India: May CPI eases as expected; April IIP remains steady

12th June 2024

May'24 CPI clocks in line with our below consensus estimate while April IIP stays steady at 5%

CPI print eased to 4.75% y/y vis-a-vis 4.83% in April and in line with our estimate of 4.76% vs consensus of 4.9%. While food inflation stayed elevated at c.8%, core CPI clocked fresh record lows at 3.1% and fuel CPI stayed in deflation zone for the ninth consecutive month. Meanwhile, April'24 IIP surprised on the upside to clock 5% (similar to Mar'24) vis-a-vis our and consensus estimate of 4.5%.

Food inflation continues to remain sticky

Food CPI remained close to the 8% mark and cause for concern. Within food, vegetables continued to show seasonal uptick while underlying price pressures stay elevated in cereals and pulses. More importantly, CPI ex vegetables slipped further to 3.5% (lowest since October 2019).

Vegetables inflation stayed elevated as on-the-ground prices having not seen the required seasonal correction during winter season and following months, were firm at higher levels owing to extreme weather conditions. Meanwhile, cereals inflation further inched up to 8.7% (highest in 5 months) with wheat stocks persisting near lowest levels in 17 years. Food inflation, in particular vegetables inflation will be keenly watched in the coming months with monsoon likely to be the key driver. In good news, the Australian Bureau of Meteorology in their ENSO outlook has shifted gears from El Nino watch towards La Nina watch.

Core inflation clocks fresh record lows

Core inflation clocked fresh record lows of 3.1% in May'24. The softening in core inflation in May vs April is broad based, except for the uptick seen in personal care CPI which stayed elevated at c.7.7% led by higher gold prices. Our analysis shows that the sharp cooling in core inflation in last 12-18 months is attributed to a combination of lower commodity prices and persistence of output gap in the economy.

April IIP growth remains steady at 5.0%

Industrial production (IIP) growth marginally improved to 5.0% in April, vs 4.9% in previous month and our estimate of 4.5%. While mining IIP provided a positive surprise, electricity was the key driver of uptick in IIP on account of heat waves experienced across the country. Manufacturing eased to 3.9% from 5.8% in Mar'24, due to lesser working days and election effect. The key sectors leading to a drag on manufacturing IIP were pharma and food products sub-segments.

On a use-based classification, wedge between rural-urban demand has again widened, with urban demand showing signs of pick up (consumer durables IIP growth at 9.8%) while rural demand has gone back to contraction mode (consumer non-durables IIP growth swung back into negative zone). Going forward, we continue to see IIP growth sustain in single digits, with monsoon trends on close watch in the coming months as a key driver of rural demand even as election related uncertainty has eased. Global demand trends to stay in focus as well.

We expect rate cuts "later rather than sooner" in FY25

Inflation trends in Q1-FY25 are tracking below the MPC's forecast of 4.9%. Going forward, we expect inflation dynamics to stay comfortable thereby making us project the start of a shallow 50bps rate cut cycle from October 2024. However, our bias remains for rate cuts "later rather than sooner" on account of: (i) Strong growth dynamics reduce the need for policy easing in short term, (ii) Financial stability concerns are likely to keep the RBI vigilant and (iii) Inflation risks especially in food are likely to stay on close watch.

Fig 1: Headline CPI cooled off though food inflation remains sticky in May'24; % y/y

