# India: July CPI provides +ve surprise; June IIP disappoints

12th Aug 2024

### July CPI prints 3.54% vis-a-vis our estimate of 3.74%

CPI inflation clocked 3.54% in July'24, registering a sharp decline from 5.08% in June'24 on account of favourable base effects. The data came below our projection of 3.74% (please refer our report) on positive surprise from Food CPI ex vegetables led by meat& fish, eggs and fruits. CPI ex vegetables eased further to 3.25% (lowest since Oct-2019) from 3.5% last month.

More importantly, Core CPI, in line with our expectations, jumped to 3.35% on back of telecom tariff hikes and recovered from the near record lows of 3.14% observed in June'24. Fuel CPI stayed in contraction zone again for eleventh consecutive month.

### Food inflation takes a breather on strong base effects

Food inflation in July'24 softened to 5.1% after staying close to or above the 8% mark consistently since Nov'23. This was attributed to base effects primarily seen in vegetables CPI which slipped to 6.8% vs 29.3% in June'24 while on a sequential basis, it was up 14.1% as expected. However, we got a favourable surprise from food CPI ex vegetables led by sharper than expected cooling in meat & fish, eggs and fruits CPI. Within the food basket, in the July reading, only pulses clocked double digit inflation at 14.8%.

Going forward, while monsoon progress bodes well with 6% cumulative surplus, the uneven distribution (north-west region in 2% deficit while central and south regions flooding at 15% and 222% respectively) is still a cause for concern and needs close watch. Reservoir levels have also seen sharp pickup (from 39% in July end to 65% as on date, % of live capacity) with improved kharif crop sowing. This has started to reflect in on-the-ground food prices have started to cool across the basket – cereals, oils, pulses and even vegetables led by tomato prices.

### Core inflation picks up as expected on telecom tariff hikes

Core inflation clocked 3.35% from record lows of 3.1% in June and vis a vis our projection of 3.47%. Core inflation saw a pickup as expected due to 10-25% mobile tariff hikes by telecom operators, which drove mobile charges CPI by 8.1% MoM contributing 15bps to headline CPI inflation. Within core, transport and communication inflation was up at 2.5% as against 1% in June'24. Core ex transport was almost flat at 3.54%. Within the core basket, all sub-segments are in the 2-4% inflation range while personal care inflation is at 8.4% led by elevated gold prices. The spillover effect of mobile tariff hikes is expected to continue for a couple of next months.

*Going forward, on account of adverse base effects, core inflation is likely to rise towards 4.5% by Q4-FY25, even as subdued commodity prices may have a salutary effect.*

### June IIP growth slips lower than estimated levels at 4.2%

Industrial production (IIP) growth clocked 4.2% in Jun'24, vs 6.2% in previous month, and our estimate of 5.2%. The disappointment was primarily led by weakness in consumer non-durables, which slipped back into negative territory, causing divergence. Meanwhile, consumer durables held up relatively better on stronger urban demand dynamics. A noticeable trend was observed in infrastructure sector where-in yearly growth in Jun'24 was mild at 4.4% vis-à-vis 13.3% in previous year and 6.3% in May'24. This probably attributed to weak public capex spend in June quarter on elections impact. On a sectoral basis, while mining and electricity clocked a strong performance, manufacturing growth slipped to 2.6% in Jun'24 from 5.0% in May'24. Within manufacturing, top three positive contributors to IIP growth were basic metals (4.9%), electric equipment (28.4%), and motor vehicles (4.1%) sub-segments. However, weakness in sub-segments like pharma which slipped back in contraction zone weighed.

We expect a pick-up in rural demand driven by good monsoon. Also, expectations for capex spending by Government would add to infrastructure and overall capital goods IIP growth. However, global growth outlook is key for exports demand and overall outlook for IIP.

