

- **MPC: Stance shifts to neutral; “unambiguous” inflation focus stays**

The MPC decision to keep repo rate unchanged at 6.5% was in line with our and consensus view, even as a new external member dissented voting for a 25 bps rate cut. However, we were surprised by the unanimous vote for change in stance from “withdrawal of accommodation” to “neutral”. Reading the fine print shows that the stance change was driven by the intent for “flexibility to the MPC while enabling it to monitor the progress on disinflation which is still incomplete”. The wording of the statement highlighting shift of stance to neutral also asserts that the MPC “to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth”. The overall policy guidance in our view was finely balanced, with unchanged headline growth and inflation projections, even as the Governor flagged risks to inflation from weather shocks and consequent impact on domestic food prices along with geopolitics led spike in commodity prices among others. We maintain our call of the first rate cut in Q4FY25. However, we note that a significant downward revision in growth forecasts from 7.2% is warranted before starting rate cut cycle. (Please see our report, [“India MPC: Stance shifts to neutral; “unambiguous” inflation focus stays”](#))

The RBI also flagged caution that some non-banking financial companies are pursuing growth at any cost and advised to prioritize compliance, adhere to fair practices, and sincerely address customer grievances. While monitoring these entities' exposures and risk practices, the RBI emphasized the need for self-correction to avoid systemic risks, and will take necessary action in case of non-compliance underscoring potential financial stability concerns.

#### Macro data giving mixed signals

- **Sep'24 CPI clocks higher than our above consensus estimate of 5.4%, next print tracking higher**

Sep'24 CPI took a sharp U-turn from 3.65% in Aug'24 to 5.49% higher than our above consensus (5-5.3% range) estimate of 5.4% because of expected thinning of high base effect and partly because of firming up of food prices during the month. Core inflation also hardened to 3.51%, in line with our estimate of 3.46%, pushed up by a spurt in gold prices. Consequently, CPI-ex veg spiked to 3.36% vs. 3.07% last month yet stayed subdued. Core inflation is expected to trend higher in the coming months as base effects fade and gold prices probably remain elevated in a volatile world yet lower oil, metal prices and relatively contained demand pressures may help keep a lid.

Q2 average inflation clocked 4.25% versus a downwardly revised 4.1% forecast for the Monetary Policy Committee (MPC). More importantly, the next print is tracking above 5.5% levels (given trends in OTG food prices in first fortnight of October). Going forward, while favorable monsoon and crop sowing bode well for food inflation outlook, we will watch for risks like unseasonal rains in October amid rising LaNina effects. (Please see our report, [“India: Sep'24 CPI jumps as expected to 5.5%, next print tracking higher”](#))

- **August IIP turns negative, signals economic slowdown**

Industrial production growth, as indicated by IIP, came in negative by 0.1% in Aug'24, from 4.7% in previous month and vs 10.9% in Aug'23. The reading indicated a sharper slowdown, than our estimate of 0.4%. The slowdown was witnessed across sectors. While manufacturing YoY growth was marginally positive, mining and electricity was in the negative zone. Consumer non-durables was negative for the third consecutive month in Aug'24, signaling downward pressure on rural demand and divergence. Going forward, we expect IIP growth to pick up, with a watch on monsoon effect on rural demand along with domestic private sector capex recovery, pickup in exports and overall industrial sector momentum. (Please see our report, [“India: August IIP turns negative, signals economic slowdown”](#))

- **Sep'24 WPI clocks higher at 1.84%**

Wholesale price index (WPI)-based inflation increased to 1.84% in September (-0.1% in Sep'23) vs. 1.31% in August and higher than our estimate of 1.48%, as food articles inflation jumped to 11.53% from 3.11% in the preceding month. This was led by 48.73% YoY jump in vegetables prices against (-)10.11% in August. Fuel & power at -4.05% stayed relatively subdued. Going forward, WPI is expected to be driven by seasonal corrections in food prices and moderation in global commodity prices. While crude prices need close watch amid wars and supply shocks, global demand is expected to revive in the medium term which can add pricing pressure.

