

INFLATION AND IIP

12 February 2020

Inflation moves up, growth lower

CPI inflation jumped to 7.6% in Jan'20 (7.4% in Dec'19) led by acceleration in pulses, protein and cereal inflation. Core also rose by more than 40bps to 4.2% in Jan'20. Given the above backdrop, inflation is likely to remain high in the near term. We expect RBI to remain on hold till inflation remain above its target level in Q3FY21. Additionally, IIP surprised negatively at (-) 0.3% in Dec'19 from 1.8% in Nov'19. Capital goods (-18.2%) contracted the most followed by consumer durables (-6.7%). Growth uptick to be visible in FY21.

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IIP growth slips: Industrial output slipped back into the contraction at (-) 0.3% in Dec'19 from 1.8% in Nov'19. This was led by drop in manufacturing output and electricity output to (-) 1.2% and (-) 0.1% respectively. Within manufacturing, capital goods dropped sharply by (-) 18.2% compared with (-) 8.2% in Nov'19 and consumer durables slipped to (-) 6.7% in Dec'19 from (-) 1.6% in Nov'19. Even consumer non-durables reported a decline of (-) 3.7% (1.5% in Nov'19). Primary goods inched up to 2.2% in Dec'19 (versus -0.3% in Nov'19) while intermediate goods decelerated to 12.5% in Dec'19 from 16.5% in Nov'19. We expect growth to improve in FY21 as government and consumption spending improves.

CPI inflation at 68-month high: CPI inflation accelerated further to 7.6% in Jan'20 from 7.4% in Dec'19. Food inflation remains stubbornly high at 13.6% vs 14.1% in Dec'19, and the marginal decline is only on account of vegetable prices (50.2% in Jan'20 vs 60.5% in Dec'19). However, prices of all other components have inched up with oil, spices, eggs and milk taking the lead. Pulses and cereal inflation also picked further to 16.7% and 5.3% in Jan'20 from 15.4% and 4.4% in Dec'19 respectively. The current trajectory of food inflation suggests decline in food inflation will be slower than earlier anticipated.

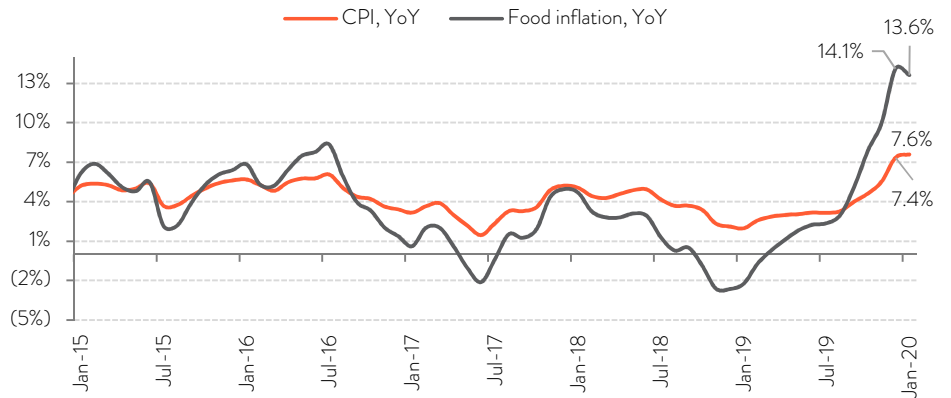
Core inflation sticky: Core inflation rose by more than 40bps to 4.2% in Jan'20 compared with 3.7% in Dec'19. The increase was broad-based with only housing inflation seeing a dip (4.2% in Jan'20 vs 4.3% in Dec'19). Transport and communication prices continued to accelerate at 6.1% in Jan'20 from 4.8% in Dec'19. Higher telecom tariffs weighed into the increase. In addition, average international oil prices were also higher by 5.7% in Jan'20 on YoY basis. Apart from this, personal care and effects (7.2% vs 6.3% in Dec'19), recreation and amusement (4.5% vs 4%) and health (4.2% vs 3.8%) inched up the most.

KEY HIGHLIGHTS

- CPI inflation in Jan'20 jumps to 68month high at 7.6% from 7.4% in Dec'19.
- Core inflation rises to 4.2% in Jan'20.
- IIP growth at (-) 0.3% in Dec'19 versus 1.8% in Nov'19.

