

CPI and IIP

12 May 2022

Inflation spikes, IIP inching up

India's CPI rose to 7.8% in Apr'22 from 7% in Mar'22, reaching the highest level since May'14. This was driven by continued increase in food and fuel inflation. We expect RBI to hike repo rate by another 25-35bps in response to curtail spiralling prices. Industrial out in Mar'22 picked up by 1.9% from manufacturing output up by 0.8%. CPI inflation rose to 7% in Mar'22. 1.5% in Feb'22. On an annual basis, production was up by record 11.3% in FY22, after registering a decline in the previous 2 years.

Sonal Badhan

sonal.badhan@bankofbaroda.com

CPI climbs further up: CPI inflation rose to nearly 8 year high (8.3% in May'14) to 7.8% in Apr'22 (est.: 7.5%) from 7% in Mar'22. With this, the CPI print has surpassed RBI's mandate for the third consecutive month now. Food inflation rose further by 8.4% in Apr'22 (17-month high) from 7.7% in the previous month. Within food, prices of vegetables, fruits, spices, cereals and milk rose the most. Vegetable inflation remained elevated and in double-digit at 15.4% in Apr'22 (highest since Nov'20) compared with 11.6% in Mar'22. Fruit prices also rose by 5% from 2.5% last month and milk prices were up by 5.5% versus 4.7% in Mar'22. Price of cereals inched up by 6% from 5%, while that of spices were up by 10.6% from 8.5%. On the other hand, prices of protein based items (eggs, meat & fish), pulses and sugar moderated, albeit marginally. Continued disruption in global supply chain due Russia-Ukraine war and lockdowns in China are likely to keep food inflation higher.

Core inflation hardens: Core inflation rose by 66bps to 7% in Apr'22. The increase was broad-based (barring personal care and effects). Significant jump was seen in fuel light component (10.8% versus 7.5% in Mar'22) and transport and communication (10.9% versus 8%). Apart from this, increase was also visible in prices of clothing and footwear (9.9% versus 9.4%), education (4.1% versus 3.6%), recreation & amusement (7.3% versus 7%), health (7.2% versus 7%) and housing (3.5% versus 3.4%). Only personal care and effect index showed slight moderation (8.6% versus 8.7%).

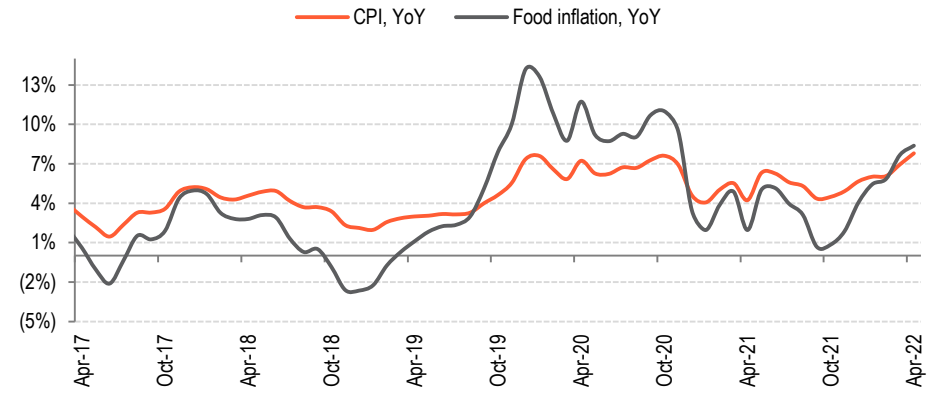
Imminent rate hike: Given the trajectory of retail inflation with food and core inflation remaining elevated, we see a case for RBI hiking repo rate by another 25-35bps. Rising global inflation, depreciating rupee (contributing to imported inflation) and looming threat over EU's embargo on Russian oil makes our case stronger for a repo rate hike by RBI.

IIP growth inch up: Industrial output rose to 1.9% in Mar'22 from 1.5% in Feb'22 led by improvement in manufacturing electricity sectors. Manufacturing output rose by 0.9% in Mar'22 following 0.5% rise in Feb'22, while electricity production was up by 6.1% from 4.5% in the previous month. On the other hand, mining output eased to 4% in Mar'22 from 4.5% in Feb'22. On an annual basis, overall industrial production was up by 11.3% in FY22 compared with a decline of (-) 8.4% in FY21. This is the highest print in the current (2011-12) series. Notably, over a 2-year horizon, IIP index is 26.5% above the pre-pandemic level, signifying recovery in economic activity. All sub-sectors have performed well with manufacturing output up by 29.6%, electricity by 30% and mining by 10.4%.

Primary goods strengthen: Within use-based classification, primary and consumer goods have registered an improvement. Primary goods clocked to 5-month high at 5.7% in Mar'22 from 4.6% in Feb'22. Consumer durables and non-durables also fell at slower pace of (-) 3.2% (-8.7% in Feb'22) and (-) 5% (-5.8% in Feb'22), respectively. However, output of capital, intermediate and infra goods moderated. Out of capital goods eased to 0.7% from 2% in Feb'22, while that of intermediate goods eased to 0.6% from 3.7%. Output of infra goods was down to 7.3% from 9.1% last month. On an annual basis, barring primary and consumer non-durables, all the other sectors registered double digit growth in FY22.

