

June CPI print clocks 5.08% vis-a-vis upwardly revised 4.80% in May'24 and toeing our above consensus estimate of 5.06%

The headline inflation for the month of June'24 jumped to 5.08% vis a-vis 4.80% recorded in May'24. The data came in line with our projection of 5.06% vs consensus of 4.90% with a wide range of 4.40-5.19%. (pls see our [data previews report](#)). Interestingly, the data internals were also broadly in line with our expectations. Food and beverages inflation stayed elevated to reach 8.4%, higher than 7.9% in May'24. Core CPI at 3.14% continued to stay near record lows. Meanwhile, fuel CPI stayed in contraction zone again for the tenth consecutive month.

Food inflation continues to remain sticky and a pain point

Food inflation in June'24 clocked a sharp jump to 8.4% vs 7.9% in May'24 and remains a constant cause of concern. Vegetables prices spiked during the month of June due to late onset of monsoon and resultant heatwave (June was hottest month in 123 years). Vegetables inflation went up to 29.3% vs 27.4% in May'24. Food inflation, in particular vegetables inflation will be keenly watched in the coming months as monsoon is going to be the key driver. More importantly, CPI ex vegetables stayed at 3.5%, lowest in 7 years. Monsoon in India as on 12th July'24 has again slipped into a deficit of 2% having seen a surplus of 1% earlier this week and is expected to switch back into surplus again on good rains being received in most parts of the country in tandem with La Nina movement.

Core inflation stays flat at record lows, in line with our expectations

Core inflation clocked 3.14% in June'24 as against 3.12% previous month and stayed near all-time lows. Household goods and services, health, recreation and educational expenses witnessed softening even as personal care inflation clocked 8.2% in June as against 7.7% in May boosted by higher gold prices. More importantly, the steep mobile tariff hikes in July of 10-25% across various packs are likely to drive core CPI higher next month by c.20 bps.

Monsoon will be the key driver for CPI in forthcoming months

After clocking 11% deficit in June, monsoon has progressed this month. This is in line with Australian Bureau of Meteorology's ENSO outlook as it has shifted gears from EL NINO towards LA NINO watch. As monsoon covers most of the parts of country this month, we will keep a close watch on the on-the-ground food prices as it will be a key driver of cooling in headline inflation a projected 4/5% in FY25 vs 5.4% last fiscal.

May IIP growth comes above estimates at 5.9%

Industrial production (IIP) growth beat estimates at 5.9% in May, vs 5.0% in previous month, and our estimate of 5.0%. Consensus estimates were at 4.9% for May'24.

While mining and manufacturing showed improved M-o-M performance and were a key source of upward surprise for us, electricity was the key driver of uptick in IIP on account of heat waves experienced across the country. While manufacturing rose to 4.6% from 3.9% in Apr'24, it decelerated compared to May'23 (6.4%). Within manufacturing, the key contributing sectors were basic metals (7.8%), pharmaceuticals (7.5%), and electrical equipment (14.7%) sub-segments.

On a use-based classification, wedge between rural-urban demand continues to remain wide, with urban demand showing continued to pick up (consumer durables IIP growth at 12.3%) while rural demand showed signs of recovery (consumer non-durables IIP rose to +2.3% vis-à-vis -2.5% in Apr'24). Going forward, we continue to see IIP growth sustain in single digits, with monsoon trends on close watch in the coming months as a key driver of rural demand as well as possible announcements towards boosting consumption and capex in the upcoming Union Budget. Global demand trends to stay in focus as well, with lead indicators pointing to slowdown in US growth.

Rate cut(s) still looks some distance away

The RBI Governor, in a recent media interview had hinted that June CPI print is expected to be c.5% and that it would be premature to talk about interest rates with such deviation from the target rate of 4%. We maintain our stance for rate cuts by the Monetary Policy Committee "later rather than sooner" as food inflation remains a bone of contention.

While we see start of a shallow 50bps rate cut cycle from October 2024 when monsoon led cooling in prices fully reflect in food inflation, yet in our view there is risk of delay on account of: (i) Strong growth dynamics which reduce the need for policy easing in short term, (ii) Financial stability concerns are likely to keep the RBI vigilant and (iii) Inflation risks especially in food likely to stay on close watch.

