08th November 2024

Fig 1: Headline CPI likely spiked to 6% handle in Oct’24 led by food prices; % y/y

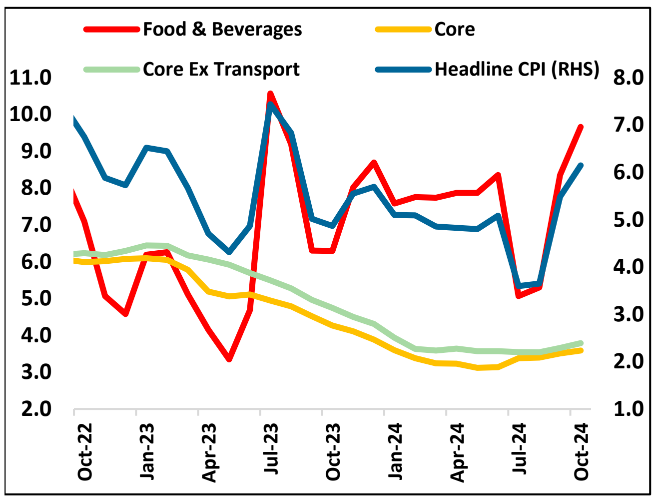


Fig 2: Our Oct’24 CPI estimate; % y/y

Y/Y, %	Headline CPI	Food	Fuel	Core	Core ex Transport
Apr-24	4.83	7.87	-4.02	3.23	3.64
May-24	4.80	7.87	-3.67	3.12	3.57
Jun-24	5.08	8.36	-3.61	3.14	3.57
Jul-24	3.60	5.06	-5.48	3.38	3.54
Aug-24	3.65	5.30	-5.25	3.39	3.54
Sep-24	5.49	8.36	-1.39	3.51	3.66
Oct-24 (P)	6.15	9.66	-1.57	3.59	3.79

Source: CEIC, UBI Research

Note: Figures for October are our projections

October CPI likely jumped to 6.15%, CPI ex veggies inched up to 3.5%

- **The continued spurt in food prices and fading of high base effect likely led to spike in Oct’24 CPI seen jumping to 6.15%:** Apart from thinning of high base effect (CPI for the month of Oct’23 fell to 4.87% from 5.02% in Sep’23), sustained food price pressures drove inflation higher to 6% threshold, last seen in Aug’23. Core inflation probably edged up to comfortable 3.59% levels vs 3.51% in Sep’24 and highest since Dec’23 (ref. fig.1 & 2).

- **In our view, while the RBI led MPC did mention about the October inflation hump, the extent of inflation spike above the upper end of the 4 +/-2% target range may not provide any comfort as November reading is also tracking at elevated levels.** Hence, we maintain our view of no change in rates in December policy with a shallow 50bps rate cut cycle starting February 2025.

- On-the-ground food prices have seen a rebound in Sep’24 and Oct’24 primarily led by vegetables (partly on disruption due to unseasonal rains) and edible oils (mainly imported price pressures with spike in palm oil prices globally on supply worries from key producers). Across the food sub-segments, we will also watch for the recent divergence in trends in on-the-ground prices and CPI numbers specifically for pulses and cereals.

- Within vegetables, one of the key drivers of inflation pressures, the spike in prices of tomatoes (up 49% MoM) and onions (up 5.8% MoM from 18.1% last month) have primarily played spoilsport. More importantly, CPI ex-vegetables is seen inching up yet staying subdued at 3.54% from lows of 3.07% clocked in Aug’24 (refer fig.3 & 4).

- Going forward, all eyes will be on harvest season post Diwali with a close watch on progress in rabi sowing as well.

