India: Macro prints surprise favourably; Feb'25 CPI cools to 3.61% (7-mth low) & Jan'25 IIP rises to 5%

12th March 2025

Fig 1: CPI falls to 3.61% in Feb'25; % y/y

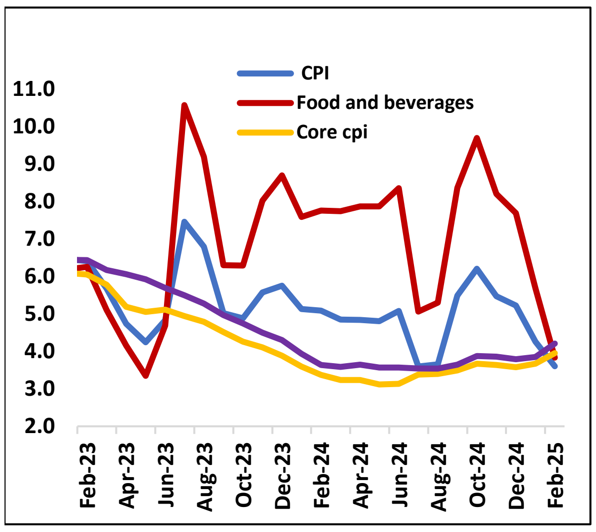
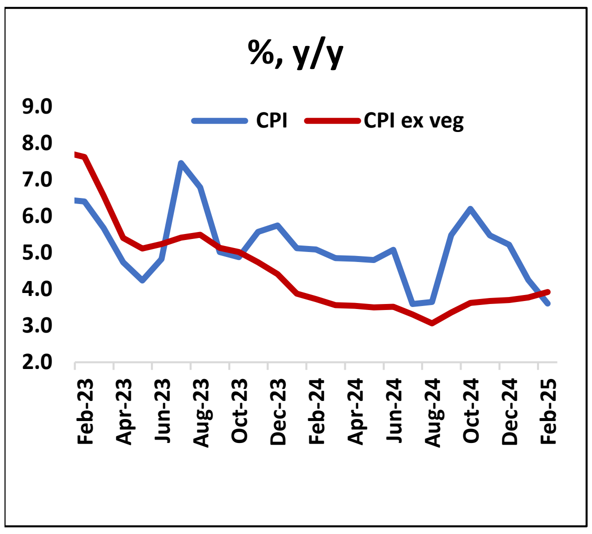


Fig 2: CPI ex-veggies edged up to 3.92%; % y/y



Source: CEIC, UBI Research

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February CPI print at 7-month low of 3.61%, vis a vis consensus estimates of 3.98%

The headline inflation has given a pleasant surprise on the downside and has clocked 3.61% in Febuary'25. The print has registered a sharp decline from 4.26% (revised downward from 4.31%) in Jan'25 and below our projection of 3.94% (please refer our Data preview report) vis-a-vis consensus estimate of 3.98%. More importantly, Core CPI, has gone up to 3.95% (our estimate was 3.87%) on back of continued rally in gold prices from 3.67% in Jan'25 (*refer fig. 1&7*) while Fuel CPI continued to stay in deflation zone. Veggies remain the prime CPI driver as CPI ex-veggies moved up from 3.78% (revised) last month to 3.92% (*refer fig 2*).

Food inflation continues to ease as projected with veggies driving the inflation surprise

Moderation in food CPI helped by a sharp downward correction in vegetables prices is a key driver behind the easing headline inflation for the month of Feb. According to the monthly average on-the-ground prices of vegetables (onion, potato & tomato) from Dept. Of Consumer Affairs, there has been about 15-16% correction in OPT prices between Feb and Jan (*refer fig 4*). For the month of March '25 to date also, the prices show a slight correction of 3.8%. Vegetables index has come down sharply to 193 level from 218 levels in Jan and peak of 292 levels seen in Oct'24 (*refer fig 3*). Y/y food inflation has softened to 3.84% in Feb, below our projection of 4.66%, from 5.68% in Jan. Food inflation has fallen below 4% level, for the first time after May'23. More importantly, y/y vegetables inflation at -1.07% has fallen into negative zone for the first time in 20 months.