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bankNidhi Arora
nidhiarora@unionbankofindia.bankJovana Luke George
jovana.george@unionbankofindia.bank

Fig 1: Headline CPI spikes again on higher food inflation in June'24; % y/y

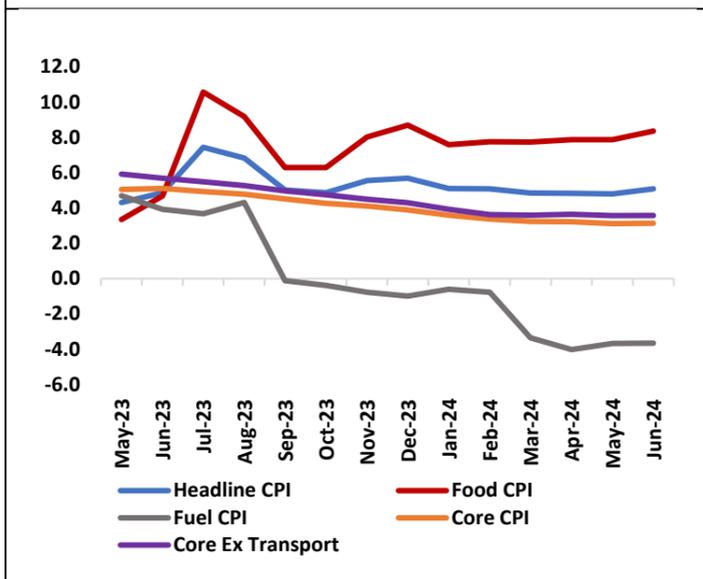


Fig 2: CPI ex veggies stays subdued at 3.5%; % y/y

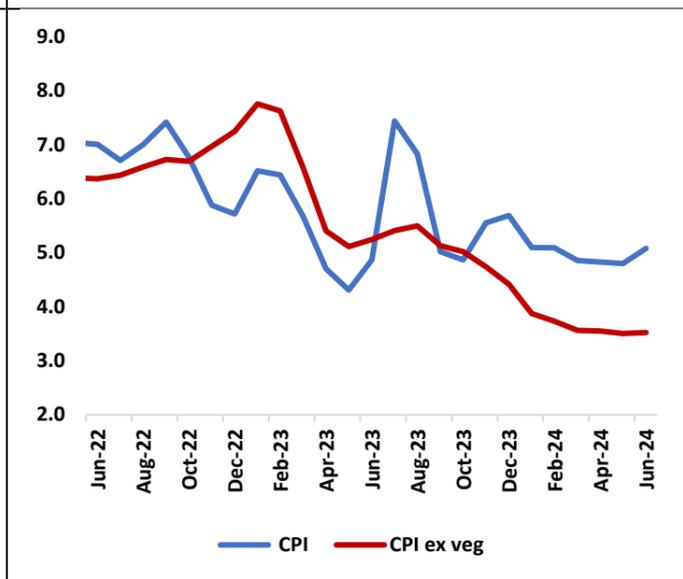


Fig 3: Vegetables index rose further in June 2024 with inflation at 29% YoY

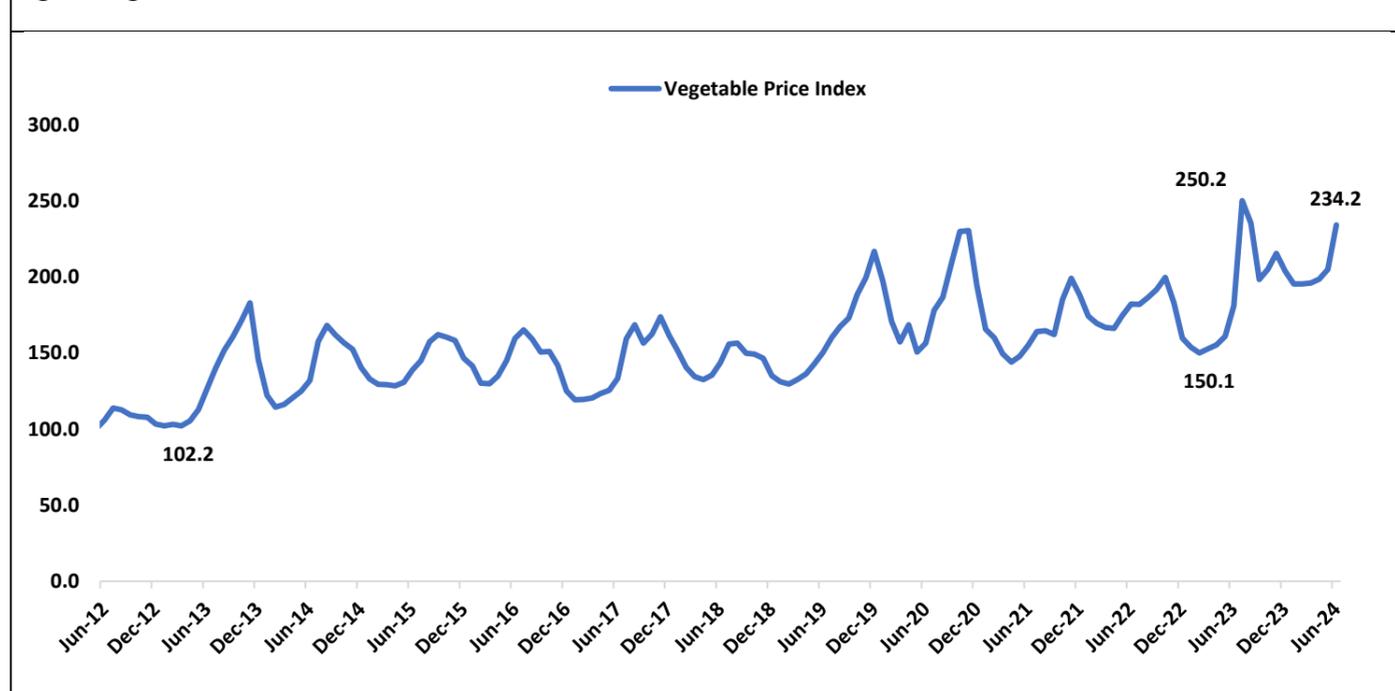


Fig 4: Food was key contributor to CPI inflation spike in June'24; change in ppt contribution (June vs May)