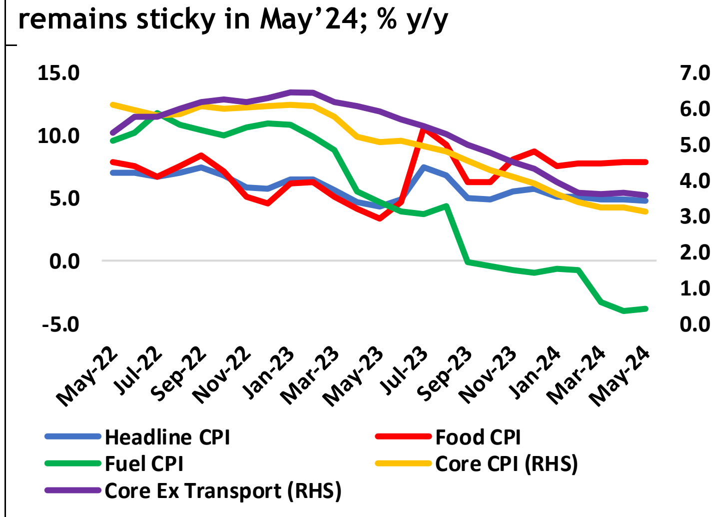
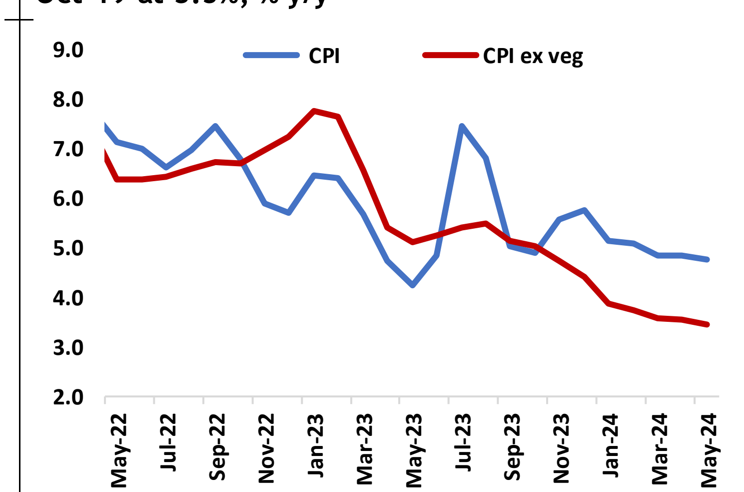


Fig 2: CPI ex veggies slips to lowest levels since Oct'19 at 3.5%; % y/y



Source: CEIC, UBI research

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Fig 3: Vegetables index remained elevated in May 2024 vis-à-vis historical comparison

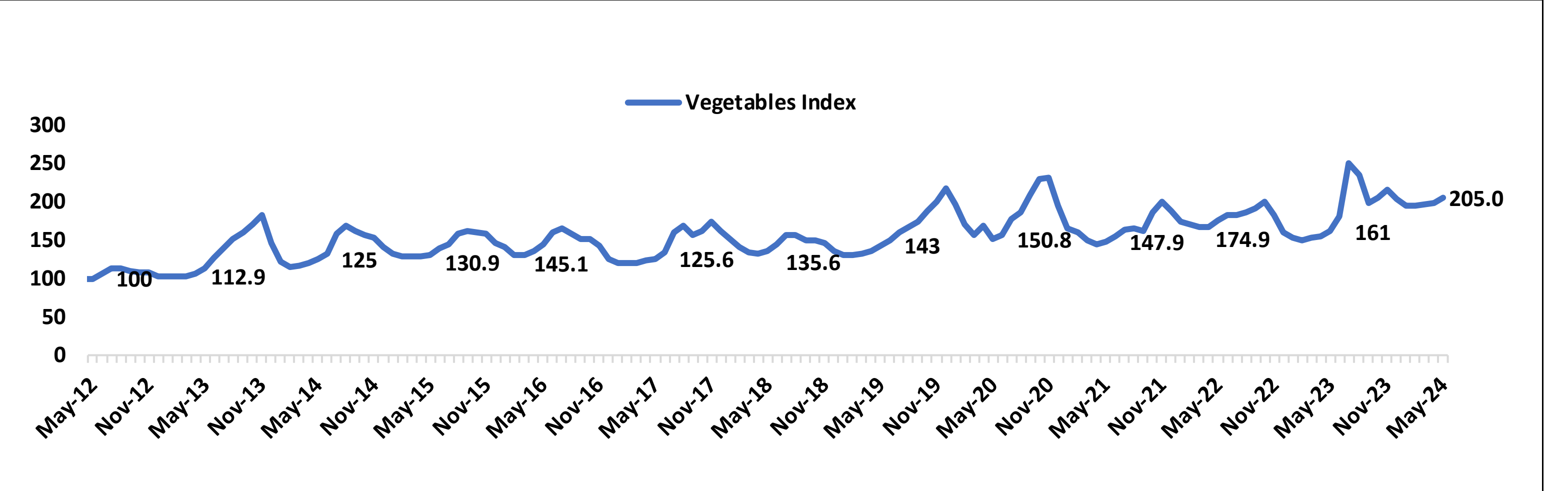

Fig 4: Food inflation remains sticky at c.8% *change in ppt contribution (May vs April)*

