



**ECONOMIC  
RESEARCH**

**INFLATION AND IIP REVIEW**

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# IIP down, Inflation up

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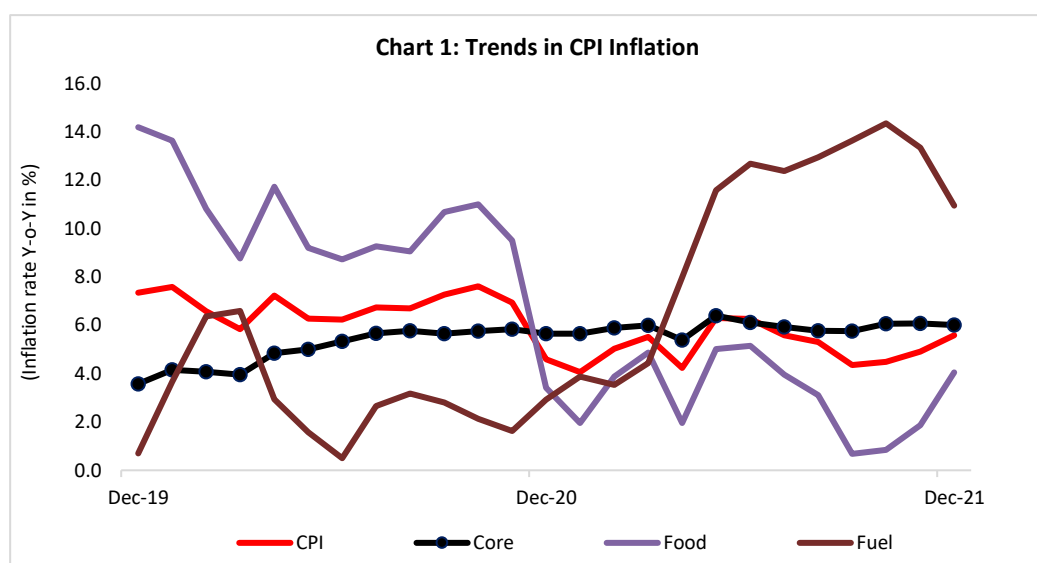
The data released by the Ministry of Statistics and Programme Implementation (MOSPI) has shown that the Consumer Price Index (CPI) rose to 5.59% (provisional estimates, measured by y-o-y change) in December 2021, and growth in Index of Industrial Production (IIP) stood at 1.4% (quick estimates, measured by y-o-y change) in November 2021. Both are in line with the expectations of Brickwork Ratings (BWR).

## Inflation rises for the third consecutive month

The CPI inflation rate crossed the 5.5% mark after five months in December 2021, increasing by 68 basis points over the previous month's inflation. It was 4.59% in December 2020 (Chart 1 and Table 1).

The prices of food items have shown steep rise due to supply bottlenecks, unseasonal rains and higher transportation costs. Given the 39.06% weight in the combined index, higher food inflation has accelerated the overall inflation rate. Within the food group, the prices of oils and fats remained high compared to previous year, following the rising prices of imported oils. The rationalisation of import duties on palm oil, sunflower oil and soya bean oil helped reign in the prices to some extent, and the inflation rate eased a bit to 24.3% from 30% in the previous month.

While both core inflation and fuel inflation softened marginally, they are still at elevated levels. Fuel inflation eased to 10.95% in December from 13.35% in November due to a fall in international crude oil prices, in addition to the cut in excise duties. Core inflation moderated to 6% from 6.1% during the same review period.



Note: Core inflation is calculated (excluding 'Food & Beverages', and 'Fuel & Light'), Data for the latest month is provisional. Source: [www.mospi.gov.in](http://www.mospi.gov.in), BWR Research

The sharp increase in food inflation from 1.87% in December to 4.05% in November 2021 is a matter for concern. To manage the food price situation, the government has banned trading in the futures contracts of seven agricultural commodities (paddy (non-basmati), wheat, chana, mustard seeds and its derivatives, soya bean and its derivatives, crude palm oil and moong) on 20 December for one year.

The average inflation for April to December 2021 stood at 5.22% compared to 6.62% in the corresponding period in the previous year. This is slightly lower than the Monetary Policy Committee's (MPC's) inflation outlook of 5.3% for FY22.

