

INFLATION AND IIP

12 December 2019

Food inflation at 70-month high

IIP surprised positively at (-) 3.8% in Oct'19 compared with (-) 4.3% in Sep'19. Intermediate goods improved but all other categories deteriorated. CPI inflation jumped to 5.5% in Nov'19 (4.6% in Oct'19) led by food inflation at 10% (7.9% in Oct'19). Within food, vegetables, pulses and cereal prices accelerated. Core also rose by 10bps but is likely to remain below 4% given the lacklustre growth environment. We thus expect RBI to remain on hold till Q1FY21 as inflation will remain above its target of 4%.

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IIP growth subdued: Industrial output in Oct'19 surprised positively at (-) 3.8% compared with consensus estimate of (-) 5%. It also improved sequentially from (-) 4.3% in Sep'19. While electricity output saw a sharp deceleration to (-) 12.2% in Oct'19 from (-) 2.6% in Sep'19, manufacturing output contracted by (-) 2.1% in Oct'19 versus (-) 4% in Sep'19. Within manufacturing, consumer durables and FMCG goods have seen a deceleration at (-) 18% and (-) 1.1% in Oct'19 from (-) 9.9% and (-) 0.4% in Sep'19 respectively. Even infra/construction goods output contracted further. So is the case with capital goods at (-) 21.9% in Oct'19. Only intermediate goods reported a large increase at 22.2% in Oct'19 from 7% in Sep'19 and does not seem sustainable.

CPI inflation at 40-month high: CPI inflation accelerated to 5.5% in Nov'19 from 4.6% in Oct'19. As early as May'19 it was 3%. The acceleration is entirely driven by food inflation which is now at 10%, highest since Dec'13. Vegetable prices rose by 36% in Nov'19 (26.1% in Oct'19, 5.5% in May'19) due to the increase in onion, garlic and tomato prices. Prices of pulses also inched up at a 38-month high of 13.9%. Cereal inflation also picked up to 3.7% in Nov'19 (2.2% in Oct'19). We believe supply disruptions and a positive base effect will play out from Feb'20 and till such time food inflation will remain elevated.

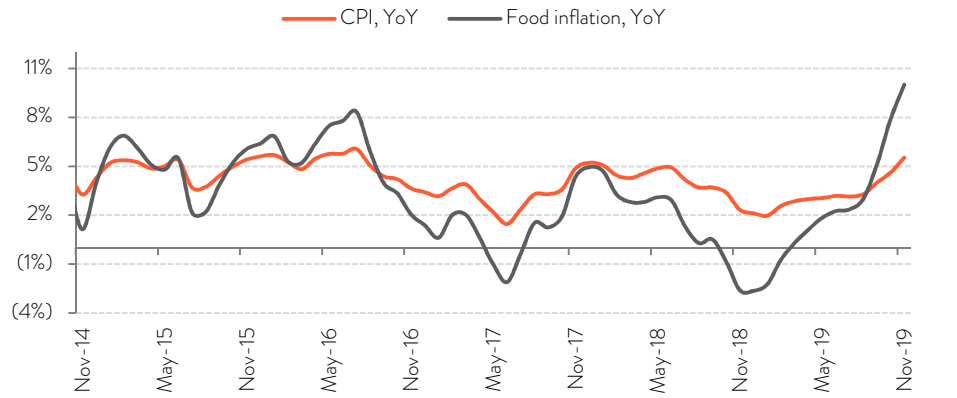
Core rises moderately: Core inflation rose by 10bps to 3.5% in Nov'19 led by transport and communication index (0.9% versus -0.5% in Oct'19). Oil prices were higher by 5.2% MoM in Nov'19. Also telecom tariffs started inching up in Nov'19 with further acceleration in Dec'19. Personal care and effects (6.3% versus 5.5% in Oct'19) also rose. However, other components of core inflation led by education and amusement decelerated. Given the state of the economy, we expect core inflation to remain below 4% in FY20. CPI inflation is likely to be within 4% only in Q2FY21 once food cools-off.

KEY HIGHLIGHTS

- CPI inflation in Nov'19 jumps to 40-month high at 5.5% from 4.6% in Oct'19%.
- Core inflation rises to 3.5% in Nov'19.
- IIP growth at (-) 3.8% in Oct'19 versus (-) 4.3% in Sep'19.