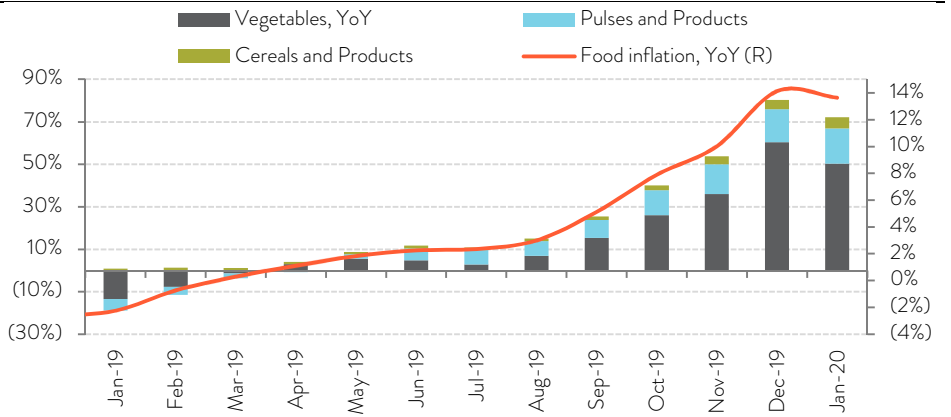


FIG 1 – CPI JUMPS TO 68-MONTH HIGH IN JAN'20



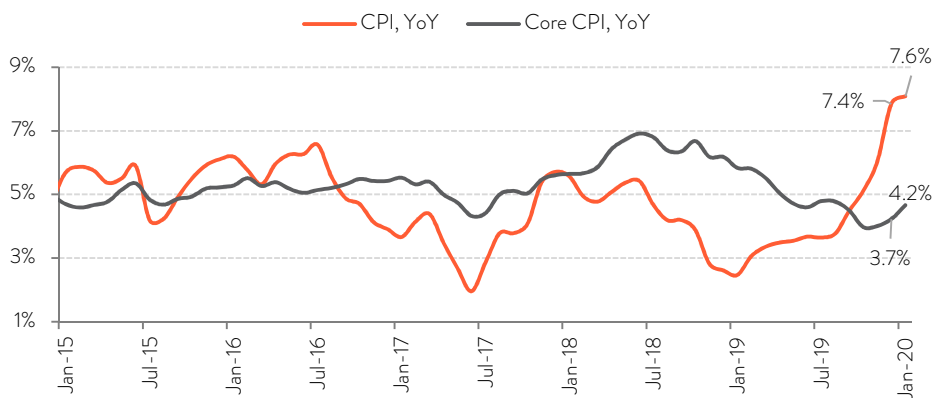
Source: CEIC, Bank of Baroda Research

FIG 2 – FOOD INFLATION MODERATES

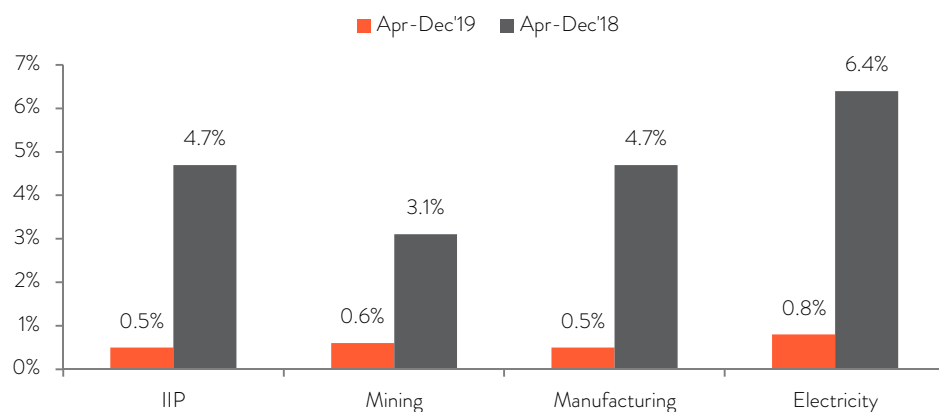


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE INCHES UP FURTHER



Source: CEIC, Bank of Baroda Research

FIG 4 – BROAD BASED SLOWDOWN

Source: CEIC, Bank of Baroda Research

FIG 5 – IIP GROWTH SLIPS IN TO CONTRACTION

Sectoral (%)	Weight	Dec-19	Nov-19	Dec-18	Apr-Dec'19	Apr-Dec'18
IIP	100.0	(0.3)	1.8	2.5	0.5	4.7
Mining	14.4	5.4	1.8	-1.0	0.6	3.1
Manufacturing	77.6	(1.2)	2.7	2.9	0.5	4.7
Electricity	8.0	(0.1)	(5.0)	4.5	0.8	6.4
Use-Based						
Primary Goods	34.1	2.2	(0.3)	(1.1)	0.3	4.2
Capital Goods	8.2	(18.2)	(8.2)	4.2	(12.3)	6.8
Intermediate Goods	17.2	12.5	16.5	(0.8)	12.2	0.5
Infrastructure and Construction Goods	12.3	(2.6)	(2.4)	9.0	(2.7)	8.3
Consumer Durables Goods	12.8	(6.7)	(1.6)	4.1	(6.6)	7.4
Consumer Non-Durables Goods	15.3	(3.7)	1.5	6.5	2.8	4.3

Source: CEIC, Bank of Baroda Research

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