Fig 3: Vegetables index likely spiked to fresh record highs

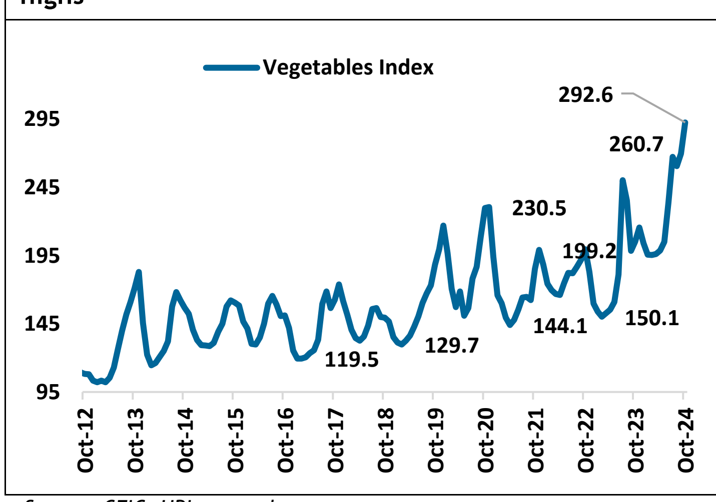
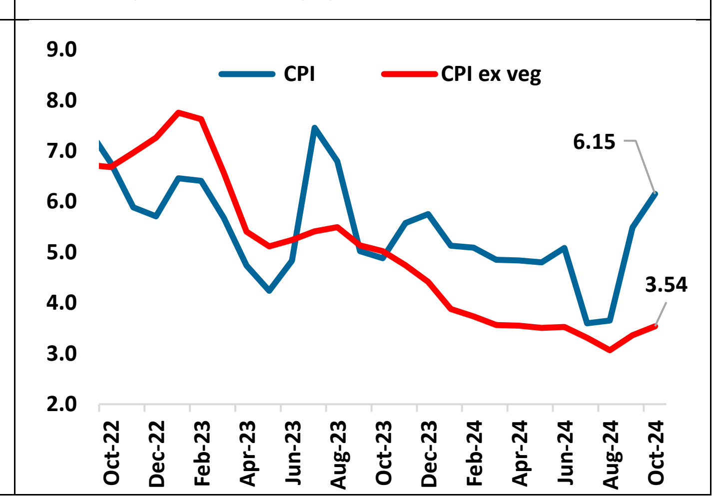


Fig 4: CPI ex veggies seen inching up to 3.54yet stays relatively subdued; % y/y



Source: CEIC, UBI research

- Core inflation likely edged up further in Oct’24 primarily led by impact of gold prices. Interestingly, while most of the core CPI sub-components, pan & tobacco, clothing, housing and miscellaneous sub-segments are in clocking inflation in the 2% threshold, except for education and housing at close to 4%, the outlier is personal care sub-segment as it is likely to clock double-digit inflation in Oct’24. The latter is primarily driven by consistent upward pressure on gold prices with geo-political uncertainties driving safe haven demand for the yellow metal.

- Going forward, food inflation, is expected to ease by the last quarter of this fiscal. The typical easing of food prices in the winter aided by improving prospects for rabi crops are likely to lead to normalization of headline inflation levels. In the interim, however, upside risks to inflation from factors like food supply disruptions (if any), imported price pressures from edible oils, impact of Trump-led trade tariff hikes, among others need close watch.

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Industrial Production likely to swing back to +ve zone in Sep’24

- **Industrial production, as indicated by IIP**, is expected to resume its growth trend to 3.1% in Sep’24, from (-) 0.1% in previous month on normalization of base effects. More importantly, recovery in manufacturing and consumer sub-sectors ahead of the festive season likely supported IIP.

- **High frequency indicators showed optimism** in Sep’24 as **core sector** production (with 40% share in IIP) revived to positive zone in Sep'24 recording 2.0% growth (y/y) supported by recovery in coal, cement and refinery activities. **Within core sector, except for crude oil, natural gas and electricity**, other five sub-sectors showed gradual recovery in overall activity in Sep’24. Fertilizer and steel segment saw an increase in y/y numbers due to low base effect despite monthly decline in production. Cement sector recorded positive growth in Sep’24, after remaining in negative in Aug’24. Within mining sector, natural gas and crude oil segment saw a seasonal drop in production in Sep’24 on pickup in rains, whereas that in coal segment it grew in both yearly and monthly basis.

- In terms of other lead indicators, exports growth marginally recovered to 0.5% after staying in contraction zone for last 2 months. Auto production also swung back into double digits post a brief slip in last month. A sharp uptick in e-way bills collection was also clocked at 18.5% (y/y) in Sep’24 vs. 12.9% (y/y) in Aug’24. Meanwhile, manufacturing PMI eased to eight-month lows of 56.5 in Sep’24 amid softer increases in new orders and output.