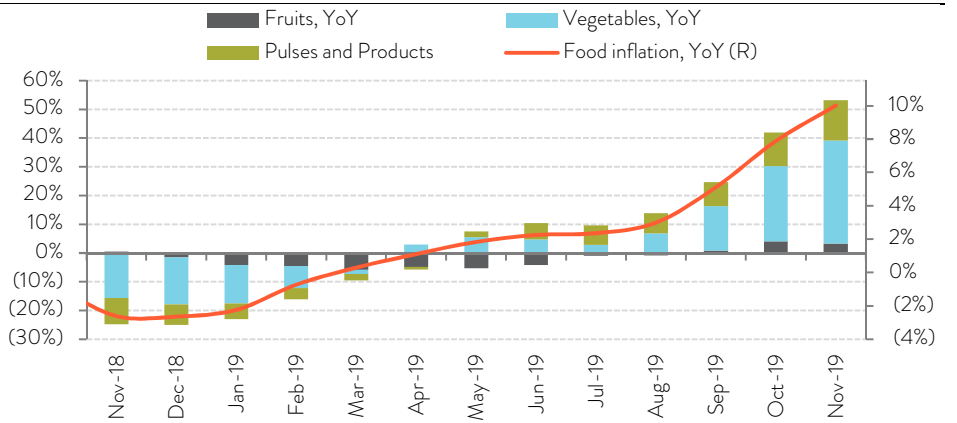


FIG 1 – CPI JUMPS TO 40-MONTH HIGH IN NOV’19



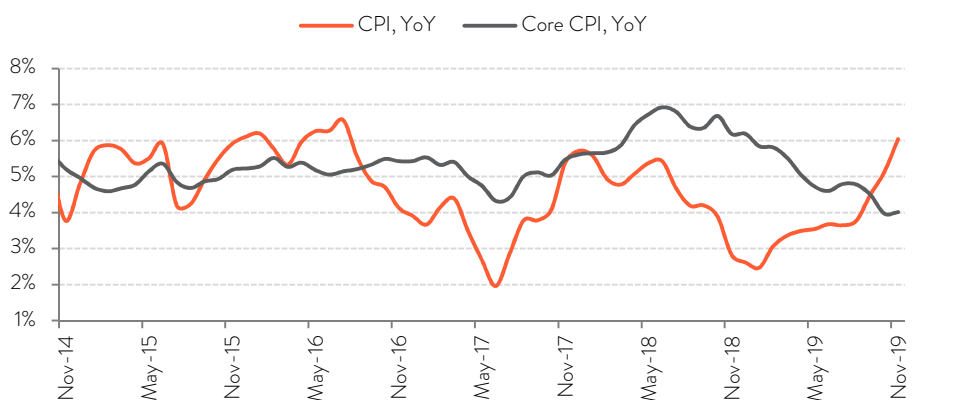
Source: CEIC, Bank of Baroda Research

FIG 2 – FOOD INFLATION PICKED UP LED BY VEGETABLES

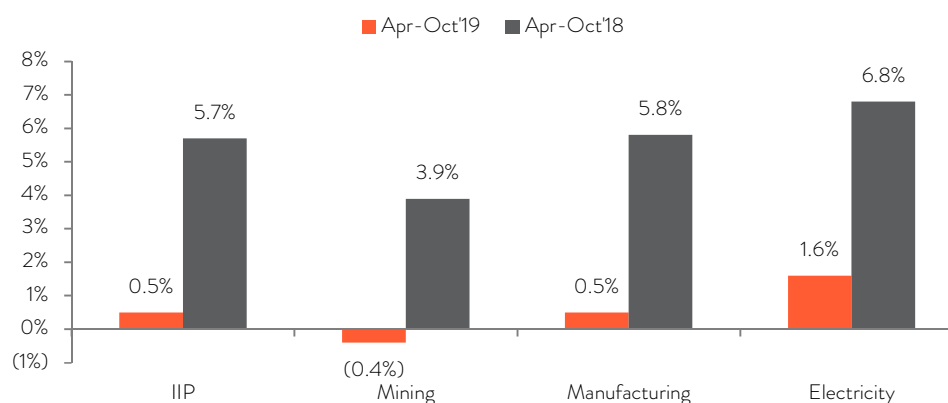


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE RISES MODERATELY



Source: CEIC, Bank of Baroda Research

FIG 4 – MINING AND MANUFACTURING DRAGGING IIP LOWER ON CUMULATIVE BASIS


Source: CEIC, Bank of Baroda Research

FIG 5 – IIP GROWTH REMAINS SUBDUED

Sectoral (%)	Weight	Oct-19	Sep-19	Oct-18	Apr-Oct'19	Apr-Oct'18
IIP	100.0	(3.8)	(4.3)	8.4	0.5	5.7
Mining	14.4	(8.0)	(8.6)	7.3	(0.4)	3.9
Manufacturing	77.6	(2.1)	(4.0)	8.2	0.5	5.8
Electricity	8.0	(12.2)	(2.6)	10.8	1.6	6.8
Use-Based						
Primary Goods	34.1	(6)	(5.2)	6.1	0.2	5.1
Capital Goods	8.2	(21.9)	(20.3)	16.9	(12.0)	8.9
Intermediate Goods	17.2	22.2	7.0	2.4	11.3	1.5
Infrastructure and Construction Goods	12.3	(9.2)	(6.8)	9.0	(2.4)	8.7
Consumer Durables Goods	12.8	(18)	(9.9)	17.4	(7)	9.4
Consumer Non-Durables Goods	15.3	(1.1)	(0.4)	8.6	4.3	4.6

Source: CEIC, Bank of Baroda Research

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