

## CPI cools, IIP growth improves

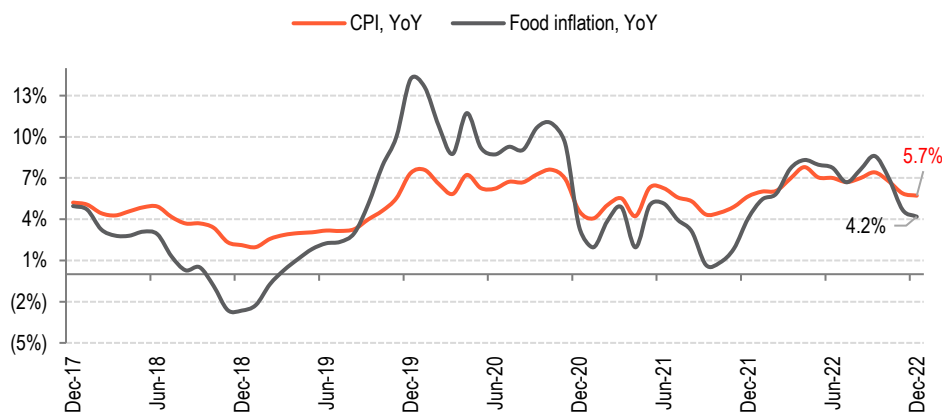
Comfort came in from both India's growth and inflation print. While headline CPI came in below consensus estimate and in line with our estimate, industrial production rose at a faster pace. On production front, manufacturing, capital goods and consumer goods remained buoyant. On inflation, relief came in because of sharp plunge in vegetable prices. However, worry persists with regard to stickiness of core which is still at an elevated level. Going forward we expect CPI to settle at around 6.5% in FY23. H1FY24 would be benefited from statistical base. RBI would be watchful of the core inflation data and would go for another 245bps hike in its upcoming policy.

### CPI inflation moderates

**CPI inflation eased:** CPI inflation eased to a 13-month low of 5.7% in Dec'22 from 5.9% in Nov'22. This was on account of favourable base (5.7% in Dec'21 from 4.9% in Nov'21) and 50bps decline in food inflation. Core however still remained sticky.

**Food inflation:** CPI food index moderated to 4.2% in Dec'22 from 4.7% in Nov'22. This is led by sharp fall in vegetable prices by 15% in Dec'22 from 8.1% decline in Nov'22. Even fruit prices moderated to 2% from 2.7% in Nov'22. Other items of food inflation however noted an upsurge on YoY basis. These are egg inflation (6.9% from 4.9% in Nov'22), meat and fish (5.1% from 3.9%) and cereal products (13.8% from 13%). To avoid the base, the sequential picture gives a better understanding. Thus on MoM basis, vegetables, pulses, oils and fat, milk, sugar and cereals all have shown moderation in Dec'22.

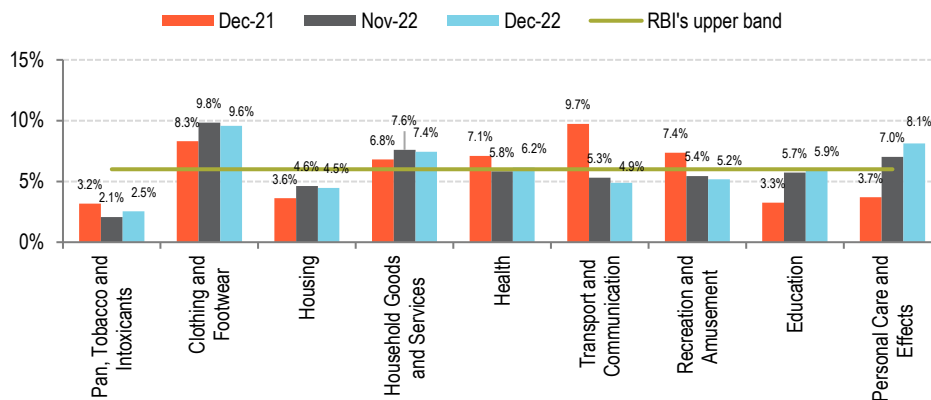
**Figure 1: CPI cools down; led by food**