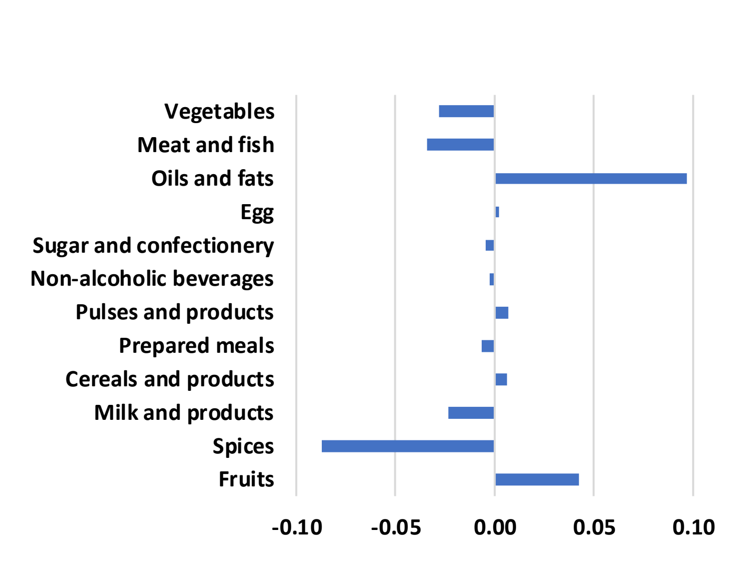

Fig 5: Australian Government Bureau of Meteorology signals La Nina gaining momentum

