

## CPI and IIP

12 May 2022

**Inflation spikes, IIP inching up**

India's CPI rose to 7.8% in Apr'22 from 7% in Mar'22, reaching the highest level since May'14. This was driven by continued increase in food and fuel inflation. We expect RBI to hike repo rate by another 25-35bps in response to curtail spiralling prices. Industrial out in Mar'22 picked up by 1.9% from manufacturing output up by 0.8%. CPI inflation rose to 7% in Mar'22. 1.5% in Feb'22. On an annual basis, production was up by record 11.3% in FY22, after registering a decline in the previous 2 years.

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**CPI climbs further up:** CPI inflation rose to nearly 8 year high (8.3% in May'14) to 7.8% in Apr'22 (est.: 7.5%) from 7% in Mar'22. With this, the CPI print has surpassed RBI's mandate for the third consecutive month now. Food inflation rose further by 8.4% in Apr'22 (17-month high) from 7.7% in the previous month. Within food, prices of vegetables, fruits, spices, cereals and milk rose the most. Vegetable inflation remained elevated and in double-digit at 15.4% in Apr'22 (highest since Nov'20) compared with 11.6% in Mar'22. Fruit prices also rose by 5% from 2.5% last month and milk prices were up by 5.5% versus 4.7% in Mar'22. Price of cereals inched up by 6% from 5%, while that of spices were up by 10.6% from 8.5%. On the other hand, prices of protein based items (eggs, meat & fish), pulses and sugar moderated, albeit marginally. Continued disruption in global supply chain due Russia-Ukraine war and lockdowns in China are likely to keep food inflation higher.

**Core inflation hardens:** Core inflation rose by 66bps to 7% in Apr'22. The increase was board-based (barring personal care and effects). Significant jump was seen in fuel light component (10.8% versus 7.5% in Mar'22) and transport and communication (10.9% versus 8%). Apart from this, increase was also visible in prices of clothing and footwear (9.9% versus 9.4%), education (4.1% versus 3.6%), recreation & amusement (7.3% versus 7%), health (7.2% versus 7%) and housing (3.5% versus 3.4%). Only personal care and effect index showed slight moderation (8.6% versus 8.7%).

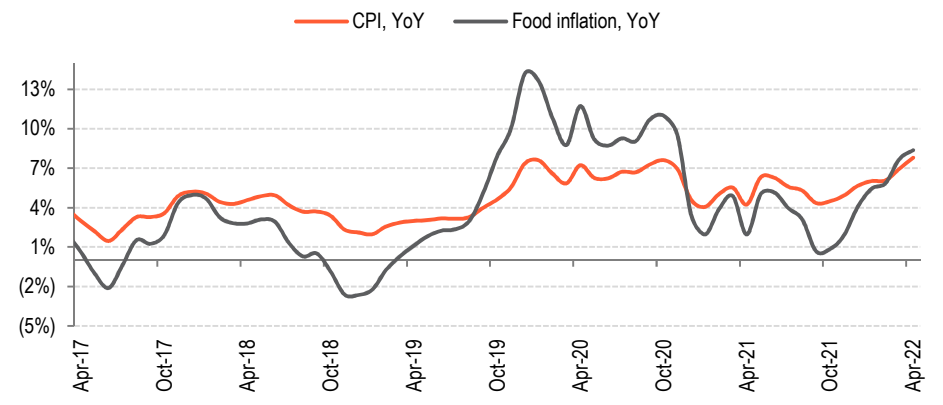
**Imminent rate hike:** Given the trajectory of retail inflation with food and core inflation remaining elevated, we see a case for RBI hiking repo rate by another 25-35bps. Rising global inflation, depreciating rupee (contributing to imported inflation) and looming threat over EU's embargo on Russian oil makes our case stronger for a repo rate hike by RBI.

**IIP growth inch up:** Industrial output rose to 1.9% in Mar'22 from 1.5% in Feb'22 led by improvement in manufacturing electricity sectors. Manufacturing output rose by 0.9% in Mar'22 following 0.5% rise in Feb'22, while electricity production was up by 6.1% from 4.5% in the previous month. On the other hand, mining output eased to 4% in Mar'22 from 4.5% in Feb'22. On an annual basis, overall industrial production was up by 11.3% in FY22 compared with a decline of (-) 8.4% in FY21. This is the highest print in the current (2011-12) series. Notably, over a 2-year horizon, IIP index is 26.5% above the pre-pandemic level, signally recovery in economic activity. All sub-sectors have performed well with manufacturing output up by 29.6%, electricity by 30% and mining by 10.4%.

**Primary goods strengthen:** Within use-based classification, primary and consumer goods have registered an improvement. Primary goods clocked to 5-month high at 5.7% in Mar'22 from 4.6% in Feb'22. Consumer durables and non-durables also fell at slower pace of (-) 3.2% (-8.7% in Feb'22) and (-) 5% (-5.8% in Feb'22), respectively. However, output of capital, intermediate and infra goods moderated. Out of capital goods eased to 0.7% from 2% in Feb'22, while that of intermediate goods eased to 0.6% from 3.7%. Output of infra goods was down to 7.3% from 9.1% last month. On an annual basis, barring primary and consumer non-durables, all the other sectors registered double digit growth in FY22.

