India: January CPI prints near our below consensus est.; Dec IIP at 3.2%

12th February 2025

Fig 1: CPI eases to 4.31% in Jan'25; % y/y

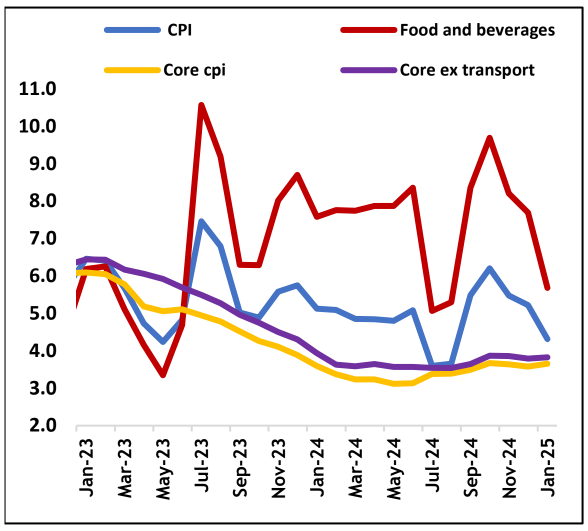
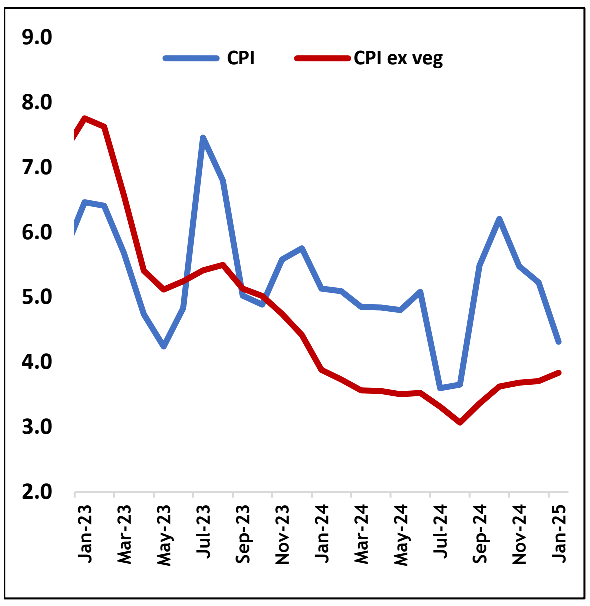


Fig 2: CPI ex-veggies edges up to 3.83%; % y/y



Source: CEIC, UBI Research

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January CPI prints 4.31%, close to our estimate of 4.20% vis-à-vis 4.50% consensus

The headline inflation clocked 4.31% in January'25, registering a sharp decline from 5.22% in Dec'24 and close to our projection of 4.20% (please refer our Data preview Jan'25) vis-a-vis consensus estimate of 4.50%. More importantly, Core CPI, in line with our expectations, inched up to 3.66% on back of spurt in gold prices from 3.58% in Dec'24. Fuel CPI continued to stay in contraction zone for seventeenth consecutive month (*refer fig. 1&7*). CPI ex-vegetables however has edged up to 3.83% from 3.71% last month (*refer fig 2*).

Food inflation takes a breather as expected

Fresh winter stocks continue to arrive in the mandis and on-the-ground prices almost across the board have cooled except for edible oils and sugar (*refer fig 4)*. CPI takes a breather for third consecutive month on seasonal correction in vegetables' prices pulling down the vegetables index to 218 level versus recent peak of close to 292 (*refer fig 3*). Food inflation in January'25 softened to 5.68% after staying above 7% mark consistently for four months. M/m food inflation was down to -2.43% as against our projection of -2.51%. This was attributed to sharp slide seen in vegetables CPI which slipped to 11.35% vs 26.56% seen in Dec'24 while on a sequential basis, it was down 15.7% as expected. Interestingly, CPI ex-vegetables inflation stays subdued at 3.83% YoY, even as it has edged up from ~3.7% last month. Meanwhile, edible oils CPI on y/y basis continued to remain elevated at 15.6% (33-month highs) though has seen some softness m/m. Sequentially, inflation in cereals, meat & fish, milk, fruits, non-alcoholic beverages and prepared meals is also up while segments like eggs, spices, vegetables, pulses and sugar are down. Cereals inflation has touched a 31-month low of 6.24% YoY whereas pulses are at a 29-month low of 2.59%, sharply down from the peak seen in Dec'23 (20.73%).

