India: CPI likely slipped to 5-year lows on base effects, while IIP stagnated

06th September 2024

Base effect continue to support; August CPI likely slipped to 3.3%

- **High base effect likely continues to play cupid, CPI seen to slide further to 3.3% in August'24:** We estimate the CPI for August'24 at 3.3%, further lower than 3.54% seen in July'24 partly because of high base effects (CPI for the month of August'23 was 6.83%) and partly because of softened food prices whereas core inflation is expected to soften to 3.30% (ref. fig.1). We expect the base effect to erode from September'24 month onwards.
- On-the-ground food prices have seen a salutary effect from recovery in monsoon in recent weeks with some improvement in distribution as well, even as key agri states are still reeling under deficit. Within the food basket, August saw sequential drop in prices of cereals, vegetables, pulses, edible oils among others which helped lower food inflation to 4.7% (lowest since June'23) apart from base effects (Aug'23 saw spike in food CPI to 9.2%). While pulses stayed in double digit inflation zone, cereals CPI likely cooled to 6.3% (lowest since June'22) and the meat & fish inflation likely spiked back in August vs negative surprise last month on higher prices. Meanwhile, veggies inflation probably edged up slightly to 7.8% after slipping last month to 6.8% from near 30% levels. More importantly, CPI ex-vegetables is seen easing further to 2.94% in August from 3.25% in July (refer fig.2 & 3).
- Rainfall has seen good progress in the month of August and is in a cumulative surplus of 8% as on 05th September'24. The storage level in water reservoirs has also gone up sharply from 51% to 80% during the month of August'24. As a matter of great relief, the north-west region has seen a sharp and promising recovery from a deficit of 18% to a surplus of 4%. East & North-east India continues to be in deficit even as South India continues to maintain its surplus status. This has helped improve sowing of kharif crops which is up by 2% YoY led by pulses (7%), a key sticky food inflation sub-component facing double digit inflation for more than a year now. With at least one more month of monsoon still left monsoon trends with special focus on key northwest region will be keenly watched out for.

Fig 3: Vegetables index shows a fall from previous spike complimenting the softening in food CPI

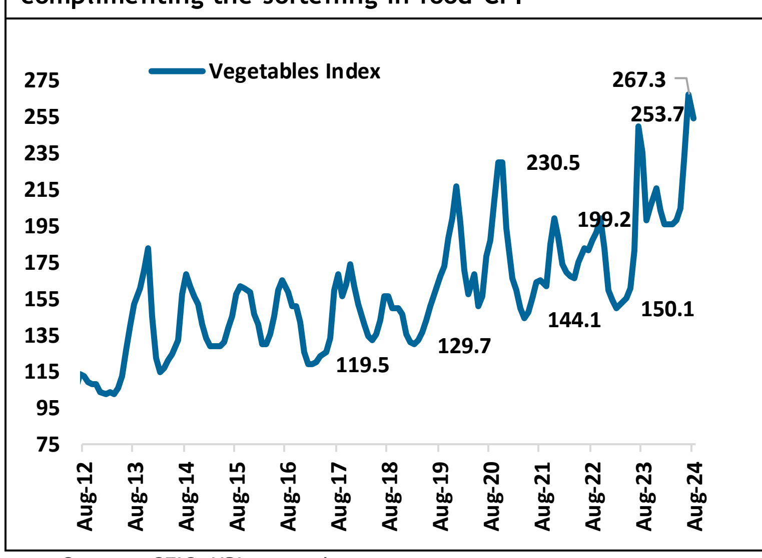
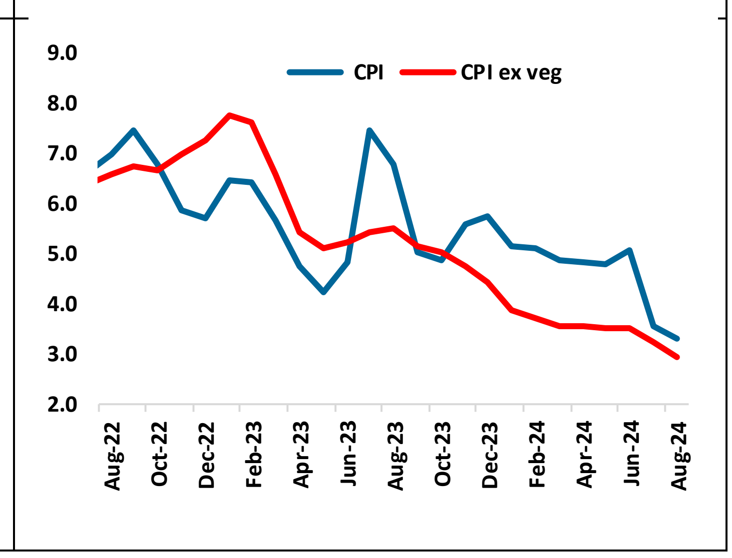