Interestingly, y/y CPI ex-vegetables inflation has strengthened from 3.78% in Jan to 3.92% in Feb and close to our projection. Sequentially, inflation in cereals, fruits, sugar, non-alcoholic beverages and prepared meals is up while segments like meat & fish, eggs, vegetables, pulses and spices are down. Cereals inflation has touched a 32-month low of 6.10% y/y whereas pulses CPI too has fallen into negative zone and is at a 30-month low of -0.35%, sharply down from the peak seen in Dec'23 (20.73%). Meanwhile, some segments like edible oils continue to witness inflation pressures with inflation persisting in double digits and touching fresh peaks.

The seasonal drop in food prices provide a lot of comfort, however, food prices in India are volatile: weather, supply chain disruptions or global commodity shifts can flip the script in no time. IMD warning of above normal temperatures in March in many parts of the country is a key risk on our radar.

Fig 3: Vegetable Index falls further in Feb'25 driving inflation lower

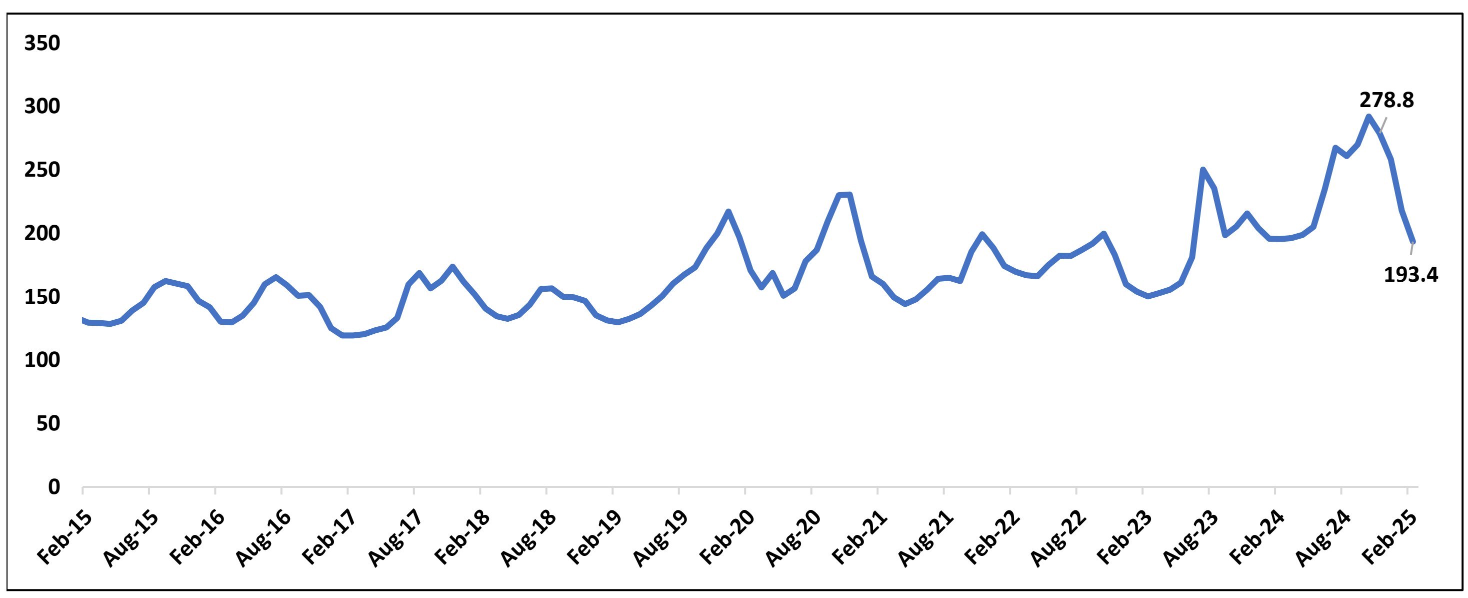

Fig 4: On-the-ground prices indicate a continued decline in food prices in February too

% 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	Mar-25**
Cereals	-0.03	0.20	0.64	-0.40	-1.67	-0.42	0.55	0.82	-0.32	-0.17	0.02	-0.15
Pulses	0.69	1.67	2.56	1.86	-1.09	-0.59	0.02	-0.24	-1.47	-2.37	-4.02	-2.20
Oils	0.15	-0.13	0.49	-0.14	-1.92	1.73	8.53	3.59	1.06	0.09	0.18	0.06
Vegetables*	4.35	4.06	16.61	29.43	-7.09	0.42	13.52	-4.03	-8.58	-22.87	-15.48	-3.77
Milk	0.19	0.07	0.55	0.34	0.02	-0.89	0.09	-0.02	0.22	-0.24	-0.60	-0.17
Sugar	0.11	0.54	0.49	0.18	-0.09	-0.25	0.40	0.11	-0.53	-0.13	1.05	0.60

