



# ECONOMIC RESEARCH

# INFLATION AND IIP REVIEW

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# Benign CPI inflation: 2.92%; Sluggish IIP may prod the RBI MPC to change its stance

## Economy Report

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### Industry Perspective

“Food inflation exceeded expectations, while the core was way below expectations signalling growth concerns. So, the fight would be between these two factors i.e upside pressure from food and downside pressure from the core. Despite considering the seasonal rise in food prices, we are expecting inflation to stay tepid, and not exceed 3-3.25% average by September. Comparing RBI-MPC’s target of 2.9% for June quarter, we may see an upside of 10-15 basis points, and for the September quarter, we may see 20-25 bps upside against RBI-MPC’s target of 3%. We expect room for a rate cut of quarter points remains, MPC should focus on the transmission of rates rather than just cutting down rates”.

**Adds Kanika Pasricha, India Economist with Standard Chartered Bank**

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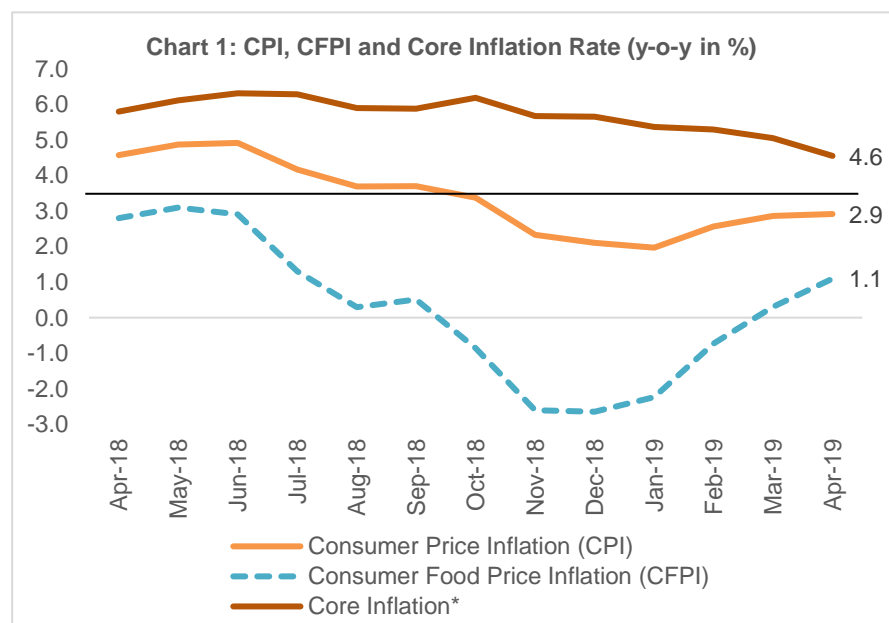
## CPI Inflation inches up to 2.92% in April 2019

As per the latest provisional data released by Ministry of Statistics and Programme Implementation (MOSPI), Consumer Prices Index (CPI) Inflation increased to 2.92% in April (measured by y-o-y change) from 2.86% in March, showing sequential rise for the third month in 2019.

Despite the 6 bps increase in inflation rate over the previous month, CPI inflation remained within the Reserve Bank India (RBI) Monetary Policy Committee (MPC)’s 2.9-3.0% forecast for H1:2019-20.

The reversal in food inflation trend which began in March 2019 continued in April 2019 as well, signifying bottoming out of food inflation. The rise in CPI was mainly from food inflation which inched up by 80 bps over the month to 1.1% in April 2019 due to spike in vegetable prices. The reversal in the trend certainly have a significant impact on overall Inflation given the higher weightage (39.06%) on food items in the CPI basket.

CPI core inflation (excluding food and fuel), which remained consistently well above the 5% level since February 2018, fell to 4.6% in April 2019. The easing core inflation helped to curb upward pressure on CPI inflation. While the overall inflation rate is expected to be benign in the next 12-18 months and provides room for the rate cut, although the core inflation has been higher than 5% in recent months. There are also risks arising from the US sanctions on Iran impacting the oil prices.



\*calculated (excluding 'Food & Beverages', 'Pan, Tobacco & Intoxicants' and 'Fuel & Light'), April 2019 data is provisional.

