

CPI clocks 3.65% in August'24 vis-a vis our estimate of 3.30%

August'24 CPI inflation provided an upward surprise versus our expectation of slight cooling in price pressures vis-à-vis 3.54% in July'24. Our estimate was 3.3% (*please refer our report*), while consensus expectation was 3.47%. Food CPI was the key driver of data surprise, coming in at 5.3% (UBI: 4.7%) while core inflation was broadly in line with our estimate. **More importantly, CPI ex vegetables continues to remain subdued at 3.1% (lowest in 5 years) and hence signals that food prices, especially vegetables remain the mainstay of inflation trends.**

Food inflation surprises as CPI outcome at slight departure from OTG trends

Food inflation in August'24 firmed up to 5.30% from 13-month lows of 5.1% in July'24. While favourable base effects continued to support (Food CPI was 9.2% in August'23), the upward surprise vs our estimate of 4.7% was primarily led by cereals, pulses and vegetables. While the latter saw less than expected sequential drop (almost half versus our estimate of -5% MoM), the others saw a MoM pickup in CPI in contrast to the drop in on-the-ground (OTG) prices as per data from Department from Consumer Affairs. Consequently, vegetables CPI switched back into double-digits on a y/y basis versus a brief reprieve seen last month while, cereals inflation came in higher than expected despite favourable base effects. Pulses CPI stayed in double digits for the 15th consecutive month.

Going forward, rainfall trends in September and October are likely to be the key driver of food inflation trends which need close watch. The good news is that monsoon has progressed well during the months of August and September. The cumulative rainfall deviation has improved from 2% deficit in July-end to 8% surplus currently, which has helped crop sowing growth at +2% YoY as on 06th September. The distribution of rainfall is also looking much better than last year. However, as per the Indian Meteorological Department (IMD), after clocking a significant 16% rain surplus in August (5th highest since 2001), September is projected to clock 9% rain surplus. The IMD predicts further recovery in rains in northwest region yet stays concerned regarding floods, landslides etc in some parts of the country. The flooding instances, even though region specific can disrupt the supply chains and may cause a spike again in food prices. The World Meteorological Organisation (WMO) has predicted a 60% probability of La Nina conditions emerging from October which is expected to cause a significant drop in temperatures and unseasonal rainfall (if any) across the country that could impact crop harvest.

Core inflation broadly trends in line with our expectations

Core CPI printed 3.4% in Aug'24, similar to our estimates. While the reading was flat on a YoY basis versus July, sequential price pressures eased on MoM drop in gold CPI and, as spillover impact of mobile tariff hikes in Aug'24 was subdued in line with our expectations. Henceforth, we expect the core inflation trajectory to trend higher towards 4-4.5% in H2-FY25 though recent relief in commodity prices, if sustained is likely to have a salutary effect.

July'24 IIP edges up, led by manufacturing and capital goods

Industrial production (IIP) growth stood at 4.8% in Jul'24, vs an upwardly revised 4.7% in previous month. The reading provided a positive surprise versus our estimate of 4.3%, on upward surprise from manufacturing while, mining provided a downward surprise and slipped into low single digits. Electricity IIP growth also eased somewhat as impact of heatwaves (June was hottest in 123 years) slightly faded. Within manufacturing, top three positive contributors to IIP growth were basic metals (6.4%), electric equipment (28.3%), and coke and refined petroleum products (6.9%) sub-segments. Sectors like pharma were a drag at -8.1% and weighed on overall IIP with IIP ex pharma clocking a stronger 6.0% growth.

Lead indicators also signalled recovery in July'24 with core sector (40% share in IIP) edging up and automobile production continuing to clock strong 16.8% growth. The latter continued to buoy consumer durables IIP this month, though the spike in capital goods was supportive as government resumed spending post elections. A noticeable trend was also observed in infrastructure sector where-in yearly growth in Jul'24 was mild at 4.9% vis-à-vis 12.6% in previous year and 7.1% in Jun'24. The disappointment was primarily led by weakness in consumer non-durables, which continued in negative territory in last two months, causing divergence. This signals downward pressure on rural demand, though the outlook remains contingent on the progress in rainfall trends in the coming months.