### We do not expect rate cuts in FY25, yet closely watching global trends

In the latest policy, the RBI sounded hawkish particularly about the (food) inflation trajectory. While July-Sep qtr CPI projection was revised up to 4.4%, a favourable surprise poses some downside risk yet the MPC is willing to look through base effect led cooling in inflation. Going forward, we do not expect any rate cuts in this fiscal year while the US Fed is expected to start cutting rates in September, the RBI can wait with relatively stronger growth providing policy space. The risk to our view is from steep rate cuts in US is recession fears are realized and / or sharper than expected fall in domestic food inflation.

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Fig 1: Headline CPI falls to 59 months low in July'24; % y/y

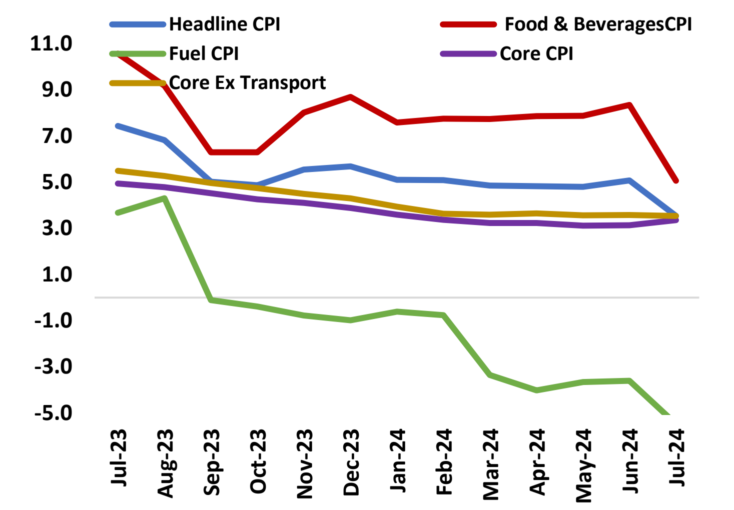


Fig 2: CPI ex veggies stays subdued at 3.25%

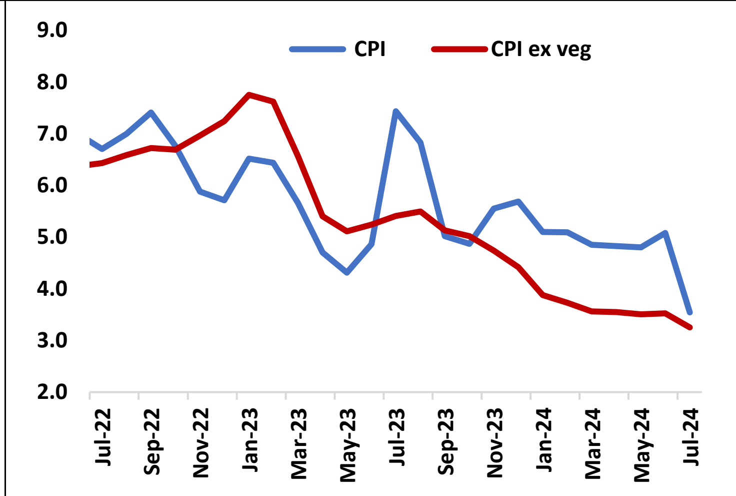


Fig 3: Vegetables index remained elevated in July 2024

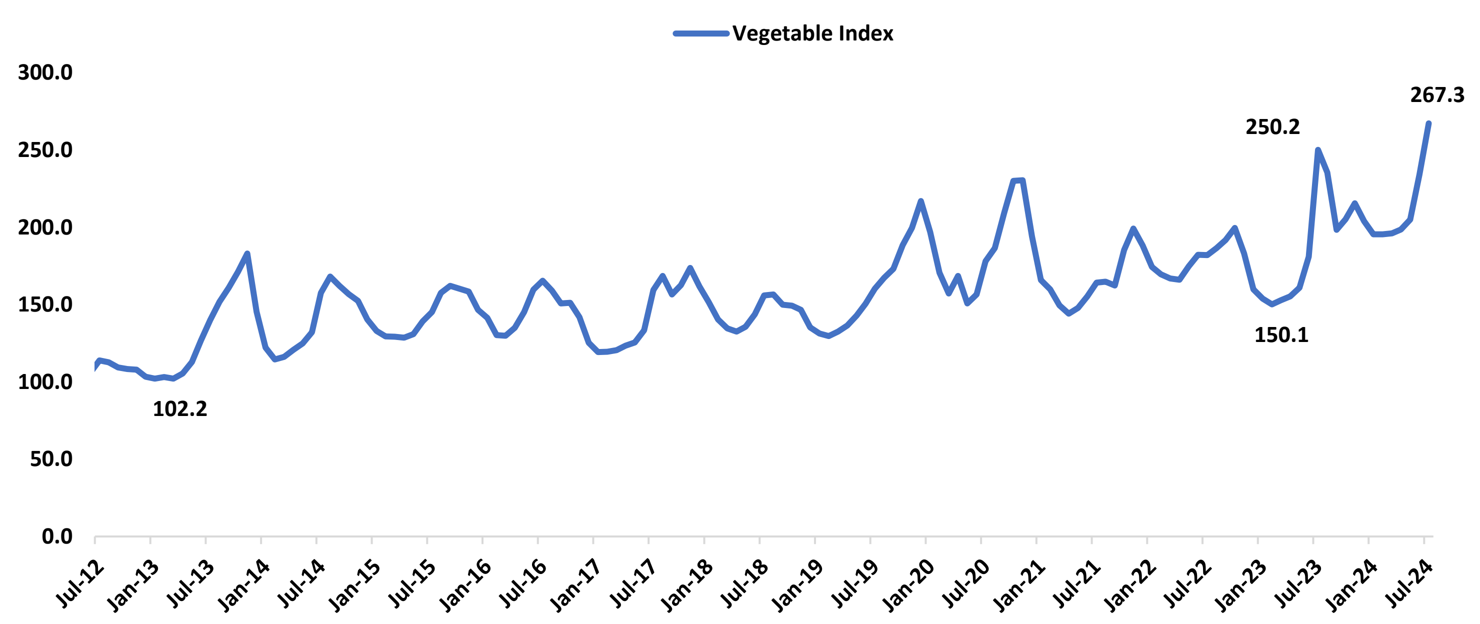


Fig 4: Core inflation remains sticky; change in ppt contribution (July'24 vs June'24)