- **Sep'24 Trade deficit narrows back to July levels post the aberration in August**

Merchandise trade deficit in Sep'24 narrowed to \$20.8 bn vis-à-vis \$29.7 bn in the previous month and vs. our estimate of \$24.2 bn. This was likely driven by a sharp drop in gold imports which spiked to unprecedented USD 10.6 bn in August driving trade deficit to record highs. Merchandise export growth turned positive on a YoY basis for the first time in three months even as MoM levels stayed relatively flat. Imports were up 1.6%, compared with 2.8% growth seen in August and were down by c.USD 10bn on a MoM basis.

- **Major cabinet decisions last week**

The Cabinet Committee on Economic Affairs has approved the increase in the Minimum Support Prices (MSP) for all mandated Rabi Crops for Marketing Season 2025-26, to ensure remunerative prices to the growers for their produce. The absolute highest increase in MSP has been announced for Rapeseed & Mustard at Rs.300 per quintal followed by Lentil (Masur) at Rs.275 per quintal. For gram, wheat, safflower and barley, there is an increase of Rs.210 per quintal, Rs.150 per quintal, Rs.140 per quintal and Rs.130 per quintal respectively. The increase in MSP for mandated Rabi Crops is in line with the Union Budget 2018-19 announcement of fixing the MSP at a level of at least 1.5 times of the All-India weighted average Cost of Production. This increased MSP of rabi crops will ensure remunerative prices to the farmers and incentivise crop diversification.

- **Address by RBI Governors at the RBI@90 High-Level Conference**

In an address at the High Level Conference organized by the RBI, Deputy Governor Michael Debabrata Patra in a speech on inflation targeting, opined that India's retail inflation is expected to align with the 4% target on a “durable basis” in the next financial year FY26. “The monetary policy response was front-loaded with a cumulative hike of 250 bps during May 2022-February 2023. In July and August 2024, inflation has fallen below the target. It is projected to average 4.5% in 2024-25 before aligning with the target on a durable basis in 2025-26”. While media reports are focused on this comment, we assert that DG Patra was equally concerned about risks to inflation. He believes that “Indian experience is unique in view of the incidence of repetitive shocks to food and fuel prices, which challenged the conduct of monetary policy.”

In a separate address, RBI Governor Shaktikanta Das talked about the challenge staring at central banks emanating from soaring public debt. This situation is becoming a binding constraint on monetary policy in several countries. “Global public debt has surged post the pandemic to 93.2% of GDP in 2023 and is likely to increase to 100% of GDP by 2029. In major economies, debt-GDP ratios are on an upward trajectory, raising concerns about their sustainability and their negative spillovers for the broader global economy.”

On new technologies, he urged banks to fortify their liquidity buffers against potential threats and cautioned about the financial stability risks posed by AI and tech provider concentration. He emphasized the importance of risk mitigation measures and the need for emerging economies to strengthen policy frameworks amidst monetary policy divergences affecting capital flows and exchange rates. The Governor also said that India is one of the few large economies with a 24x7 real time gross settlement (RTGS) system. The feasibility of expanding RTGS to settle transactions in major trade currencies such as USD, EUR and GBP can be explored through bilateral or multilateral arrangements. India and a few other economies have already commenced efforts to expand linkage of cross-border fast payment systems both in the bilateral and multilateral modes.

