08th October 2024

Base effect advantage begins to fade, September CPI likely jumped to 5.40%

Fig 1: Headline CPI likely reversed the sliding trend in September'24, core CPI also edged up; % y/y

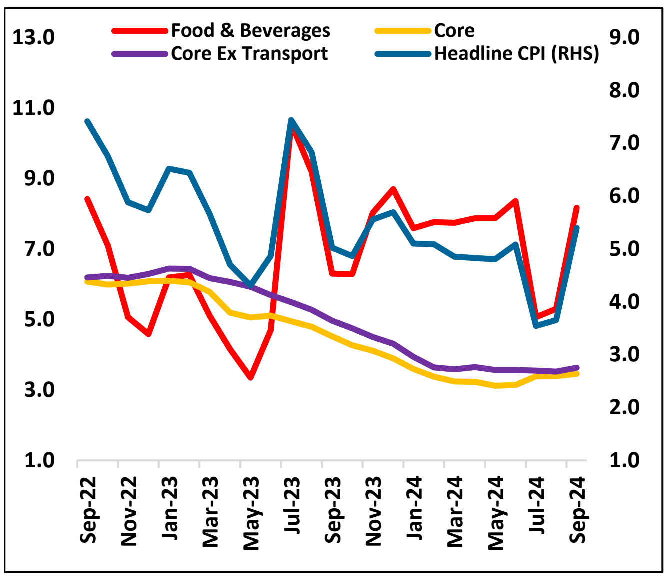


Fig 2: Our Sep'24 CPI estimate; % y/y

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	3.4	3.5
Aug-24	3.65	5.30	-5.31	3.39	3.52
Sep-24 (P)	5.40	8.17	-1.21	3.46	3.62

Source: CEIC, UBI Research

Note: Figures for September are our projections

- ***Fading of high base effect accompanied by a spurt in food prices likely played spoilsport in September'24, CPI is seen jumping to 5.40%***: In our opinion, September'24 CPI took a sharp U-turn from 3.65% in August'24 to 5.40% partly because of expected thinning of high base effect (CPI for the month of Sept'23 fell to 5% from 6.8% in Aug'23) and partly because of firming up of food prices during the month; core inflation is also expected to harden to 3.46% (*ref. fig.1 & 2)* supported by a spurt in gold prices.

- After remaining subdued in July and August following a strong pickup in monsoon, on-the-ground food prices have seen a rebound in recent weeks. There was a m/m uptick in the prices of edible oils, eggs, vegetables and fruits among others which likely pushed y/y food inflation to 8.17% (highest in three months). On y/y basis, though pulses' inflation has slipped into single digit zone, vegetables continued to be in double digit and registered a sharp uptick from 10.71% in August'24 to 37.26% in September'24. Cereals CPI looks to be cooled further to 5.64% (lowest in 28 months). More importantly, CPI ex-vegetables is seen inching up again to 3.18% in September from 3.07% in August (*refer fig.3 & 4)*.

- Rainfall made good progress in the month of September also and closed the season with 7% surplus. The storage level in water reservoirs has also gone up sharply from 80% in August to 88% as on 03rd October. The north-west region with a substantial share of crop cultivation in the country, saw a sharp recovery from a deficit of 18% in July to a surplus of 7% in September. East & Northeast India continues to be in red even as Central and South India regions continue to maintain their surplus status. The sowing of kharif crops was at par with the previous year's levels. Sowing was sufficiently up in pulses, coarse cereals and oilseeds, marginally up in case of rice where support of buffer stock remains and lower in case of sugar and cotton. All eyes will be on harvest season now, any disruptions due to unseasonal winter rains will be keenly watched out for with increased chances of LaNina conditions developing globally.