- **On a sectoral basis, manufacturing IIP saw pickup in growth** even as mining and electricity sub-sectors were in negative zone in Sep’24.

- **Intermediate goods and infrastructure/construction goods IIP** growth would be seen on a higher note due to recovery in overall activities after receiving push from Government infrastructure projects. A pickup in government capex post elections buoys well for capital goods IIP even as it is lagging trends seen last year (H1-FY25 central capex down 15.4% YoY).

- **Consumer non-durables IIP is expected to enter into positive zone after a gap of three months** mainly supported by resurgence in rural demand outlook. Rural areas are recording higher FMCG sales growth than the urban counterparts as per guidance provided by the sector companies. On the other hand, consumer durables IIP growth is expected to see further pickup in Sep’24 ahead of festive season.

- Going forward, we expect IIP growth to stay in single digits in the coming months with a watch on rural demand recovery, extent of pickup in government spending and impact of US political shifts on global growth momentum.

Fig 5: IIP likely to recover in Sep’24; *% y/y*

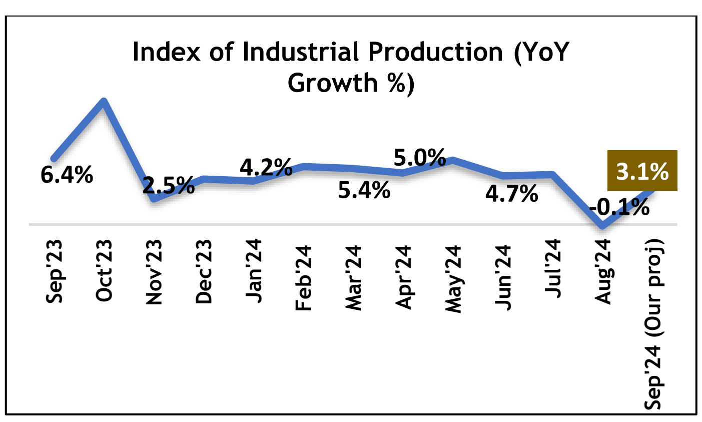

Fig 6: Growth pickup likely led by manufacturing while mining & electricity in negative zone; *% y/y*

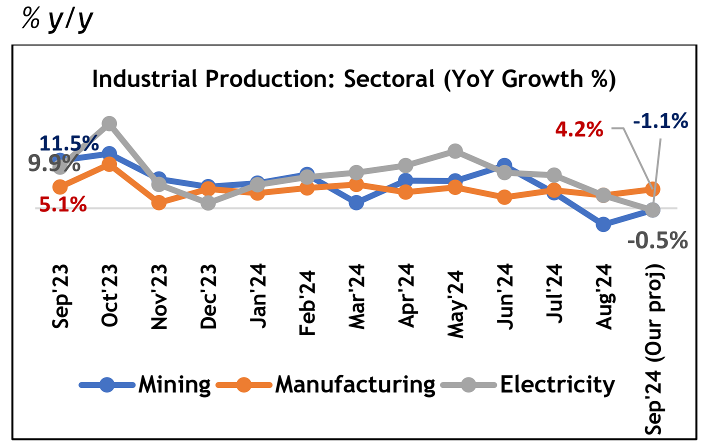

Fig 7: Growth in Sep’24 led by manufacturing and consumer goods

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Jul'24	Aug'24	Sep'24 (Proj)
Mining	14.4	3.8%	-3.9%	-1.1%
Manufacturing	77.6	4.4%	3.1%	4.2%
Electricity	8.0	7.9%	3.1%	-0.5%
Industrial Production: Use-based				
Primary goods	34.0	5.9%	-2.6%	1.5%
Capital goods	8.2	11.8%	0.7%	-2.1%
Intermediate goods	17.2	6.4%	3.0%	4.7%
Infrastructure / Construction Goods	12.3	4.6%	1.9%	3.6%
Consumer durables	12.8	8.3%	5.2%	9.4%
Consumer non-durables	15.3	-4.3%	-4.5%	2.0%

Source: CEIC, UBI Research

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