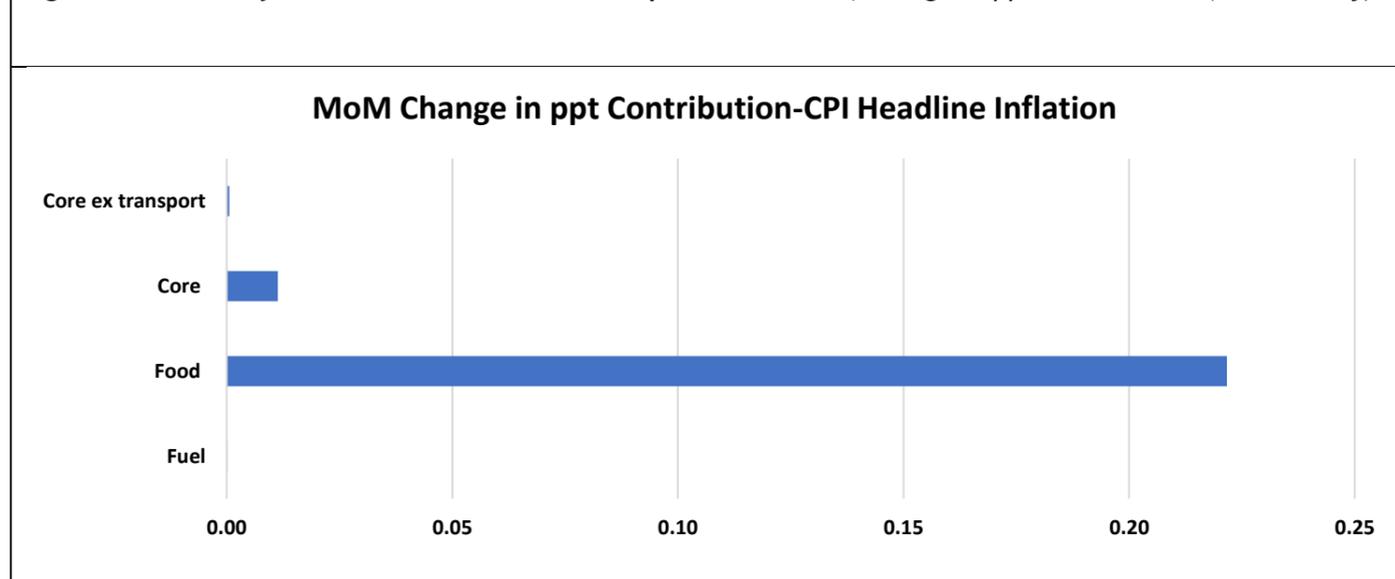


Fig 5: June'24 CPI inflation back above 5%% for the first time since Feb'24

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

Fig 6: May'24 IIP surprises on the upside

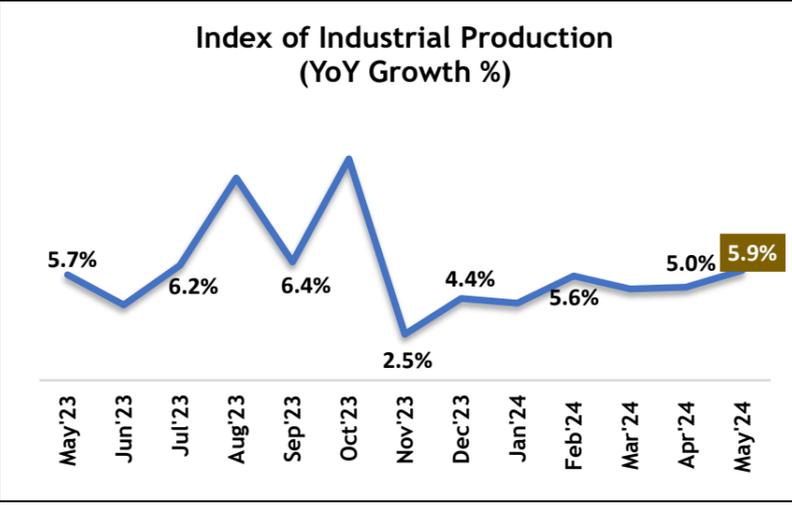


Fig 7: Broad based uptick in IIP

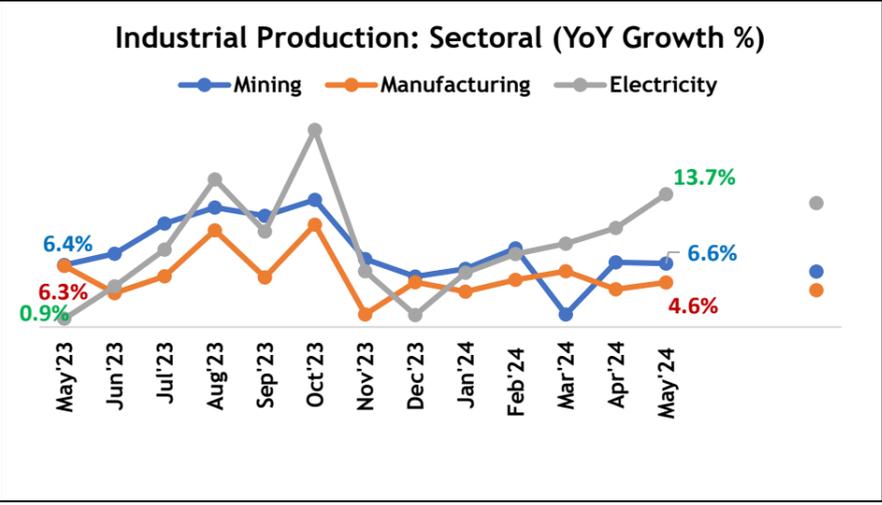


Fig 8: May'24 IIP surprises on the upside at 5.9%

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Mar'24	Apr'24	May'24
Mining	14.4	1.3%	6.7%	6.6%
Manufacturing	77.6	5.8%	3.9%	4.6%
Electricity	8.0	8.6%	10.2%	13.7%
Industrial Production: Use-based				
Primary goods	34.0	3.0%	7.0%	7.3%
Capital goods	8.2	6.6%	2.7%	2.5%
Intermediate goods	17.2	5.5%	3.2%	2.5%
Infrastructure / Construction Goods	12.3	7.4%	8.0%	6.9%
Consumer durables	12.8	9.5%	10.0%	12.3%
Consumer non-durables	15.3	5.3%	-2.5%	2.3%

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

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