The declining trend in food prices bode well for CPI trends in the remaining two months of the current financial year. Meanwhile, above normal temperatures in Feb in many parts of the country, as predicted by IMD, pose risk of supply disruption thereby adversely affecting prices.

Fig 3: Vegetable Index drops sharply in January 25 in line with our expectation

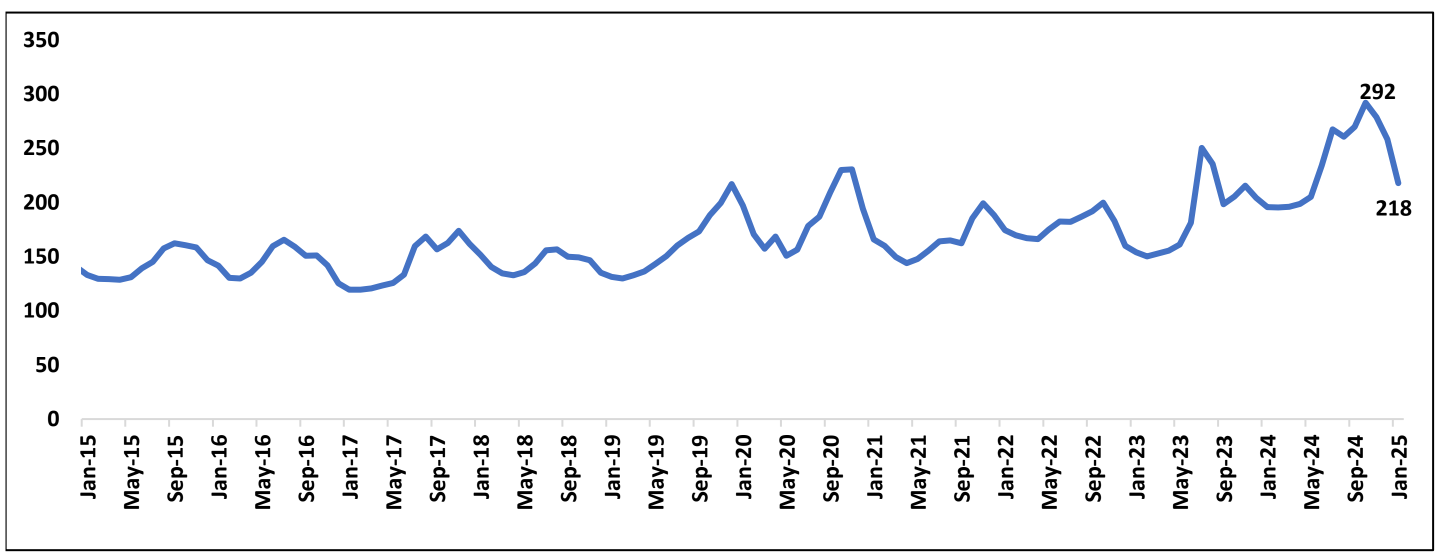

Fig 4: On-the-ground prices indicate a continued decline in food prices in February too