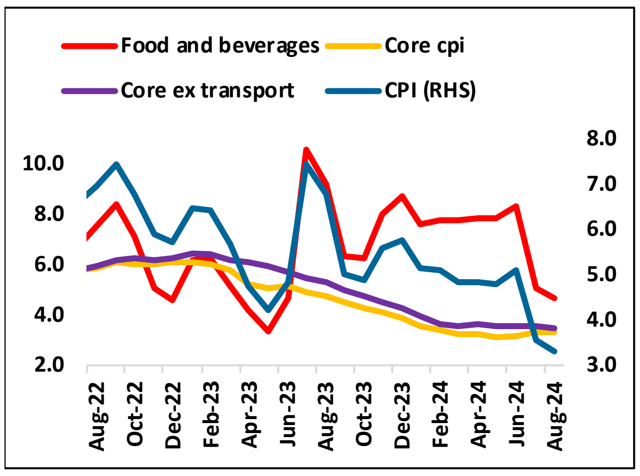
Fig 4: CPI ex veggies is seen slipping further to 2.9%, lowest since May'19; % y/y



Sources: CEIC, UBI research

- Core inflation that saw a first significant pickup in July'24 in last 20 months likely saw a minor tick down sequentially on drop in gold prices and as residual spillover effect of mobile tariff hikes in the month of July'24 is likely to be subdued. We expect the core inflation to ease from 3.35% in July'24 to 3.30% in August'24 and core ex transport inflation from 3.53% to 3.47%.
- Going forward, food inflation, is further expected to come down in coming months as the monsoon has progressed well. However, risks to food inflation from weather related issues like sharply higher than required rains in September (IMD forecasts a strong surplus) needs close watch. Additionally, risks from the spillover impact of global growth concerns and downward pressure on commodity prices will remain in focus as well. We expect the full year FY25 inflation at 4.5%, in line with the MPC's projection.

Fig 1: Headline CPI likely continued to slide in August'24, core CPI also takes a pause; % y/y



Source: CEIC, UBI Research

Note: Figures for August are our projections

Fig 2: Our August'24 CPI estimate; % y/y

Y/Y, %	Headline CPI	Food	Fuel	Core	Core Ex Transport
Apr-24	4.8	7.9	-4.0	3.2	3.6
May-24	4.8	7.9	-3.7	3.1	3.6
Jun-24	5.1	8.4	-3.6	3.1	3.6
Jul-24	3.5	5.1	-5.5	3.3	3.5
Aug-24 (P)	3.3	4.7	-5.6	3.3	3.5

Source: CEIC, UBI Research

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Nidhi Arora
nidhiarora@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Industrial Production likely to have remained steady in July'24

- Industrial production growth, as indicated by IIP, is likely to have remained nearly flat at 4.3%, from 4.2% in previous month and vs 6.2% in July'23.
- High frequency indicators showed a mixed trend in July'24 vs June'24. Mobility-related indicators including GST e-way bills, domestic airline passenger traffic, and petrol and diesel consumption and auto-related indicators such as vehicle registration, motorcycle, scooter and passenger vehicle output witnessed an improvement in July'24 vis-à-vis June'24. However, the YoY growth in coal output and electricity generation moderated in July'24 relative to June'24, impacted by excess rainfall in the month.
- Core sector with 40% contribution in IIP rose to 6.1% in July'24 from 5.1% in June'24. Only four sub-segments — cement, steel, fertilizers, refinery products — within the eight core industries reported a sequential rise in production in July, while output in crude oil, and natural gas contracted. The YoY performance of electricity generation slowed in July'24 relative to June'24, due to lower demand during the monsoon season.
- As indicated by HSBC India Manufacturing PMI, manufacturing activity eased slightly in July amid softer increases in new orders and output. Mining growth likely to have improved, supported by demand for coal as reflected in core sector data.
- Consumer non-durables IIP probably remained in contraction zone in July while the trends in high frequency rural demand indicators signal a slight improvement in outlook. On the other hand, consumer durables IIP growth remains supported, with some slowdown in momentum estimated in July.
- Capital goods and infrastructure/construction goods IIP growth may have slowed in July due to a combination of factors including the impact of above normal monsoons in some parts of the country and slow pickup in capex expenditure growth after the election quarter.
- Going forward, we continue to expect IIP growth to stay in single digits, with a watch on monsoon effect on rural demand along with impact of likely US slowdown on domestic private sector capex recovery and overall industrial sector momentum.