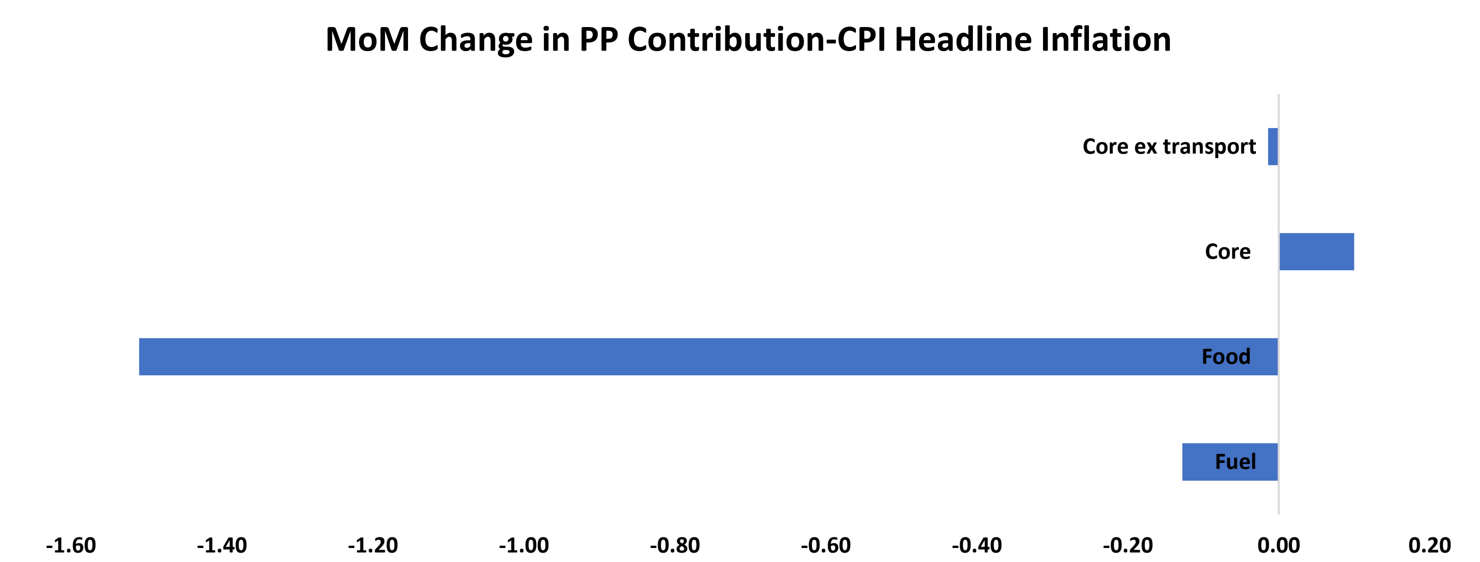


Fig 5: July'24 CPI inflation below 4%, lowest in last 59 months

| Y/Y, % | Headline CPI | Food & beverages | Cereals | Pulses | Vegetables | Fuel | Core | Core Ex Transport | Transport & Communication |
|---|---|---|---|---|---|---|---|---|---|
| May-23 | 4.3 | 3.3 | 12.7 | 6.6 | -7.9 | 4.7 | 5.1 | 5.9 | 1.1 |
| Jun-23 | 4.9 | 4.7 | 12.8 | 10.6 | -0.7 | 3.9 | 5.1 | 5.7 | 2.5 |
| Jul-23 | 7.4 | 10.6 | 13.0 | 13.3 | 37.4 | 3.7 | 4.9 | 5.5 | 2.5 |
| Aug-23 | 6.8 | 9.2 | 11.9 | 13.0 | 26.1 | 4.3 | 4.8 | 5.3 | 2.5 |
| Sep-23 | 5.0 | 6.3 | 10.9 | 16.3 | 3.4 | -0.1 | 4.5 | 5.0 | 2.3 |
| Oct-23 | 4.9 | 6.3 | 10.7 | 18.8 | 2.8 | -0.4 | 4.3 | 4.7 | 2.0 |
| Nov-23 | 5.6 | 8.0 | 10.3 | 20.3 | 17.7 | -0.8 | 4.1 | 4.5 | 2.1 |
| Dec-23 | 5.7 | 8.7 | 9.9 | 20.7 | 27.6 | -1.0 | 3.9 | 4.3 | 2.0 |
| 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 | 5.08 | 8.4 | 8.8 | 16.1 | 29.3 | -3.7 | 3.14 | 3.6 | 1.0 |
| **Jul-24** | **3.54** | **5.1** | **8.1** | **14.8** | **6.8** | **-5.48** | **3.35** | **3.54** | **2.5** |