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

Core inflation firms up more than our projection even as core ex-gold continues to stay nimble

Core inflation continued to pick up from 3.67% in Jan'25 to 3.95% in Feb as the rally in gold prices persisted on safe haven demand amid Trump's tariff related uncertainties. However, core ex-gold continues to be almost flat at around 3.1% (*refer fig.6*) with services CPI maintaining the lead over goods CPI (*refer fig.5*). Core ex-transport has touched a 14-month high of 4.21% vis-à-vis 3.85% in Jan. Within the core basket, personal care inflation has jumped to 13.58% from 10.63% in Jan led by elevated gold prices. Continued global setback to equity markets and the rally in gold prices can pose a major risk to the headline CPI in coming months, even if the food prices remain under control.

Our March'25 CPI estimate is tracking below 4% level and Q4-FY25 at close to 4% level, below the MPC's projection of 4.4%. Looking at the sharper than expected fall in food prices that even compensated for rally in gold prices and higher edible oil prices, we reiterate our call for another 25bps repo rate cut in April. Apart from weather related factors, Global tariff wars and resultant hike in commodity prices (like metals) can pose a risk to our projection of 4.2% for FY26 and hence we will stay on close watch.

Fig 5: Services CPI still maintaining the lead over goods CPI; % y/y

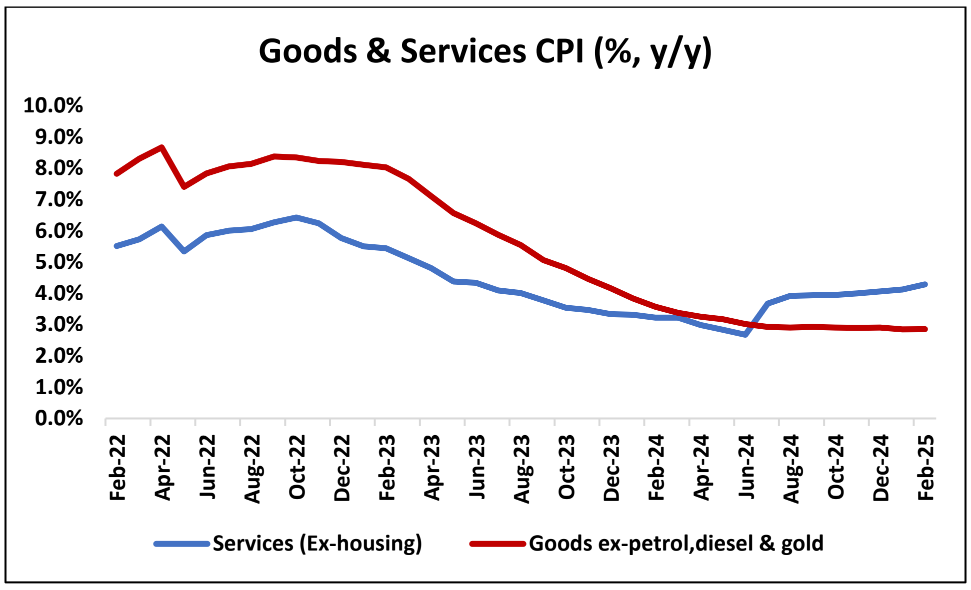

Fig 6: Core CPI inching up on rally in gold prices while core-ex gold remains muted; % y/y