Source: [www.mospi.gov.in](http://www.mospi.gov.in), BWR Research

## CPI Inflation: Group wise (Refer Table 1 for relative weights in CPI)

1. Inflation in “food and beverages” component of CPI increased by 72 basis points to 1.38% in April over March largely due to spike in vegetables prices. Rising inflation in ‘meat and fish’ and ‘egg’ contributed to inflation in “Food and beverages” group during April 2019. Waning disinflation in other food items like pulses and products, sugar and confectionery, fruits etc are expected to exert inflationary pressure in the coming months.
2. Inflation rate in “Pan, tobacco and intoxicants” group continued to fall and eased further to 4.3% from 4.6%.
3. Inflation rate in “Clothing and footwear” moderated further by 51 bps over the month and stood at 2.0% in April 2019.
4. “Housing” inflation eased by 17 bps over the previous month to reach 21-month low levels at 4.76% in April 2019.
5. Inflation rate in “Fuel and light” group increased by 22 bps to reach 2.56% in April 2019. Sudden jump in oil prices to average USD 75 per barrel in the month of April, which exerted upward pressure on domestic LPG prices, diesel and other fuel prices.
6. Inflation in “Miscellaneous” group which largely reflects changes in the prices of services items witnessed 58 bps fall in inflation rate in a single the month. Inflation rate in Miscellaneous group touched a low of 5.1% in April 2019, the lowest in last 11 months. Among 114 items included in this group, 66 items show rise in prices, while the remaining items reported decline in prices compared to previous month.

Groups/ Sub Groups	Weights (%)	Rate (Y-o-Y in %)		
		Apr-18	Mar-19	Apr-19
<b>CPI Combined (1+2+3+4+5+6)</b>	<b>100.0</b>	<b>4.58</b>	<b>2.86</b>	<b>2.92</b>
<b>1. Food and beverages</b>	<b>45.86</b>	<b>3.00</b>	<b>0.66</b>	<b>1.38</b>
Cereals and products	9.67	2.56	1.17	1.17
Meat and fish	3.61	3.59	6.55	7.55
Egg	0.43	6.19	1.45	1.94
Milk and products	6.61	3.21	0.78	0.42
Oils and fats	3.56	2.20	1.08	0.74
Fruits	2.89	9.72	-5.88	-4.89
Vegetables	6.04	7.46	-1.49	2.87
Pulses and products	2.38	-12.35	-2.25	-0.89
Sugar and confectionery	1.36	-4.05	-6.12	-4.05
Spices	2.50	1.25	1.23	0.80
Non-alcoholic beverages	1.26	1.73	3.56	3.24
Prepared meals, snacks, sweets etc.	5.55	4.85	3.19	2.71
<b>2. Pan, tobacco and intoxicants</b>	<b>2.38</b>	<b>7.91</b>	<b>4.61</b>	<b>4.27</b>
<b>3. Clothing and footwear</b>	<b>6.53</b>	<b>5.11</b>	<b>2.52</b>	<b>2.01</b>
Clothing	5.58	5.29	2.49	1.93
Footwear	0.95	4.27	2.72	2.41
<b>4. Housing</b>	<b>10.07</b>	<b>8.50</b>	<b>4.93</b>	<b>4.76</b>
<b>5. Fuel and light</b>	<b>6.84</b>	<b>5.16</b>	<b>2.34</b>	<b>2.56</b>
<b>6. Miscellaneous</b>	<b>28.32</b>	<b>4.96</b>	<b>5.68</b>	<b>5.10</b>
Household goods and services	3.80	4.75	6.05	5.05
Health	5.89	5.54	8.86	8.43
Transport and communication	8.59	4.55	2.98	2.46
Recreation and amusement	1.68	4.96	5.60	5.56
Education	4.46	5.13	7.51	6.93
Personal care and effects	3.89	4.96	4.06	3.10
<b>Consumer Food Price Index</b>	<b>39.06</b>	<b>2.80</b>	<b>0.30</b>	<b>1.10</b>
Note: The weights are indicative to show relative importance of groups and sub-groups				
Source: Mospi, BWR Research				

## View – CPI Inflation expected to remain benign

The trend in inflation will depend on factors like monsoon behaviour, oil prices and current account and fiscal deficit during FY 2019-20. Rising food inflation would be a cause of concern for overall inflation outlook; although, easing core inflation provides some respite. Considering supply constraints arising due to seasonal rise in food items, BWR expects CPI inflation to cross 3% in the second quarter of 2019-20; however, the inflation will remain within the RBI MPC's target of 4%. BWR does not expect any major rate cuts during Q2 and Q3 barring except 25 bps.