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# Economy Dashboard

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
IIP (YoY Gr%)	10.87	6.35	11.89	2.47	4.39	4.21	5.60	5.47	5.19	6.25	4.73	4.70	-0.14	-
Mining (YoY Gr%)	12.35	11.50	13.14	7.01	5.20	6.02	8.13	1.30	6.77	6.56	10.30	3.75	-4.29	-
Manufacturing (YoY Gr%)	9.98	5.13	10.58	1.31	4.62	3.64	4.94	5.90	4.18	5.10	3.25	4.36	1.04	-
Electricity (YoY Gr%)	15.26	9.87	20.38	5.76	1.23	5.63	7.59	8.62	10.24	13.74	8.58	7.94	-3.72	-
Core Infra Growth (YoY Gr%)	13.37	9.45	12.68	7.89	5.08	4.16	7.06	6.25	6.94	6.86	5.13	6.14	-1.77	-
Cement Production (YoY Gr%)	19.74	4.73	16.95	-4.75	3.84	4.06	7.82	10.58	0.16	-0.63	1.90	5.48	-3.02	-
Steel Production (YoY Gr%)	16.36	14.81	13.59	9.74	8.28	9.17	9.44	7.53	9.83	8.94	6.72	6.42	4.54	-
Petroleum Products (YoY Gr%)	9.55	5.49	4.29	12.36	4.09	-4.30	2.63	1.59	3.92	0.50	-1.54	6.62	-1.03	-
Fertilizers Production (YoY Gr%)	1.83	4.17	5.33	3.33	5.85	-0.59	-9.50	-1.27	-0.76	-1.66	2.45	5.31	3.15	-
Coal Production (YoY Gr%)	17.88	16.00	18.38	10.87	10.79	10.57	11.57	8.70	7.51	10.20	14.78	6.82	-8.05	-
Capital Goods Production (YoY Gr%)	13.05	8.37	21.67	-1.11	3.70	3.24	1.72	6.99	2.81	2.63	3.82	11.75	0.65	-
PMI Manufacturing	58.60	57.50	55.50	56.00	54.90	56.50	56.90	59.10	58.80	57.50	58.30	58.10	57.50	56.50
PMI Services	60.10	61.00	58.40	56.90	59.00	61.80	60.60	61.20	60.80	60.20	60.50	60.30	60.90	57.70
Banking Sector	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Bank Credit (YoY Gr%)	19.73	19.96	19.73	20.64	19.95	20.30	20.50	20.16	19.01	19.78	17.36	13.59	13.59	-
Agriculture Credit (YoY Gr%)	16.48	16.66	17.39	18.11	19.39	19.99	20.00	19.97	19.84	21.60	17.41	18.07	17.73	-
Industry Credit (YoY Gr%)	5.91	6.51	5.36	6.06	8.04	7.97	8.89	8.51	7.37	9.36	8.13	10.09	9.71	-
Services Credit (YoY Gr%)	24.98	25.39	24.03	25.75	23.34	24.20	24.26	23.49	22.02	23.18	17.36	13.99	13.92	-
Retail Credit (YoY Gr%)	30.36	30.03	29.56	30.03	28.41	28.61	28.11	27.46	26.70	28.73	25.60	14.99	13.93	-
Bank Deposits (YoY Gr%)	13.22	9.90	13.22	14.21	13.28	13.20	13.12	13.47	12.56	14.02	11.12	10.57	10.83	11.54
Demand (YoY Gr%)	9.36	-1.32	8.06	15.04	10.71	9.19	10.12	12.08	9.88	14.83	6.24	8.25	10.56	13.33
Time (YoY Gr%)	13.75	11.54	13.95	14.10	13.64	13.76	13.53	13.67	12.93	13.91	11.83	10.88	10.87	11.31
C-D Ratio (%)	77.50	78.60	79.20	79.60	79.50	80.00	80.20	80.30	79.50	79.60	79.30	79.30	79.50	79.60
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.47	9.38	9.50	9.41	9.32	9.43	9.36	9.37	9.55	9.39	9.32	9.40	9.41	-
Weighted Average Deposit Rate (%)	6.60	6.70	6.76	6.79	6.83	6.85	6.86	6.89	6.91	6.92	6.91	6.92	6.93	-