We maintain our call of status quo on stance and rates this year

RBI, in its August MPC meeting revised the Q2-FY25 projection from 3.8% to 4.4%, whereas as per current trends, it is likely to undershoot by 20-40bps. However, we see the RBI led MPC staying cautious in October policy and not consider change in stance (as expected by some sections of the market), given food inflation worries and the need to keep a close watch on rainfall trends as La Nina effect is likely to start showing effect. With the US Fed expected to adopt a gradualist approach, we see the MPC delaying start of a shallow rate cut cycle on account of: i/ Food inflation uncertainty amid vulnerability to climate shocks; ii/ relative growth resilience providing monetary policy space and iii/ financial stability concerns as sustained upward pressure on C-D ratio is not in consonance with the "withdrawal of accommodation" policy stance.

By:

Kanika Pasricha
kanikapasricha@unionbankofindia.bank

Nidhi Arora
nidhiarora@unionbankofindia.bank

S.Jaya Laxmi
s.jayalaxmi@unionbankofindia.bank

Fig 1: Headline CPI surprises on the upside on higher food inflation in August'24; % y/y

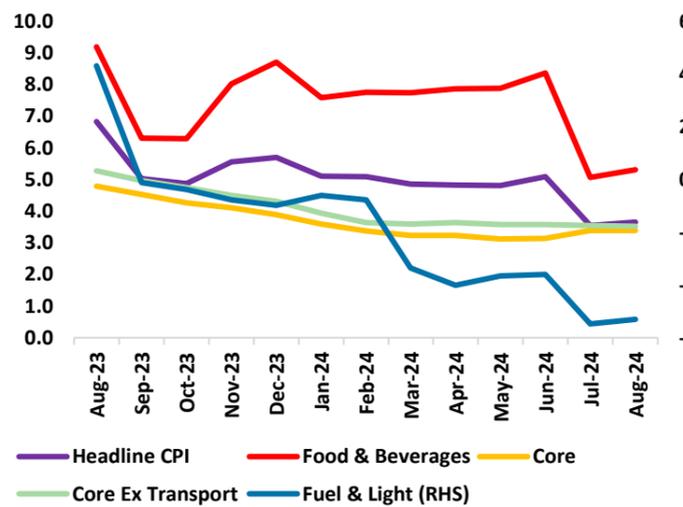


Fig 2: CPI ex veggies stays subdued at 5-year lows at 3.1%; % y/y

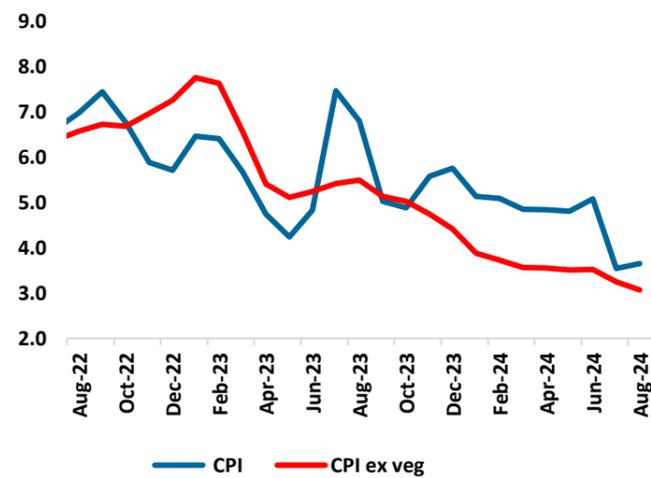


Fig 3: Vegetables index edged lower yet by lower than expected in Aug'24

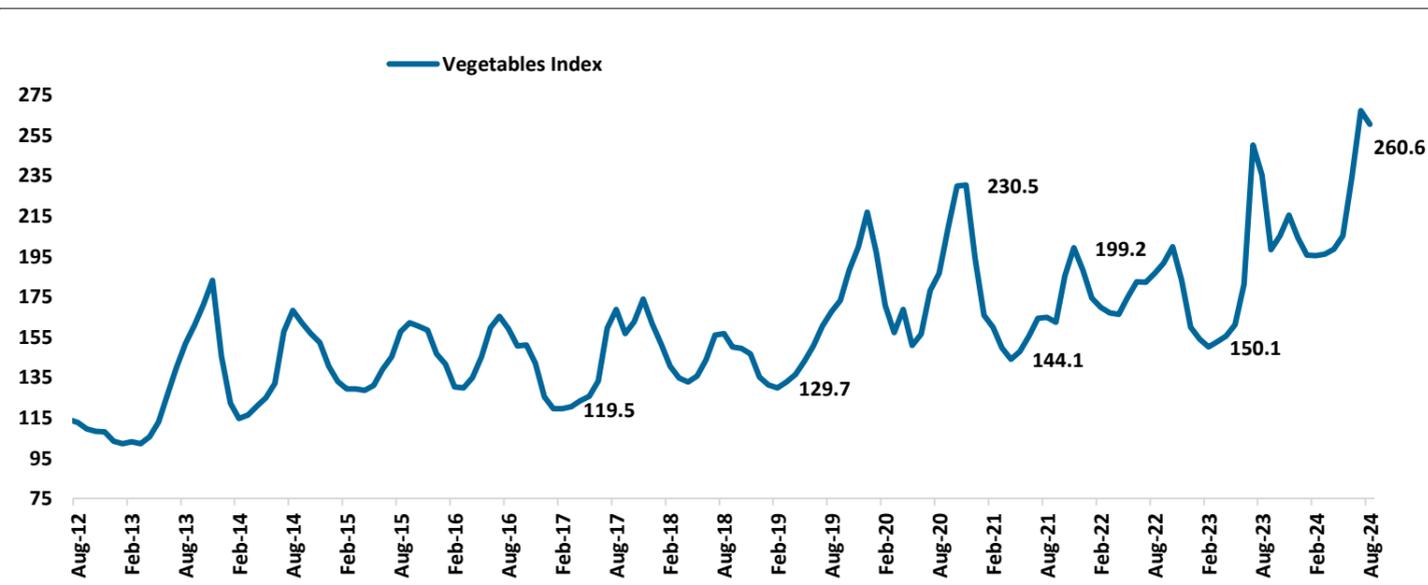


Fig 4: Food inflation remains sticky; change in ppt contribution (August'24 vs July'24)

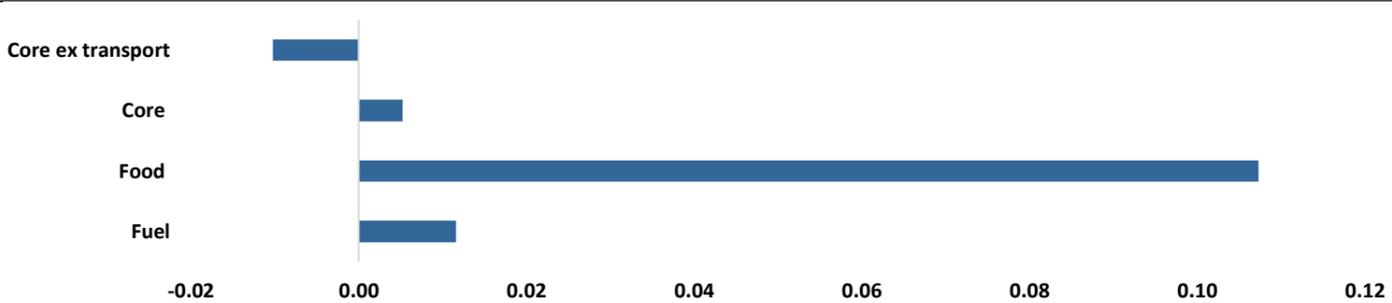


Fig 5. August CPI inches up on higher food inflation while core stays weak

Y/Y, %	Headline CPI	Food & Beverages	Cereals	Pulses	Vegetables	Fuel	Core	Core ex transport	Transport & Communication
Jan-24	5.1	7.6	7.8	19.5	27.1	-0.6	3.6	3.9	2.0
Feb-24	5.1	7.8	7.7	18.9	30.2	-0.8	3.4	3.6	1.8
Mar-24	4.9	7.7	8.4	17.8	28.3	-3.4	3.2	3.6	1.5
Apr-24	4.8	7.9	8.6	16.8	27.8	-4.0	3.2	3.6	1.1
May-24	4.8	7.9	8.7	17.1	27.4	-3.7	3.1	3.6	1.0
Jun-24	5.1	8.4	8.8	16.1	29.3	-3.6	3.1	3.6	1.0
Jul-24	3.54	5.06	8.14	14.77	6.83	-5.48	3.38	3.54	2.60
Aug-24	3.65	5.30	7.31	13.60	10.71	-5.31	3.39	3.52	2.71