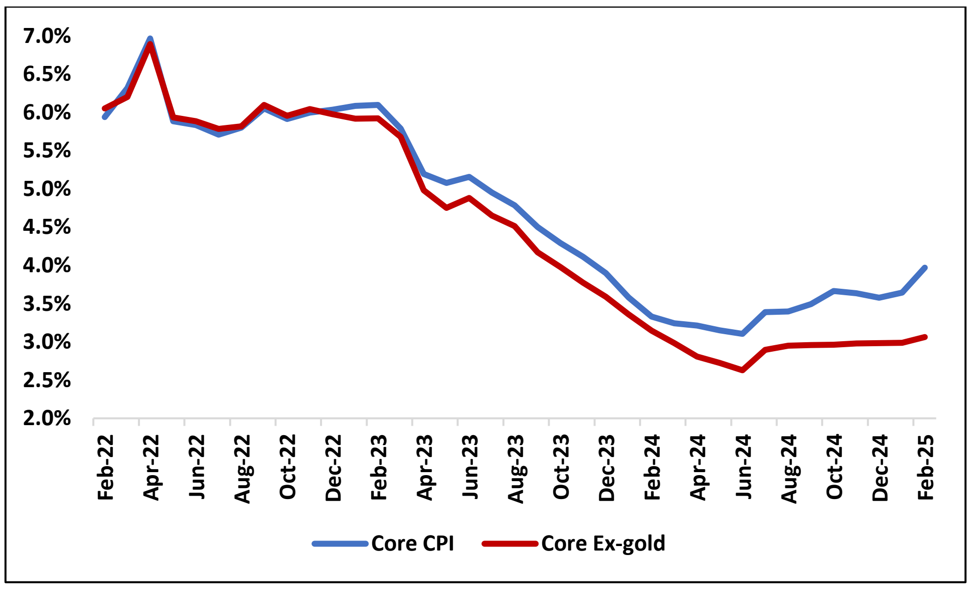

Fig 7: Headline CPI slides sharply in Feb'25 while core jumps up to 3.95%

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	4.26	5.68	6.24	2.55	11.35	-1.49	3.67
Feb-25	**3.61**	**3.84**	**6.10**	**-0.35**	**-1.07**	**-1.33**	**3.95**

Source: CEIC, UBI Research

Industrial Production at 5.0% in Jan'25, comes above estimates

- IIP growth rose to 5.0% in Jan'25 from 3.5% in previous month and 4.2% in Jan'24, on acceleration in manufacturing growth despite global headwinds.
- The data was above our estimate (3.7%) with lead indicators showing improvement during the month like auto production and core sector (40% weight in IIP).
- From a sectoral perspective, the growth in Jan'25 IIP was led by manufacturing expanding at 5.5%. Mining at 4.4% also showed recovery in growth as compared to previous month. Electricity, however, slowed to 2.4% (vs. 6.2% in Dec'24).
- Within the manufacturing sector, 19 out of 23 industry groups recorded a positive growth in Jan'25 over Jan'24. The top three positive contributors are basic metals, coke and refined petroleum products and electrical equipment. The major losers were pharma, printing and recorded media, paper and leather products.
- From a use-based classification perspective, growth in aggregate demand remained weak in Jan'25, although consumer goods IIP turned positive. However, it was an improvement as compared to negative growth in previous month. The overall consumer demand growth was at 2.6% y-o-y. Consumption demand was primarily led by urban demand (proxied by durables) at 7.2% while rural demand (proxied by non-durables) was in negative zone for the second consecutive month. With respect to latter, an improvement in trends was seen in Jan'25 despite staying in contraction zone.
- Based on use-based classification, the top positive incremental contributors to IIP growth in Jan'25 are primary goods. More importantly, backloaded public capex push is also keeping segments like infrastructure/ construction and capital goods in the 7%+ handle.
- Growth concerns remain as, even though urban demand growth has recovered, rural demand continues to remain weak. This is also attested by the trends in rural and urban high frequency indicators *(Fig 11)*. Deceleration is seen in rural indicators like two-wheeler sales and consumer non-durables. Urban indicators like air passenger traffic, consumer durables and personal loans continues to remain resilient. Going forward, we see improvement in demand pickup with income tax cuts and backloaded government spending during H2-FY25.
- We expect to see IIP stay 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. However, the demand stimulus steps announced in the Budget may provide support in the coming months. The global macro uncertainty under Trump 2.0 is likely to weigh on global and hence domestic growth outlook.