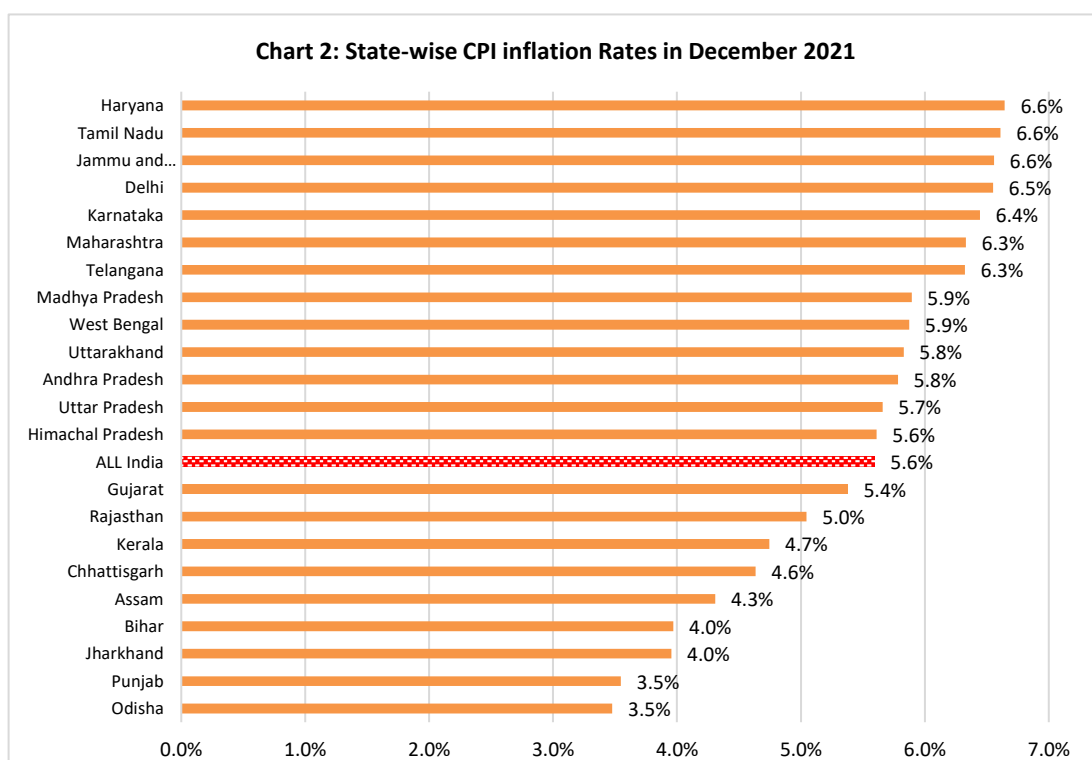
**Table 1: Inflation in CPI and its Major Components**

Groups	Weights (%)	Inflation Rate (y-o-y changes in %)				
		FY21 *	FY22 (April to Dec) *	Dec-20	Nov-21	Dec-21
<b>CPI Combined (1+2+3+4+5+6)</b>	<b>100</b>	<b>6.16</b>	<b>5.22</b>	<b>4.59</b>	<b>4.91</b>	<b>5.59</b>
1. Food and beverages	45.9	7.31	3.57	3.87	2.60	4.47
2. Pan, tobacco and intoxicants	2.38	9.92	5.28	10.68	4.05	3.22
3. Clothing and footwear	6.53	3.38	6.58	3.49	7.94	8.30
4. Housing	10.07	3.33	3.72	3.21	3.66	3.61
5. Fuel and light	6.84	2.7	12.23	2.92	13.35	10.95
6. Miscellaneous	28.32	6.56	6.70	6.60	6.75	6.65
<b>Consumer Food Price Index</b>	<b>39.06</b>	<b>7.7</b>	<b>2.96</b>	<b>3.41</b>	<b>1.87</b>	<b>4.05</b>

Note: The weights are indicative to show the relative importance of groups. Data is provisional. Growth rates over the corresponding period of the previous year are to be interpreted considering the unusual circumstances on account of the COVID-19 pandemic since March 2020. \* Average inflation  
Source: MOSPI, BWR Research

### State-wise CPI inflation Rates

Of 21 major states, 13 reported inflation higher than the all-India levels in December 2021. The highest inflation has been recorded in Haryana, while Odisha reported lowest inflation during the month.