Fig 3: Vegetables index shows a spike from previous month pointing to the hardening of food CPI

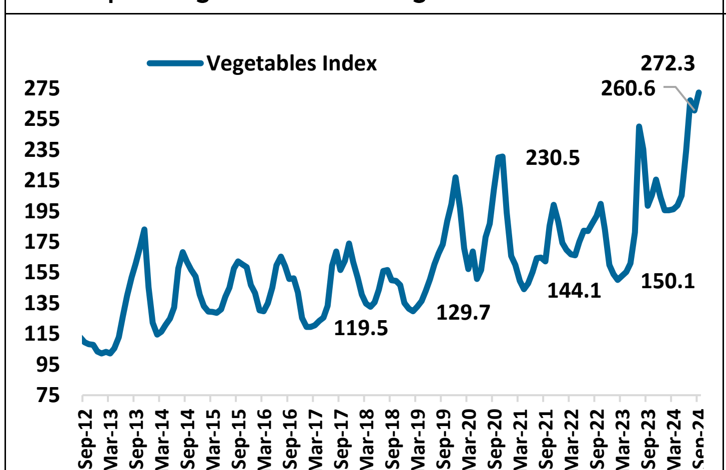
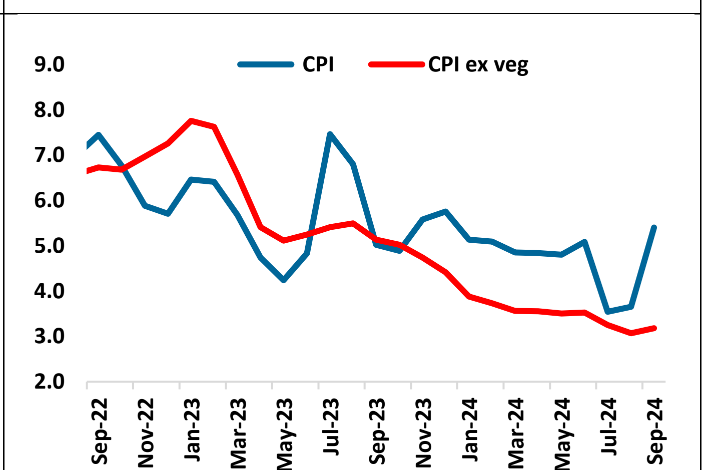


Fig 4: CPI ex veggies is seen inching up to 3.18%, higher than 3.07% in August'24; % y/y



Sources: CEIC, UBI research

- Interestingly, core inflation also edged higher in the month of September on the back of spike in gold prices. We expect the y/y inflation in personal care segment to spike from 7.94% in August to 8.92% in September, hence, core inflation is seen going up from 3.39% levels in August to 3.46% in September and core ex transport inflation from 3.5% to 3.6%.

- Going forward, food inflation, is expected to ease by the last qtr of this fiscal. In the interim, few upside risks to inflation need close watch: a) unseasonal rains in the winter months accompanying La Nina conditions may play the spoil sport for food prices b) persistence of recent spike in geopolitical tensions warrants attention given impact on crude oil prices c) sustainability of impact of Chinese stimulus measures on metals prices.

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Nidhi Arora
nidhiarora@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Industrial Production likely slowed in Aug'24 on strong base effects

- Industrial production growth, as indicated by IIP, is likely to have slowed sharply to 0.4% in Aug'24, from 4.8% in previous month and vs 10.9% in Aug'23. The fall could be due to high base effect as well as impact of monsoon over industrial activity.
- Aug'24 core sector growth slipped into contraction zone on strong base effects. Aug'23 number clocking a strong 13.4% YoY growth as the month saw lowest rains in more than 100 years thereby boosting economic activity in a departure from seasonal trends. Meanwhile, surplus rains in August this year likely weighed on overall infra output and IIP trends.
- Barring two sub-segments (steel and fertilizers) within the eight core industries, the remaining six reported a contraction in output in August. Electricity generation contracted both YoY and MoM, due to lower demand during the monsoon season. The mining activity also decelerated in Aug'24 as indicated by the negative performance of coal, crude oil and natural gas both YoY and MoM terms.
- High frequency indicators showed a mixed trend in Aug'24. Although e-way bills reached a record high, the growth rate slowed compared to the previous month. Toll collections, moderated to 6.8% YoY in August from 9.4% in July. While automobile sales recorded a growth of 7.5%, domestic tractor sales contracted by 5.8% in August after registering three consecutive months of expansion. After recording double digit growth in July, vehicle registrations moderated in August. Average daily petroleum consumption contracted by 2.6% in Aug'24, driven by a decline in diesel consumption. While exports contracted by 9.3% in August 2024, imports expanded by 3.3% YoY in August.
- As indicated by HSBC India Manufacturing PMI, manufacturing activity eased to a three-month low in Aug amid softer increases in new orders and output.
- Consumer non-durables IIP probably seems to have reverted to positive zone in Aug with the trends in high frequency rural demand indicators signal a slight improvement in outlook. On the other hand, consumer durables IIP growth seems to have moderated, with some slowdown in momentum estimated in Aug.
- Intermediate goods and infrastructure/construction goods IIP growth may have slowed in Aug due to impact of above normal monsoons and lag in capex expenditure growth after the elections. The performance of cement and steel sectors indicate weakening of construction activity.
- Going forward, IIP growth is likely to be contingent on rural demand pick up, festive season effects along with global growth trends.