Fig 8: IIP rebounds in Jan'25; % y/y

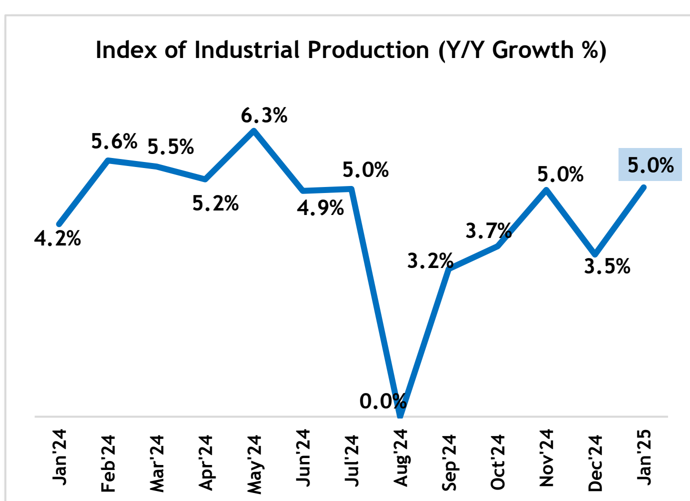

Fig 9: Jan'25 IIP led by manufacturing and mining; % y/y

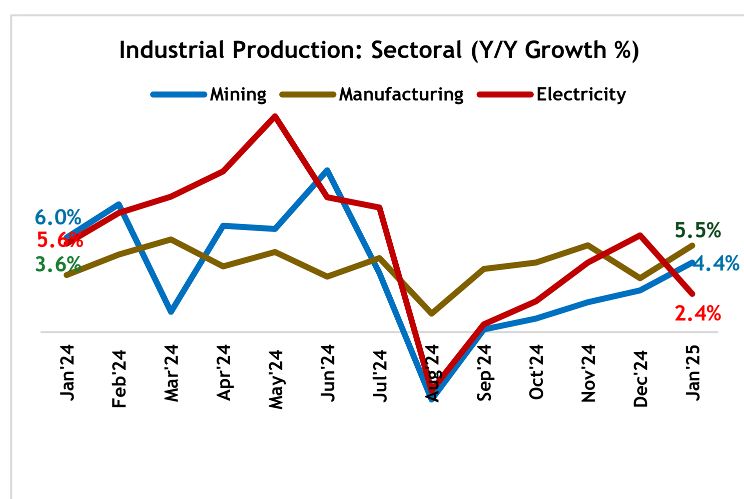

Fig 10: IIP growth strengthened due to manufacturing and consumer durables; % y/y

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Nov'24	Dec'24	Jan'25
Mining	14.4	1.9%	2.7%	4.4%
Manufacturing	77.6	5.5%	3.4%	5.5%
Electricity	8.0	4.4%	6.2%	2.4%
Industrial Production: Use-based				
Primary goods	34.0	2.7%	3.8%	5.5%
Capital goods	8.2	8.8%	10.4%	7.8%
Intermediate goods	17.2	4.8%	6.4%	5.2%
Infrastructure / Construction Goods	12.3	8.1%	7.4%	7.0%
Consumer durables	12.8	14.1%	8.3%	7.2%
Consumer non-durables	15.3	0.4%	-7.5%	-0.2%

Source: CEIC, UBI Research

Fig 11: High frequency indicators signal divergence in rural and urban demand trends

Weak recovery seen in Rural demand													
	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug'24	Sep'24	Oct'24	Nov'24	Dec'24	Jan-25
Urban indicators													
IIP: Consumer durables	11.6	12.6	9.5	10.5	12.6	8.8	8.2	5.4	6.3	5.5	14.1	8.3	7.2
Domestic Air passenger traffic	5.0	5.8	4.7	3.8	5.9	6.9	7.6	6.7	7.4	9.6	13.8	10.8	14.1
Personal loans	18.2	18.0	18.0	17.0	18.0	16.6	17.8	16.9	16.4	15.8	16.3	14.9	14.2
PV sales	13.9	9.5	8.9	1.2	4.3	4.9	-2.0	-1.6	-0.4	1.1	4.4	11.4	3.5
Rural indicators													
Rural wages	6.2	6.0	5.6	5.9	5.8	5.6	5.4	6.1	6.3	6.3	6.3	-	-
2-wheeler sales	26.2	34.6	15.3	30.8	10.1	21.3	12.5	9.3	15.8	14.2	-1.1	-8.8	2.1
3-wheeler sales	9.5	8.3	4.3	14.5	14.4	12.3	5.1	8.0	6.7	-0.7	-1.3	3.5	7.7
Tractor sales	-15.3	-30.6	-23.1	-3.0	0.0	3.6	1.6	-5.8	3.7	22.4	-1.3	14.0	11.4
IIP consumer non-durable	0.3	-3.2	5.2	-2.5	2.8	-1.0	-4.2	-4.4	2.2	2.8	0.4	-7.5	-0.2
MGNREGA (person days)	-0.4	9.6	-17.6	-3.7	-19.4	-32.6	-26.1	-23.3	-18.8	-7.2	8.8	14.3	22.8

Source: CEIC, UBI Research

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