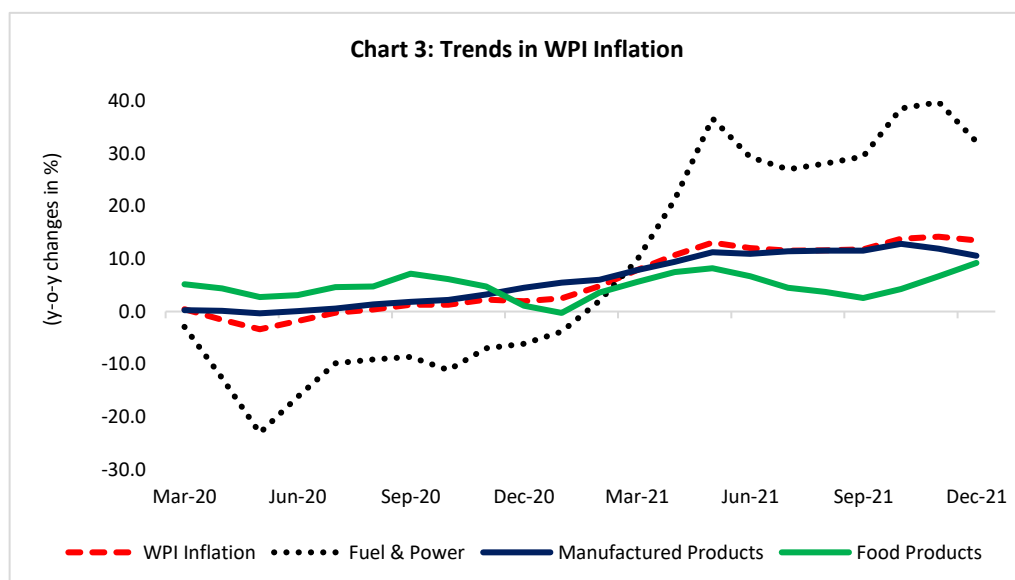


Source: www.mospi.gov.in, BWR Research

## WPI inflation moderated slightly in December 2021

Inflation in wholesale prices registered a double-digit increase for the ninth consecutive month in December 2021, although it had moderated marginally to 13.56% from 14.2% in November. The low base (1.95% in December 2020) and rising cost push pressures due to an increase in raw material prices, particularly arising out of imported commodities, and supply constraints, especially the non-availability of semiconductors, has pushed WPI inflation in the recent months.

Food prices increased sharply due to a surge in the prices of cereals, fruits and vegetables. Non-food articles too witnessed a substantial rise. Higher input costs kept the wholesale inflation in the manufacturing products group (64.32% weight in the WPI) at 10.62% in December. The pace of inflation in manufacturing products eased marginally compared to the previous month, and the fuel and power index also reported a softening trend in prices (Table 2 and Chart 3 below).



Source: eaindustry.nic.in, BWR Research

Groups	Weights (%)	Inflation Rate (y-o-y changes in %)				
		FY21*	FY22 (April to Dec) *	Dec-20	Nov-21	Dec-21
<b>All Commodities (1+2+3)</b>	<b>100.00</b>	<b>1.31</b>	<b>12.50</b>	<b>1.95</b>	<b>14.23</b>	<b>13.56</b>
1. Primary Articles	22.62	1.67	8.59	-0.60	10.34	13.38
<i>Food Articles</i>	15.26	3.15	2.60	-0.92	4.88	9.56
<i>Non-Food Articles</i>	4.12	1.40	20.54	2.99	13.77	18.99
<i>Minerals</i>	0.83	6.73	15.66	16.67	20.90	3.77
2. Fuel & Power	13.15	-8.02	31.41	-6.10	39.81	32.30
3. Manufactured Products	64.23	2.70	11.30	4.49	11.92	10.62
<b>Food Products</b>	<b>24.38</b>	<b>3.93</b>	<b>5.95</b>	<b>1.11</b>	<b>6.70</b>	<b>9.24</b>