% Change in Price (m/m)	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25**
Cereals	-0.03	0.20	0.64	-0.40	-1.67	-0.42	0.55	0.82	-0.32	-0.17	-0.13
Pulses	0.69	1.67	2.56	1.86	-1.09	-0.59	0.02	-0.24	-1.47	-2.37	-3.16
Oils	0.15	-0.13	0.49	-0.14	-1.92	1.73	8.53	3.59	1.06	0.09	0.13
Vegetables*	4.35	4.06	16.61	29.43	-7.09	0.42	13.52	-4.03	-8.58	-22.87	-14.24
Milk	0.19	0.07	0.55	0.34	0.02	-0.89	0.09	-0.02	0.22	-0.24	-0.44
Sugar	0.11	0.54	0.49	0.18	-0.09	-0.25	0.40	0.11	-0.53	-0.13	0.67

OPT (Onion, Potato & tomato)* * till 11th Feb'25* *Source: MCA*

Core inflation firms up again on spurt in gold prices

After a brief sluggishness, core inflation has again picked up from 3.58% in Dec'24 to 3.66% in Jan'25 on continuing rally in gold prices. Consequently, core ex-transport has also gone up from 3.79% to 3.83%. Within the core basket, almost 80% sub-segments are in the sub-4% inflation range while personal care inflation is at 10.58% led by elevated gold prices (*refer fig 5 & 6*). Consequent to the global melt down in equity markets, the rally in gold prices has persisted in Feb. This factor is expected to keep up some upward pressure on core inflation as gold becomes the alternate preferred asset class during pressing times.

Our Feb'25 and March'25 CPI estimates are currently tracking c.4% and Q4-FY25 is also tracking at about same level and is below the MPC's projection of 4.4%. Consequently, we maintain our call of another 25bps repo rate cut in April. Given the heightened global volatility and its impact on macros, we will assess prospects for further rate cut(s) around April. For instance, we are closely watching for impact of various factors on inflation: i/ rupee depreciation (4% FYTD – 5% Rupee move drives annual inflation up by 35bps), ii/ spurt in global metal prices as an aftermath of the tariff hikes by Trump and iii/ firming gold prices on inflation.

Fig 5: Most of the core CPI sub-components are below 4% except for personal care

% y/y	Pan; tobacco; and intoxicants	Clothing	Footwear	Housing	Household goods and services	Health	Transport and comm.	Recreation and amusement	Education	Personal care and effects
Sep-23	3.88	4.64	4.07	3.95	4.31	5.91	2.28	3.40	5.26	8.54
Oct-23	3.87	4.45	3.59	3.80	3.93	5.88	1.96	3.27	5.07	7.84
Nov-23	3.81	4.04	3.29	3.55	3.50	5.51	2.09	3.15	5.01	7.83
Dec-23	3.65	3.75	3.05	3.63	3.37	5.08	1.96	3.08	4.82	7.28
Jan-24	3.28	3.46	2.87	3.20	3.07	4.88	1.96	2.89	4.93	5.88
Feb-24	3.12	3.18	2.64	2.88	2.82	4.53	1.83	2.71	4.75	5.23
Mar-24	3.11	3.12	2.57	2.71	2.70	4.28	1.52	2.76	4.69	6.02
Apr-24	2.99	2.89	2.40	2.68	2.75	4.27	1.09	2.64	4.20	7.45
May-24	3.03	2.83	2.17	2.56	2.51	4.20	0.97	2.57	4.07	7.67
Jun-24	3.08	2.77	2.05	2.69	2.39	4.13	0.97	2.33	3.57	8.23
Jul-24	3.02	2.76	1.99	2.68	2.33	4.06	2.60	2.20	3.54	8.44
Aug-24	2.71	2.75	2.10	2.66	2.43	4.10	2.71	2.37	3.85	8.00
Sep-24	**2.51**	**2.80**	**1.98**	**2.72**	**2.55**	**4.09**	**2.71**	**2.37**	**3.79**	**9.00**
Oct-24	**2.50**	**2.79**	**2.15**	**2.81**	**2.65**	**3.96**	**2.77**	**2.42**	**3.90**	**10.99**
Nov-24	**2.35**	**2.83**	**2.14**	**2.87**	**2.82**	**4.01**	**2.64**	**2.65**	**3.89**	**10.42**
Dec-24	**2.49**	**2.83**	**2.08**	**2.71**	**2.81**	**4.05**	**2.64**	**2.70**	**3.95**	**9.76**
Jan-25	**2.30**	**2.72**	**2.08**	**2.76**	**2.86**	**3.97**	**2.76**	**2.64**	**3.83**	**10.58**