Banking Sector	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
UPI (No. in Cr)	1058.60	1055.57	1140.88	1123.53	1202.02	1220.30	1210.27	1344.00	1330.40	1403.58	1388.51	1443.56	1496.30	1504.17
IMPS (No. in Cr)	48.92	47.29	49.29	47.24	49.88	50.88	53.46	58.06	55.04	55.77	51.68	49.03	45.33	42.99
NPCI Retail Transaction value (Y-o-Y Gr%)	26.71	20.61	23.52	25.99	21.14	25.16	28.51	22.19	23.95	22.01	22.83	22.96	20.51	20.62
NPCI Retail transactions volume (Y-o-Y Gr%)	46.68	43.68	42.59	46.93	44.96	44.68	50.01	46.69	44.24	42.86	44.14	39.05	37.43	38.96
Inflation	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
CPI (Y-o-Y Gr%)	6.83	5.02	4.87	5.55	5.69	5.10	5.09	4.85	4.83	4.80	5.08	3.60	3.65	5.49
Core CPI (Y-o-Y Gr%)	4.79	4.52	4.26	4.11	3.89	3.59	3.37	3.24	3.23	3.12	3.14	3.39	3.40	3.50
WPI (Y-o-Y Gr%)	-0.46	-0.07	-0.26	0.39	0.86	0.33	0.20	0.26	1.19	2.74	3.43	2.10	1.31	1.84
Consumer	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Electricity Consumption (YoY Gr%)	16.12	11.76	23.46	6.15	0.80	5.54	8.86	9.99	9.02	13.62	8.01	3.98	-4.96	-0.70
Petroleum Consumption (YoY Gr%)	11.69	-1.97	1.91	-4.37	9.41	6.46	-4.84	15.31	-2.56	8.18	8.97	7.39	1.07	-7.96
Consumer Durables (YoY Gr%)	6.02	0.97	15.93	-4.83	5.24	11.58	12.56	9.53	10.55	12.63	8.73	8.29	5.19	
Consumer Non Durables (YoY Gr%)	9.93	2.66	9.29	-3.38	3.04	0.30	-3.17	5.22	-2.46	2.80	-1.50	-4.30	-4.52	
Unemployment (YoY Gr%)	8.10	7.09	9.42	8.88	8.65	7.40	8.10	7.40	8.10	7.00	9.20	7.90	8.50	7.80
Trade	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Merchandise Export (YoY Gr%)	3.41	-2.78	5.80	-3.27	0.80	4.26	11.87	-0.63	1.99	13.30	2.45	-1.73	-9.33	0.50
Merchandise Import (YoY Gr%)	0.68	-14.02	10.28	-3.32	-6.64	1.99	13.69	-6.39	11.47	8.07	5.93	7.46	3.31	1.61
Service Export (YoY Gr%)	8.34	-2.74	10.66	4.16	1.74	10.75	3.43	-1.40	17.06	9.69	3.16	16.61	5.66	
Service Import (YoY Gr%)	-0.87	-10.41	-0.41	-11.13	-1.05	0.10	1.72	-2.12	19.99	6.18	-3.08	15.72	8.83	
Logistics	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
E Way bill generated (Nos. in Cr)	9.34	9.20	10.03	8.76	9.53	9.60	9.73	10.35	9.67	10.32	10.01	10.49	10.55	10.91
Air Freight (YoY Gr%)	6.86	-0.25	13.15	6.58	10.80	15.52	22.66	17.32	9.98	15.57	15.94	18.06	12.46	
Fiscal	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
GST Collection (YoY Gr%)	10.76	10.17	13.37	15.12	10.28	10.39	12.54	11.17	12.42	10.13	7.63	10.28	9.99	6.47
Govt. Expenditure (YoY Gr%)	10.55	3.19	-14.01	-13.82	7.13	-14.03	20.44	-0.62	39.26	-37.87	-18.42	0.12	20.94	

Source: CEIC, RBI, UBI research

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