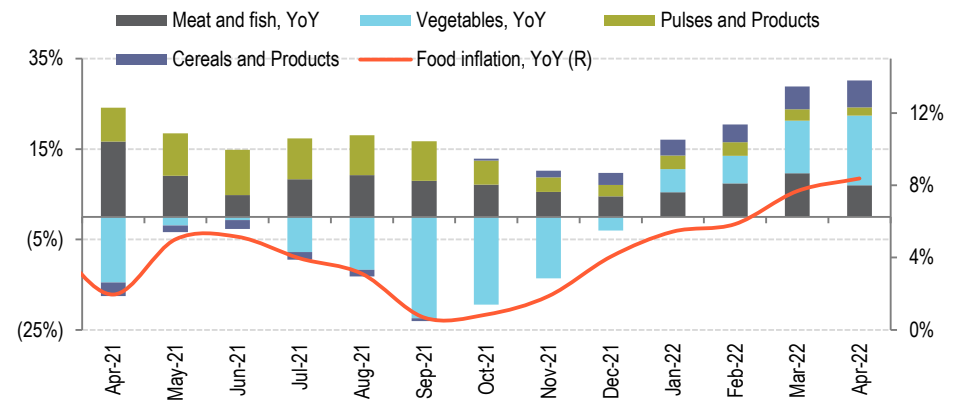


Fig 1 – CPI rises to 7.8% in Apr'22, led by food and fuel



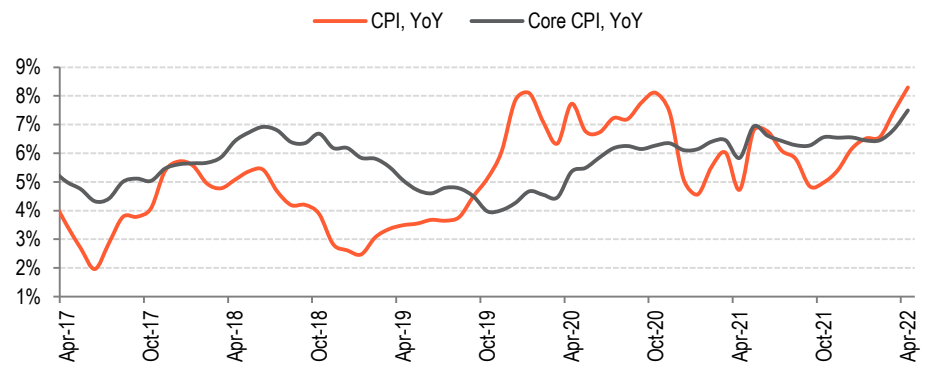
Source: CEIC, Bank of Baroda Research

Fig 2 – Categories of food inflation exhibiting pressure

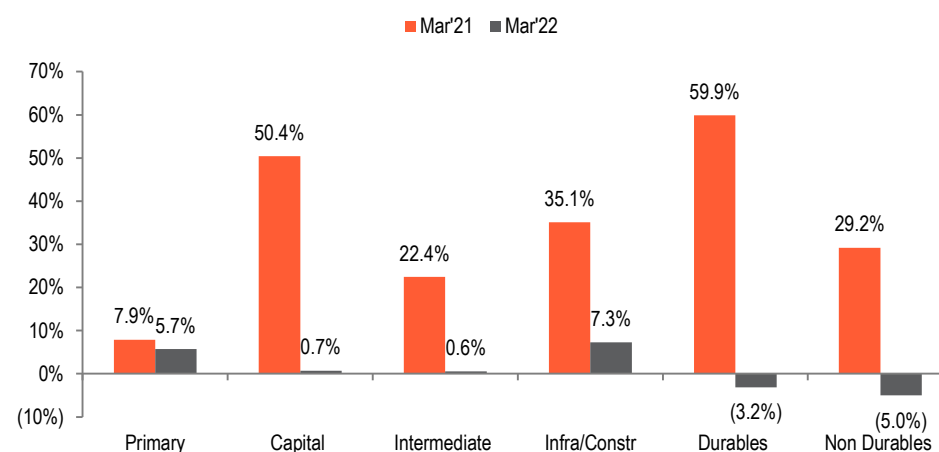


Source: CEIC, Bank of Baroda Research

Fig 3 – Elevated Core



Source: CEIC, Bank of Baroda Research

Fig 4 – Use Based: Growth Rate

Source: CEIC, Bank of Baroda Research

Table 1: IIP growth edges upwards

(% change)	Mar'21	Mar'22	Apr-Mar'21	Apr-Mar'22
Mining	6.1	4.0	(7.8)	12.2
Manufacturing	28.4	0.9	(9.6)	11.7
Electricity	22.5	6.1	(0.5)	7.9
IIP general	24.2	1.9	(8.4)	11.3

Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5413

chief.economist@bankofbaroda.com