Fig 5: IIP likely slowed sharply in Aug'24; % y/y

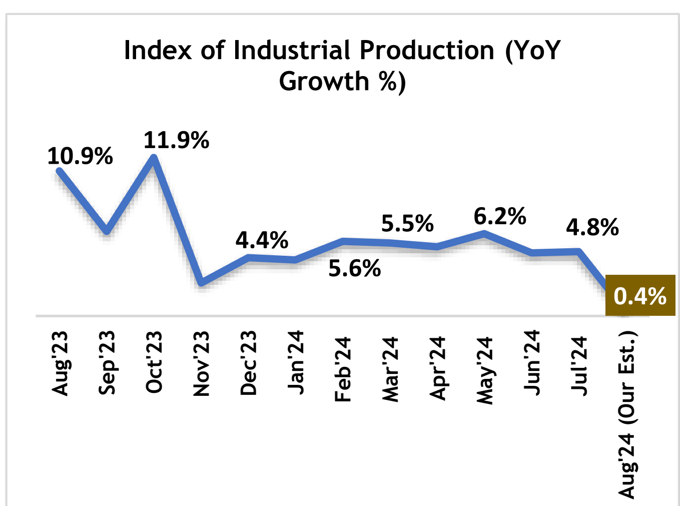


Fig 6: Weakness seen in sectoral Aug'24 IIP growth; % y/y

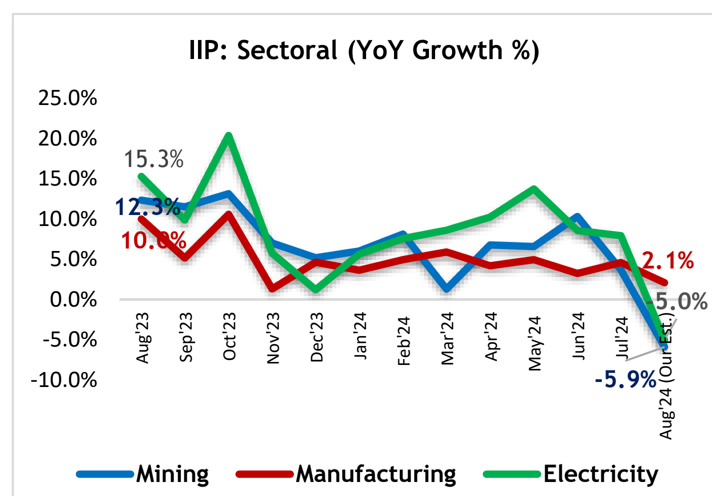


Fig 7: Broad based sectoral slowdown seen in August'24 IIP

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Jun'24	Jul'24	Aug'24 (Proj.)
Mining	14.4	10.3%	3.7%	-5.9%
Manufacturing	77.6	3.2%	4.6%	2.1%
Electricity	8.0	8.6%	7.9%	-5.0%
Industrial Production: Use-based				
Primary goods	34.0	6.3%	5.9%	-3.4%
Capital goods	8.2	3.8%	12.0%	9.7%
Intermediate goods	17.2	3.0%	6.8%	-0.8%
Infrastructure / Construction Goods	12.3	7.1%	4.9%	2.6%
Consumer durables	12.8	8.7%	8.2%	3.8%
Consumer non-durables	15.3	-1.5%	-4.4%	2.0%

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