Fig 6: Jun'24 IIP reports lower growth

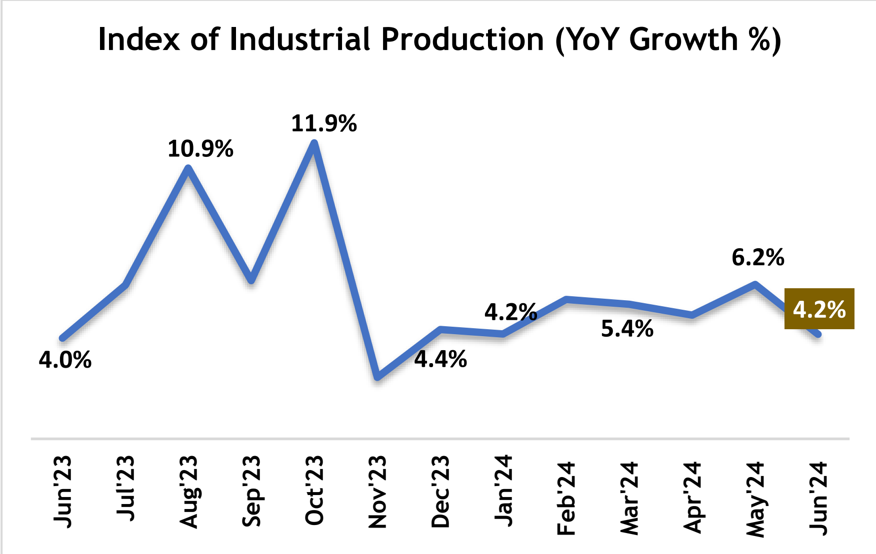


Fig 7: Broad based moderation in IIP

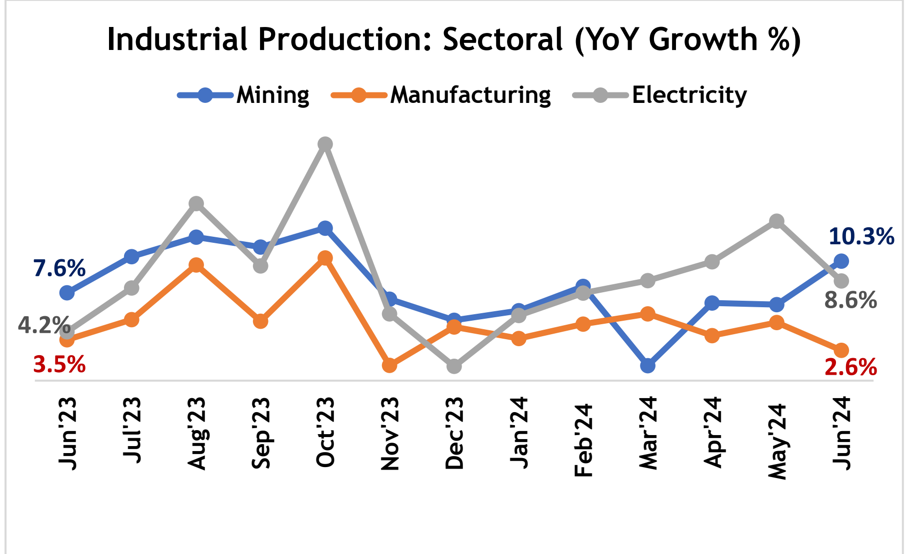


Fig 8: June'24 IIP on lower side at 4.2%

| Industrial Production: Sectoral | | | | |
|---|---|---|---|---|
| Sector | Weight | YoY Growth % | | |
| | | Apr'24 | May'24 | Jun'24 |
| Mining | 14.4 | 6.7% | 6.6% | 10.3% |
| Manufacturing | 77.6 | 3.9% | 5.0% | 2.6% |
| Electricity | 8.0 | 10.2% | 13.7% | 8.6% |
| **Industrial Production: Use-based** | | | | |
| Primary goods | 34.0 | 7.0% | 7.3% | 6.3% |
| Capital goods | 8.2 | 2.7% | 2.9% | 2.4% |
| Intermediate goods | 17.2 | 3.2% | 3.9% | 3.1% |
| Infrastructure / Construction Goods | 12.3 | 8.0% | 6.3% | 4.4% |
| Consumer durables | 12.8 | 10.0% | 12.6% | 8.6% |
| Consumer non-durables | 15.3 | -2.5% | 2.5% | -1.4% |

*Source: CEIC, UBI research*

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