Fig 5: Jul'24 IIP broadly stays flat vs revised June'24 reading

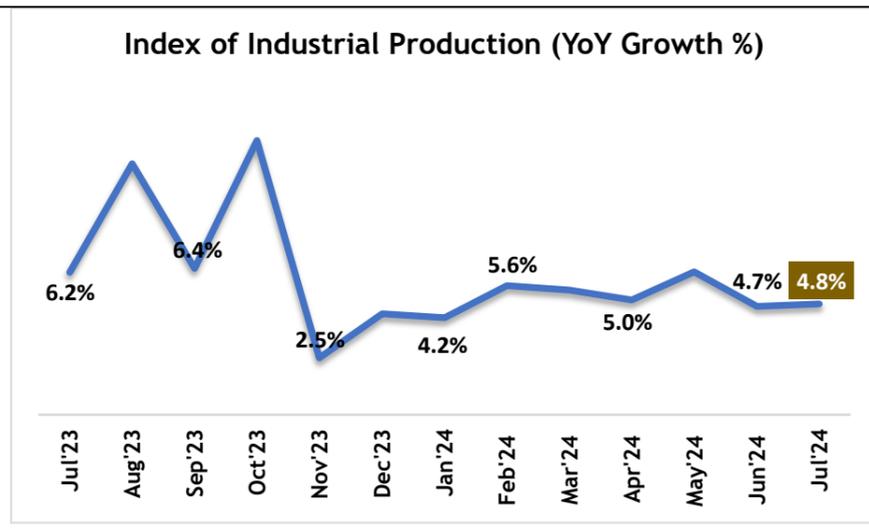


Fig 6: Manufacturing pickup boosted IIP while mining and electricity growth eased

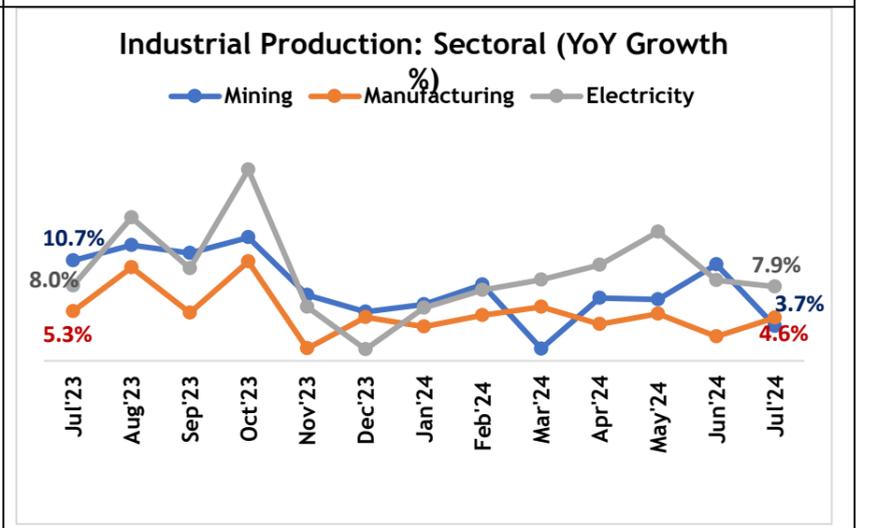


Fig 7: Jul'24 IIP dynamics led by manufacturing, capital goods while consumer non-durables were a drag

Industrial Production: Sectoral					
Sector	Weight	YoY Growth %			
		Apr'24	May'24	Jun'24	Jul'24
Mining	14.4	6.7%	6.6%	10.3%	3.7%
Manufacturing	77.6	3.9%	5.0%	2.6%	4.6%
Electricity	8.0	10.2%	13.7%	8.6%	7.9%
Industrial Production: Use-based					
Primary goods	34.0	7.0%	7.3%	6.3%	5.9%
Capital goods	8.2	2.7%	2.9%	2.9%	5.1%
Intermediate goods	17.2	3.2%	3.9%	3.0%	6.8%
Infrastructure / Construction Goods	12.3	8.0%	6.3%	7.1%	4.9%
Consumer durables	12.8	10.0%	12.6%	8.7%	8.2%
Consumer non-durables	15.3	-2.5%	2.5%	-1.5%	-4.4%

Source: CEIC, Bloomberg, and UBI research

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank

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