Fig 5: IIP likely to have remained unchanged in Jul'24; % y/y

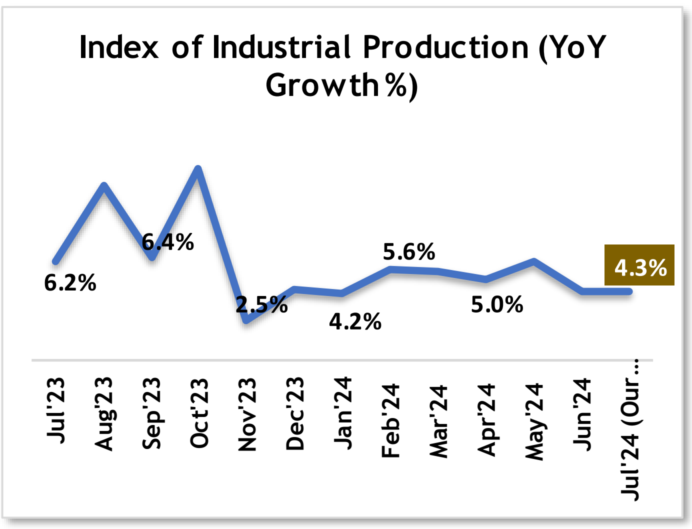


Fig 6: Mining to have led Jul'24 IIP growth; % y/y

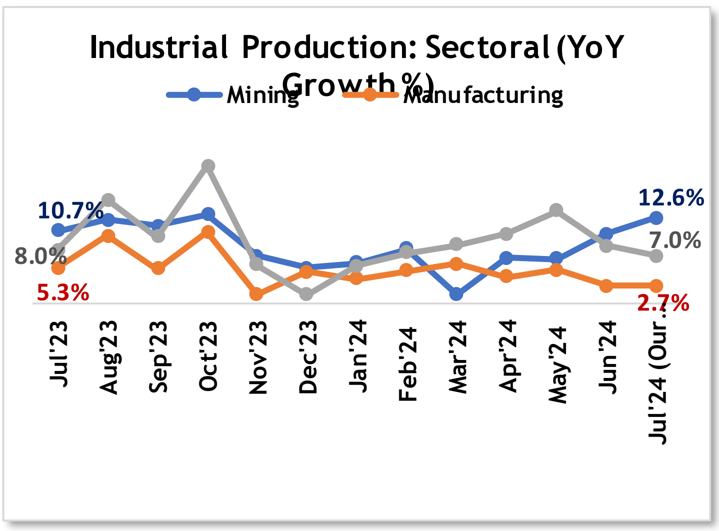


Fig 7: Primary & Intermediate goods show strong performance in Jul'24

Industrial Production: Sectoral					
Sector	Weight	YoY Growth %			
		May'24	Jun'24	Jul'24 (Proj.)	
Mining	14.4	6.6%	10.3%	12.6%	
Manufacturing	77.6	5.0%	2.6%	2.7%	
Electricity	8.0	13.7%	8.6%	7.0%	
Industrial Production: Use-based					
Primary goods	34.0	7.3%	6.3%	9.8%	
Capital goods	8.2	2.9%	2.4%	0.7%	
Intermediate goods	17.2	3.9%	3.1%	3.9%	
Infrastructure / Construction Goods	12.3	6.3%	4.4%	2.2%	
Consumer durables	12.8	12.6%	8.6%	6.8%	
Consumer non-durables	15.3	2.5%	-1.4%	-4.9%	

Source: CEIC, 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