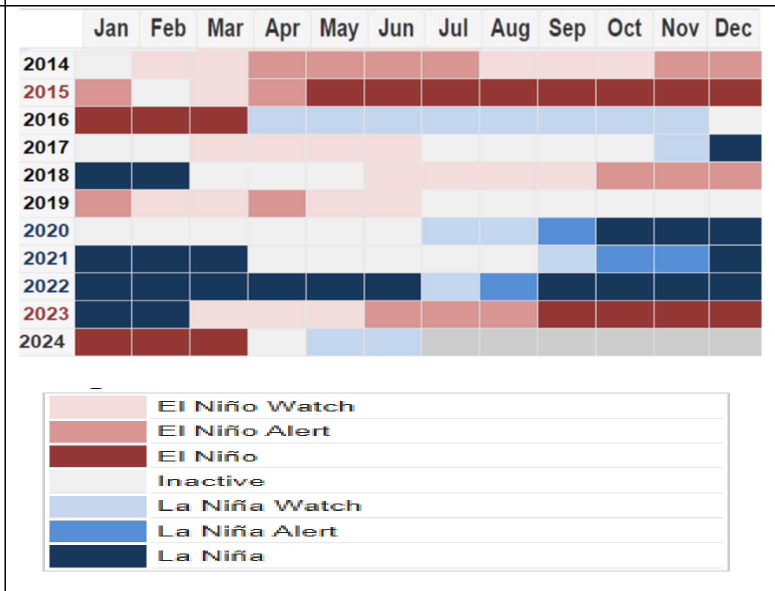

Fig 6: April'24 IIP stays steady at 5%

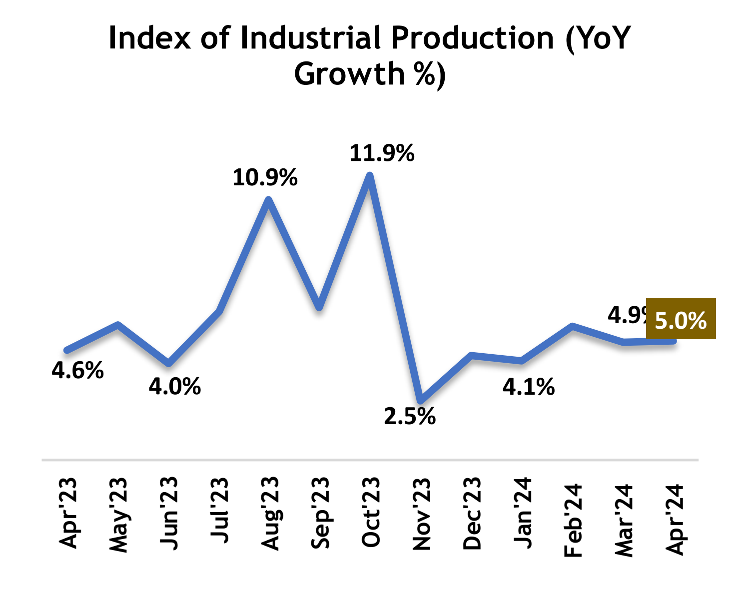

Fig 7: Electricity remained the key driver of IIP backed by heatwave effects

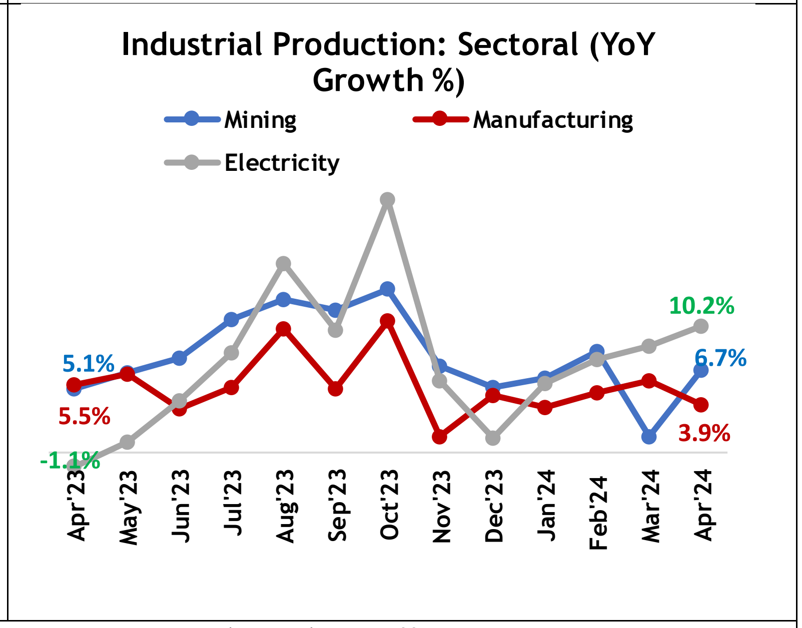

Fig 8: CPI eased in May'24, with further cooling likely in coming months on base effects

Y/Y, %	Headline CPI	o/w Food CPI	Cereals	Pulses	Vegetables	Fuel CPI	Core CPI	Core Ex Transport	Transport & Communication
May-23	4.31	3.3	12.7	6.6	-7.9	4.7	5.05	5.9	1.1
Jun-23	4.87	4.7	12.8	10.6	-0.7	3.9	5.11	5.7	2.5
Jul-23	7.44	10.6	13.0	13.3	37.4	3.7	4.94	5.5	2.5
Aug-23	6.83	9.2	11.9	13.0	26.1	4.3	4.79	5.3	2.5
Sep-23	5.02	6.3	10.9	16.3	3.4	-0.1	4.52	5.0	2.3
Oct-23	4.87	6.3	10.7	18.8	2.8	-0.4	4.26	4.7	2.0
Nov-23	5.55	8.0	10.3	20.3	17.7	-0.8	4.11	4.5	2.1
Dec-23	5.69	8.7	9.9	20.7	27.6	-1.0	3.89	4.3	2.0
Jan-24	5.10	7.6	7.8	19.5	27.1	-0.6	3.59	3.9	2.0
Feb-24	5.09	7.8	7.7	18.9	30.2	-0.8	3.37	3.6	1.8
Mar-24	4.85	7.7	8.4	17.8	28.3	-3.4	3.24	3.6	1.5
Apr-24	4.83	7.9	8.6	16.8	27.8	-4.0	3.23	3.6	1.1
May-24	4.75	7.9	8.7	17.1	27.3	-3.8	3.12	3.6	1.0

Fig 9: Consumer durables growth remains strong in Apr'24 while non-durables back in contraction mode

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Feb'24	Mar'24	Apr'24
Mining	14.4	8.1%	1.3%	6.7%
Manufacturing	77.6	4.9%	5.8%	3.9%
Electricity	8.0	7.5%	8.6%	10.2%
Industrial Production: Use-based				
Primary goods	34.0	5.9%	3.0%	7.0%
Capital goods	8.2	1.0%	6.6%	3.1%
Intermediate goods	17.2	8.7%	5.5%	3.2%
Infrastructure / Construction Goods	12.3	8.5%	7.4%	8.0%
Consumer durables	12.8	12.4%	9.5%	9.8%
Consumer non-durables	15.3	-3.5%	5.3%	-2.4%

Source: CEIC, Australian Bureau of Meteorology, UBI research

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