Note: as in Table 1  
Source: www.eaindustry.nic.in, BWR Research

## Supply constrains derail IIP growth in November 2021

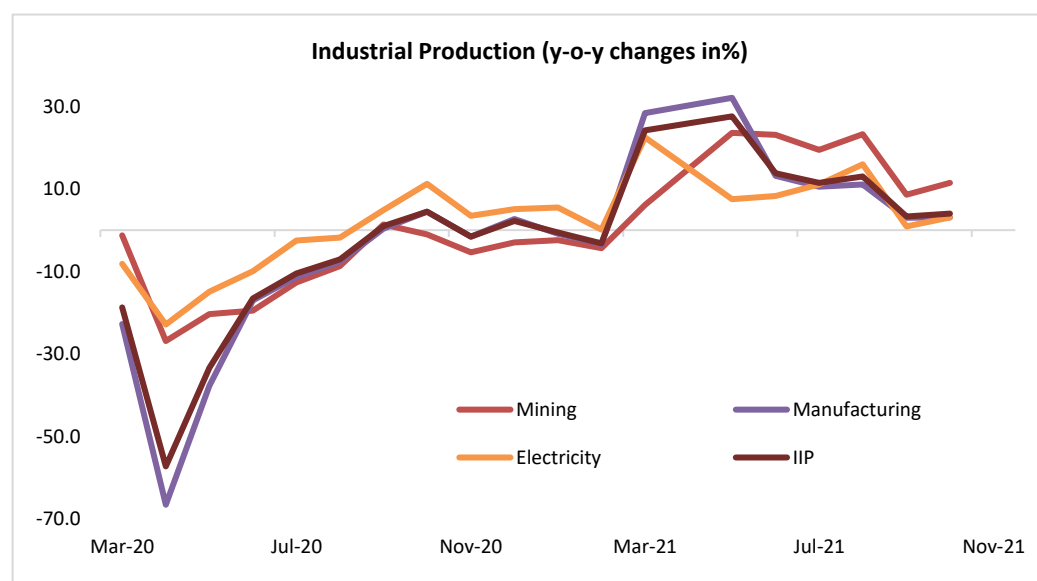
Reflecting supply constraints affecting the manufacturing sector, growth in the IIP decelerated to 1.4% in November 2021 from 4% (revised) reported in the previous month (Table and Chart below).

A significant slowdown was witnessed in manufacturing sector growth in November at 0.9% as the output was constrained by severe power outages due to a supply shortage in coal in the last few months in addition to the supply disruptions in semiconductors. In the manufacturing sector, 11 out of 23 industries reported contractions in growth, with the manufacture of 'transport equipment' and 'machinery and equipment segments', witnessing a 22.4% and 13.9% contraction, respectively.

Industrial output, as classified by the end-use of goods, consumer durables saw the biggest decline at (-)5.6%, reflecting weak consumption demand and rising prices. Capital goods too contracted by -( )9.7%, which could be attributed to conservative government capital expenditure. In the first eight months of the current fiscal, the government has exhausted only 49% of the budgeted target.

Table 3: IIP and Sectoral growth rates in IIP (y-o-y changes in %)						
	Weights	FY21*	FY22 (April to Nov) *	Nov-20	Oct-21	Nov-21
<b>IIP (General)</b>	<b>100.0</b>	<b>-8.4</b>	<b>17.4</b>	<b>-1.6</b>	<b>4.0</b>	<b>1.4</b>
Mining	14.4	-7.8	18.2	-5.4	11.5	5.0
Manufacturing	77.6	-9.6	18.5	-1.6	3.1	0.9
Electricity	8.0	-0.5	10.2	3.5	3.1	2.1
<b>Use-based category</b>						
Primary goods	34.0	-7.0	13.2	-1.8	9.0	3.5
Capital goods	8.2	-18.6	29.0	-7.5	-1.5	-3.7
Intermediate goods	17.2	-9.4	23.7	-1.8	3.8	2.5
Infrastructure/ construction goods	12.3	-8.7	27.5	2.1	6.6	3.8
Consumer durables	12.8	-15.0	24.0	-3.2	-3.6	-5.6
Consumer non-durables	15.3	-2.2	6.4	-0.7	0.9	0.8

Note: As in Table 1.  
Source: MOSPI, BWR Research



Source: MOSPI, BWR Research

## BWR view on inflation and IIP growth outlook

Food inflation is expected to increase further due to supply bottlenecks and adverse weather conditions in addition to the waning base effect. After softening from their elevated levels, crude oil prices have started moving up, and hence the pressure on fuel inflation is likely to remain. Continued supply constraints may increase cost push pressures, which is evident in WPI inflation staying within double-digit levels since the last nine months. With a low base and continued supply-side concerns, we expect retail inflation to remain above 5.5% in Q4FY22. The inflation outlook, although driven by the supply situation, needs close monitoring.

A significant slowdown in manufacturing sector growth in particular, is a matter for concern as this will also have an impact on employment. With continued supply constraints and semiconductor shortage, the growth outlook for IIP does not look bright for December as well. The manufacturing PMI also declined to 55.5 in December from 57.6 in November. The third wave of Covid infections worldwide may lower demand for exports and also derail the progress of economic recovery. The first advance estimate of GDP has pegged growth at 9.2%, which is lower than the RBI's estimate of 9.5%.

Considering the economic impact of the third wave of the pandemic and downside risks to the recovery process, the RBI may continue to hold the policy rates at current levels in the next policy meeting. Although there has been a 68 basis points increase in the retail inflation rate in December over the previous month, the average inflation for Q3 remained below the RBI's estimates of 5.3%. With inflation remaining within the comfort zone of the RBI, there is no immediate concern for the MPC to continue with the accommodative stance, though it may continue with draining excess liquidity.

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