Fig 6: Almost 80% of the core components are trending below 4% for FY25 (ytd)

	<4%	4-6%	6%<
FY 2016	49	55	55
FY 2017	62	61	36
FY 2018	72	60	27
FY 2019	65	45	49
FY 2020	102	33	24
FY 2021	73	33	53
FY 2022	37	32	87
FY 2023	38	26	91
FY 2024	64	64	29
FY 2025 (YTD)	126	19	12

Fig 7: Headline CPI slides sharply in Jan'25 while core inched up to 3.66%

Y/Y, %	Headline CPI	o/w Food & Beverages	Cereals	Pulses	Vegetables	Fuel	Core
Jan-24	5.1	7.6	7.8	19.5	27.1	-0.6	3.6
Feb-24	5.1	7.8	7.7	18.9	30.2	-0.8	3.4
Mar-24	4.9	7.7	8.4	17.8	28.3	-3.4	3.2
Apr-24	4.8	7.9	8.6	16.8	27.8	-4.0	3.2
May-24	4.8	7.9	8.7	17.1	27.4	-3.7	3.1
Jun-24	5.1	8.4	8.8	16.1	29.3	-3.6	3.1
Jul-24	3.6	5.1	8.1	14.8	6.8	-5.5	3.4
Aug-24	3.7	5.3	7.3	13.6	10.7	-5.3	3.4
Sep-24	5.5	8.4	6.8	9.8	36.0	-1.3	3.5
Oct-24	6.2	9.7	6.9	7.4	42.2	-1.7	3.7
Nov-24	5.5	8.2	6.9	5.4	29.4	-1.8	3.6
Dec-24	5.2	7.7	6.5	3.8	26.6	-1.3	3.6
Jan-25	**4.31**	**5.68**	**6.24**	**2.59**	**11.35**	**-1.38**	**3.66**

Source: CEIC, UBI Research

Industrial Production moderates to 3.2% in Dec’24 on slip in consumer goods

- IIP growth slowed to 3.2% in Dec’24 from 5.0% in previous month and 4.4% in Dec’23, on sharp weakness in consumer goods (especially non-durables) and slip in manufacturing.
- The data was below our estimate (4.5%) with lead indicators also showing moderation during the month like exports, auto production and core sector (40% weight in IIP).
- From a sectoral perspective, the growth in Dec’24 IIP was led by electricity expanding at 6.2%. While mining showed mild recovery in growth as compared to previous month, manufacturing slowed to 3.0% (vs. 5.5% in Nov’24).
- Within the manufacturing sector, 16 out of 23 industry groups recorded positive growth in Dec’24 over Dec’23. The top positive contributors are basic metals, electrical equipment and coke and refined petroleum products. The major losers were pharma, food products, recorded media and motor vehicles trailers.
- From a use-based classification perspective, recovery in aggregate demand was weak in Dec’24 IIP vs previous month. The overall consumer demand growth was negative by 2.1% y-o-y. Consumption demand was primarily led by urban demand (proxied by durables) while rural demand (proxied by non-durables) worsened compared to previous month. High frequency indicators for Dec’24 had showed a mixed trend in their y/y performance. Lead indicators like merchandise exports, automobile sales, vehicle registrations, weakened in December, raising concerns regarding demand recovery.
- Based on use-based classification, the top three positive contributors to IIP growth in Dec’24 were capital goods, intermediate goods and primary goods.
- While capital goods IIP growth strengthened in Dec’24 as compared to previous month, infrastructure/construction goods moderated during the month. This is attested by the pickup shown in govt. finances data wherein fiscal impulses strengthened as spending gained pace. Capex spending in Dec’24 reached 61.7% of BE as against 46.2% in the previous month, with further pickup expected in the coming months.
- Growth concerns remain as, even though urban demand growth has recovered, rural demand showed some weakness. However, likely demand pickup on income tax cuts and backloaded government spending may provide some relief to growth numbers for H2-FY25.
- Going forward, we see IIP staying in single digits, with recovery in overall demand and government spending pickup likely to support growth. The delayed recovery in overall demand remains a cause of concern thereby leading the government to undertake demand stimulus steps in the Budget. Moreover, global macro uncertainty under Trump 2.0 is also likely to weigh on global and hence domestic growth outlook. This is also likely to delay broad based private capex recovery in our view.