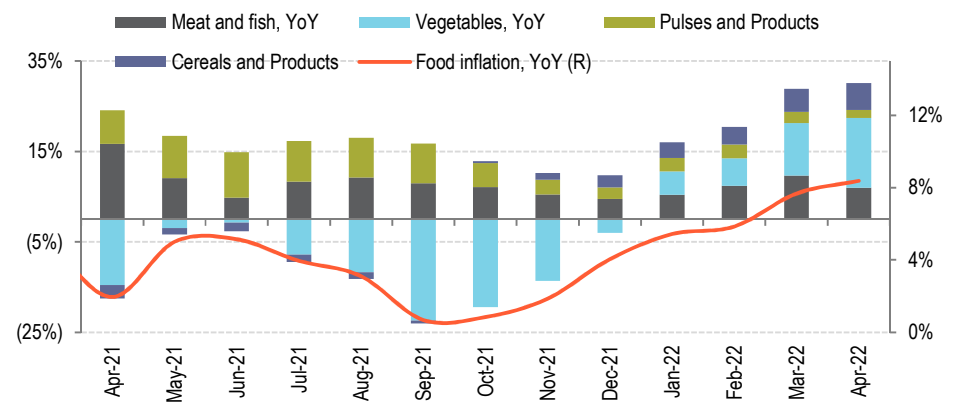


**Fig 1 – CPI rises to 7.8% in Apr'22, led by food and fuel**



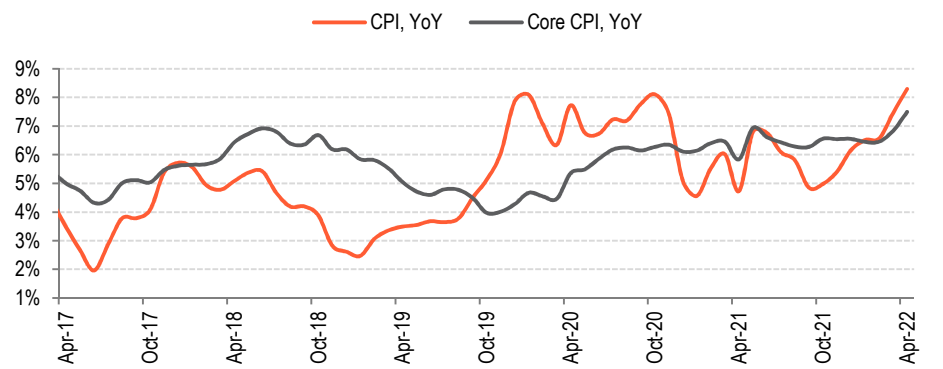
Source: CEIC, Bank of Baroda Research

**Fig 2 – Categories of food inflation exhibiting pressure**

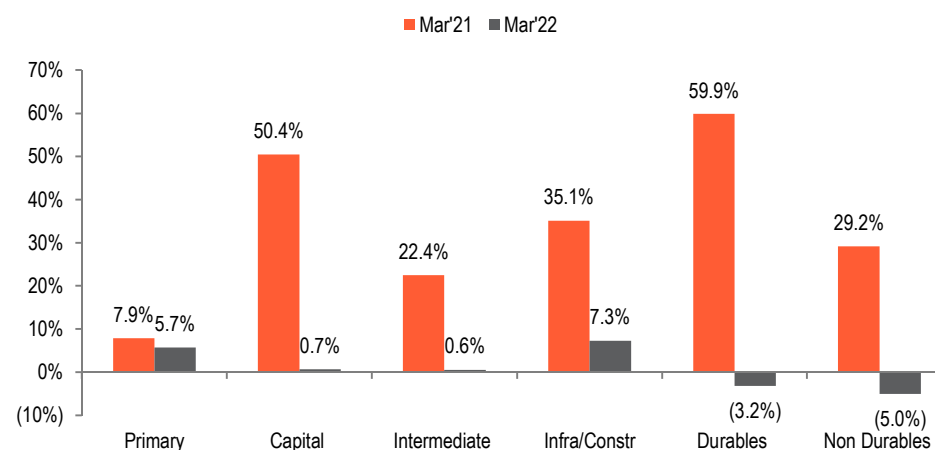


Source: CEIC, Bank of Baroda Research

**Fig 3 – Elevated Core**



Source: CEIC, Bank of Baroda Research

**Fig 4 – Use Based: Growth Rate**

Source: CEIC, Bank of Baroda Research

**Table 1: IIP growth edges upwards**

(% change)	Mar'21	Mar'22	Apr-Mar'21	Apr-Mar'22
<b>Mining</b>	6.1	4.0	(7.8)	12.2
<b>Manufacturing</b>	28.4	0.9	(9.6)	11.7
<b>Electricity</b>	22.5	6.1	(0.5)	7.9
<b>IIP general</b>	24.2	1.9	(8.4)	11.3

Source: CEIC, Bank of Baroda Research

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