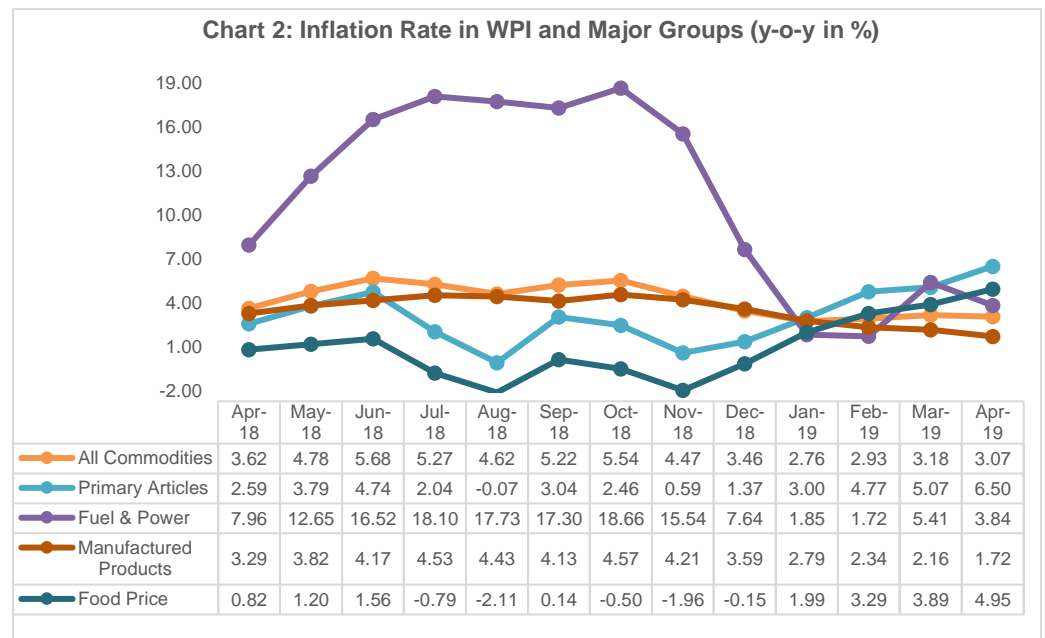
## WPI eases to 3.07% in April 2019 despite Rise in Food Inflation

As per the latest provisional data released by the Government, Wholesale Prices Index (WPI) Inflation eased to 3.07% in April (measured by y-o-y change) from 3.18% in March, showing 11 bps fall over the month. Despite 106 bps increase (over March) in food inflation, WPI inflation trended down owing to fall in the prices of “Fuel and Power” and “Manufacturing products” in April (Chart 2 and Table 2).

**WPI Food inflation** turned positive since January 2019 and increased consistently to reach 24 months high at 4.95% in April 2019. The rising trend in food inflation poses a threat to overall inflation; though, the impact in April is nullified by falling inflation in manufacturing products.

**Manufacturing products** carry nearly two-third of the total weights in the WPI index; hence, 44 bps fall in the inflation rate has certainly impacted the overall WPI Inflation.

**Fuel & Power index** witnessed 3.84% inflation in April, a 157 bps fall compared to previous month. The fall is attributed to decline in coal and mineral oil prices. However, LPG and Kerosene prices increased sharply as a reaction to recent rise in crude oil prices.



Note: Data is provisional, Source: eaindustry.nic.in, BWR Research

Major Group	Weight in %	Inflation rate (Y-o-Y Changes in %)			
		Apr-18	Apr-19	2017-18	2018-19
<b>All Commodities</b>	<b>100</b>	<b>3.62</b>	<b>3.07</b>	<b>2.92</b>	<b>4.29</b>
<b>Primary Articles</b>	22.62	2.59	6.50	1.40	2.78
<b>Fuel &amp; Power</b>	13.15	7.96	3.84	8.34	11.76
<b>Manufactured Products</b>	64.23	3.29	1.72	2.75	3.67
<b>Food Price</b>	<b>24.38</b>	<b>0.82</b>	<b>4.95</b>	<b>1.90</b>	<b>0.62</b>

Data is provisional, Source: <http://eaindustry.nic.in/>

## View – Rising food inflation to put pressure on WPI

WPI inflation has always been lower than CPI inflation historically, but this trend has reversed since June 2018. The divergence between WPI and CPI crossed 2 percentage points in October-November 2018, when Inflation rate in WPI remained positive and CPI turned negative. Lower WPI inflation at a time when CPI showing signs of edging up is somewhat perplexing. But food inflation in both WPI and CPI is on the rise. If the trend continues, going forward, rising food inflation may lead to increase in WPI to rise beyond 3.5% in the second quarter of 2019-20.

