3	2.4	5.6	-0.5

Data is provisional, Source: <http://www.mospi.gov.in>, BWR Research



Note: IIP data for the latest month are quick estimates.

Source: MOSPI, BWR Research

BWR View

The data on IIP in September and CPI inflation in October show the deceleration in industrial production and increase in inflation, which are concerning. The outlook for the coming months too does not look bright. The trend in industrial production and on the inflation front shows that the RBI must closely monitor the growth – inflation dynamics. It has already started normalising the excess liquidity in the system, but the supply side issues need to be addressed and on this, MPC has little control.

We expect that the RBI is not likely to change its policy stance and hold the rates at current levels in this fiscal, but will closely monitor the liquidity in the system. The RBI will also have to take note of the impact of tapering by the Fed and the European Central Bank.

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