Fig 8: IIP weakens in Dec’24; % y/y

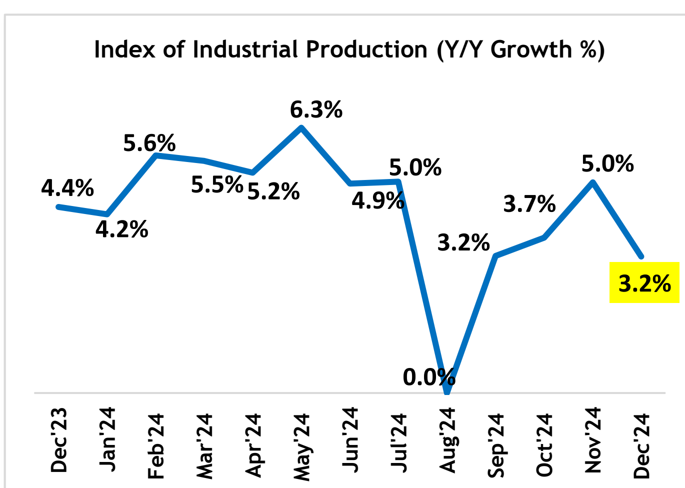

Fig 9: Dec’24 IIP led by electricity and mining; % y/y

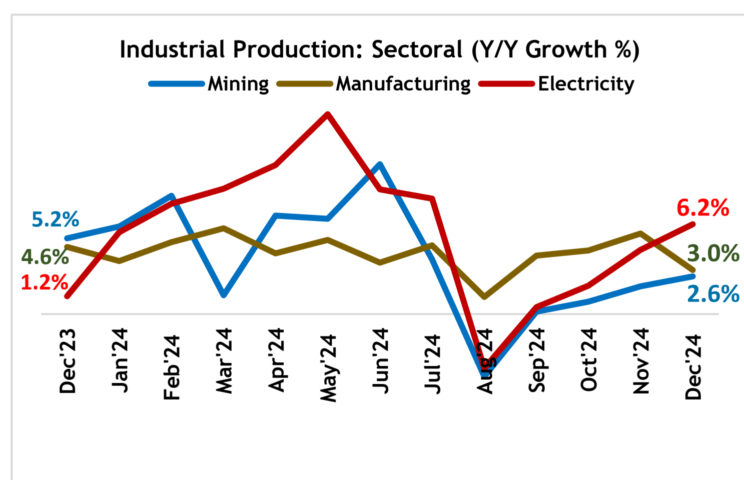

Fig 10: IIP growth slowed on slip in consumer goods and manufacturing; % y/y

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Oct'24	Nov'24	Dec'24
Mining	14.4	0.9%	1.9%	2.6%
Manufacturing	77.6	4.4%	5.5%	3.0%
Electricity	8.0	2.0%	4.4%	6.2%
Industrial Production: Use-based				
Primary goods	34.0	2.5%	2.7%	3.8%
Capital goods	8.2	3.1%	8.8%	10.3%
Intermediate goods	17.2	4.6%	4.8%	5.9%
Infrastructure / Construction Goods	12.3	4.8%	8.1%	6.3%
Consumer durables	12.8	5.7%	14.1%	8.3%
Consumer non-durables	15.3	2.6%	0.4%	-7.6%

Source: CEIC, UBI Research

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