Source: CEIC, Bank of Baroda Research

**Core CPI (excl. food and fuel)** remained sticky at 6% in Dec'22 as well. The major driver have been increase in personal care and items inflation to 8.1% in Dec'21 from 7% in Nov'22. This was on account of 3.1% MoM increase in gold prices in Dec'22. Apart from this, even health inflation rose to 6.2% from 5.8%. Other item such as transport and communication showed some moderation to 4.9% from 5.3%. On sequential basis, barring household goods and services all items of core inflation inched up in Dec '22, signifying demand holds buoyant.

**Figure 2: Core inflation remains sticky:**



Source: CEIC, Bank of Baroda Research

### Inflationary pressures to ebb, core stickiness to remain?

CPI print came in line with our expectations. A favourable base and sharp decline in vegetable prices have resulted in the same. Even in Jan'23, vegetable prices have fallen to quite an extent. On wholesale front as well we have seen moderation in prices. What poses concern is the stickiness in core. Even the demand side of the story for Indian economy still holds ground compared to global counterpart. In FY23, as a whole we expect CPI to be ~6.5-6.7%. The only comfort would come in H1FY24 on account of statistical base. Further if lower international oil prices is percolated into retail prices as well sometime in FY24, this would be an advantage to inflation data.

On RBI front, this reading would provide some comfort. However, we expect RBI would be watchful of the persistence in stickiness of core. We expect another 25bps hike in the current cycle before a pause.

### IIP growth improves

**IIP growth** came in way above our expectation (2.8%) at 7.1% in Nov'22 from 4.2% decline in Oct'22. A favourable base indeed provided the support. Mining index rose by 9.7% in Nov'22 from 2.5% in Oct'22, manufacturing was also buoyant at 6.1% compared to 5.9% decline in Nov'22. Electricity production grew at double digit pace of 12.7% from 1.2% in Nov'22.

**Drivers of manufacturing production:** Sharp increase was noticed for wearing apparel, leather products, wood products, pharma, transport equipment, machinery and electrical equipment.

**Use based data:** Capital goods production rose at a sharp pace of 20.7% from 1.7% decline in Oct'22. Infrastructure and construction goods also rose at a double digit pace of 12.8% from 1.1%. Both consumer durables and FMCG segment remained buoyant.

On a sequential basis as well, manufacturing and electricity production improved. Capital goods and consumer goods sector also remained robust.

Going forward, we expect some pickup in H1FY24. Till now, data such as manufacturing PMI, exports are still showing some recovery. The upcoming budget is also likely to focus on capital spending which would be positive for production in the near term.

**Table 1: IIP growth improves**

Sectoral	Weight	Nov-22	Oct-22	Nov-21	Apr-Nov'22	Apr-Nov'21
IIP	100.0	7.1%	-4.2%	1.0%	5.5	17.6
Mining	14.4	9.7%	2.5%	4.9%	4.7	18.2
Manufacturing	77.6	6.1%	-5.9%	0.3%	5.0	18.7
Electricity	8.0	12.7%	1.2%	2.1%	9.8	10.2
<b>Use-Based</b>						
Primary Goods	34.1	4.7%	2.0%	3.5%	7.7	13.2
Capital Goods	8.2	20.7%	-1.7%	-2.6%	14.9	29.3
Intermediate Goods	17.2	3.0%	-2.6%	2.1%	5.0	24.1
Infrastructure and Construction Goods	12.3	12.8%	1.1%	3.1%	7.4	27.6
Consumer Durables Goods	12.8	5.1%	-17.8%	-5.7%	5.7	24.6
Consumer Non-Durables Goods	15.3	8.9%	-13.4%	-0.8%	-2.5	6.1

Source: CEIC, Bank of Baroda Research

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