## IIP growth plunged to -0.1% in March 2019 on the back of a contraction in manufacturing output

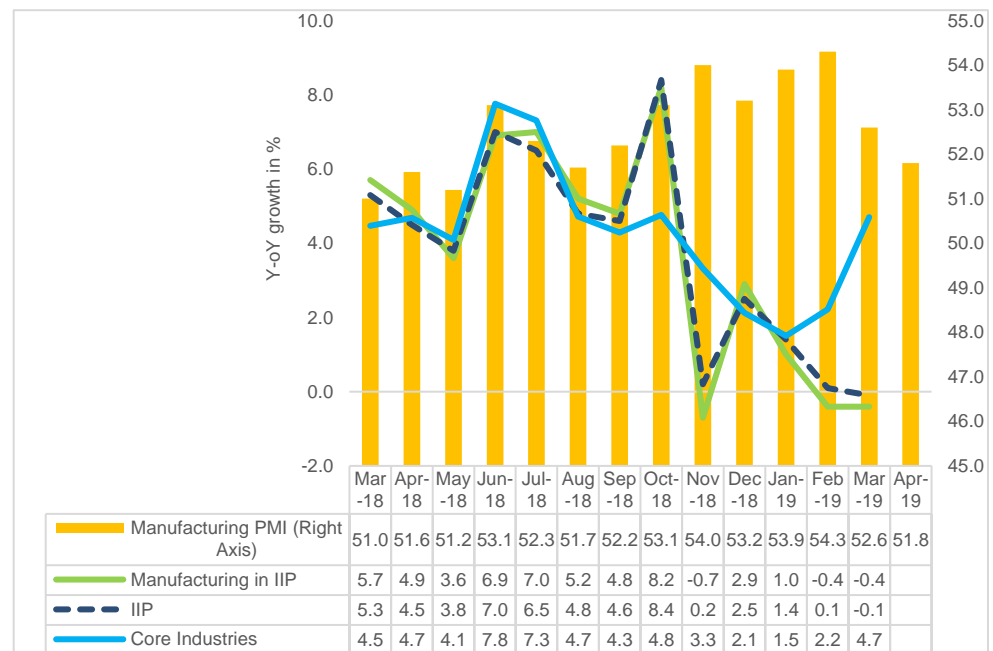
As per the latest provisional data released by MOSPI, the growth in Index of Industrial Production (IIP) dropped to -0.1% during March 2019, 21-months low, as against 5.3% growth registered a year ago. With this, the fiscal year 2018-19 reported a 3.6% growth in IIP which is comparatively lower than last year's growth of 4.4%.

Annual industrial production growth plunged due to couple of reasons like base effect, slowdown in manufacturing output and falling consumer demand. Manufacturing sector, which represents nearly 80% of total industrial production witnessed 3.5% growth during the fiscal as against 4.6% reported in the last fiscal. On a use-based classification, industrial production in 2018-19 was supported by notable output growth of infrastructure/construction goods and consumer-durables. The Intermediate goods' sub-par performance (-0.6%) was followed by a subdued performance in capital goods. Output of consumer non-durables also rose modestly as compared to last year's growth (Chart 3 and Table 3).

	Weights	Mar-18	Mar-19	2017-18	2018-19
<b>IIP (General)</b>	<b>100</b>	<b>5.3</b>	-0.1	<b>4.4</b>	<b>3.6</b>
<b>Mining</b>	14.4	3.1	0.8	2.3	2.9
<b>Manufacturing</b>	77.6	5.7	-0.4	4.6	3.5
<b>Electricity</b>	8.0	5.9	2.2	5.4	5.2
<b>Use-Based Category</b>					
<b>Primary Goods</b>	34.0	3.0	2.5	3.7	3.5
<b>Capital Goods</b>	8.2	-3.1	-8.7	4.0	2.8
<b>Intermediate Goods</b>	17.2	2.5	-2.5	2.3	-0.6
<b>Infrastructure/ Construction Goods</b>	12.3	9.1	6.4	5.6	7.5
<b>Consumer Durables</b>	12.8	6.2	-5.1	0.8	5.3
<b>Consumer Non-Durables</b>	15.3	14.1	0.3	10.6	3.8
Source: <a href="http://www.mospi.gov.in">http://www.mospi.gov.in</a> , BWR Research. Data is provisional					

The composite Purchasing Managers' Index (PMI) produced by Nikkei and IHS Market moderated to 51.8 in April from 52.6 in March portraying deteriorating manufacturing activity. Yet, the index remained well above the 50-point threshold. On a positive note, Core sector continued to outperform IIP growth since the beginning of 2019 and registered 4.7% increase in output during March 2019 (Chart 3).

**Chart 3: Manufacturing PMI and Y-o-Y growth in IIP and Core industries (%)**



Source: mospi.nic.in/, ieconomics.com, BWR Research. Note: Data is provisional

### View – Proactive initiatives needed to revive Industrial output

The slowdown in economic growth is evident from the downward forecast of India's GDP growth by many international agencies. IIP being one of the major indicator of economic health, the slowdown in industrial output is a cause of concern. Improving core sector performance reflect revival in infrastructure performance, while a positive PMI points to sustained economic expansion.

While the growth has decelerated, the capacity utilization is at the highest level. Therefore, increase in output growth will critically depend on new investments. The new government will have to take decisive measures to increase investment and continued focus on resolving the twin balance sheet crisis is important. Going forward, BWR expects IIP to rebound, and improve its performance as the new government will have to undertake fresh investments and policy initiatives to provide momentum to the economy.

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