

INFLATION AND IIP

12 February 2021

IIP rebounds and food inflation falls

India's industrial output improved to 1% in Dec'20 (-2.1% in Nov'20) led by acceleration in manufacturing and electricity output. Consumer durables output rose to a 3-month high of 4.9%. CPI inflation eased to a 16-month low of 4.1% in Jan'21 driven by sharp drop in food inflation to 1.9% in Jan'21 (3.4% in Dec'20). Core inflation remained sticky at 5.7% in Jan'21. We believe inflation is likely to be lower than RBI's revised trajectory of 5-5.2% in H1 FY22. However, government borrowing leaves no room for a decline in yields.

Sameer Narang

Dipanwita Mazumdar | Jahnavi

chief.economist@bankofbaroda.com

IIP improves: Industrial output surprised positively at 1% in Dec'20 from a decline of 2.1% in Nov'20. This was led by manufacturing sector which reported an increase of 1.6% in Dec'20 from a contraction of 2% in Nov'20. Electricity output rose to a 10-month high of 5.1% in Dec'20 from 3.5% in Nov'20. Broad based improvement was seen across all the sectors with consumer durables output rising to 3-month high of 4.9% in Dec'21 (-3.4% in Nov'20). FMCG output too improved to 2% in Dec'20 (-1.3% in Nov'20). High frequency indicators show recovery is expected to sustain in Q4FY21 and FY22.

CPI is at a 16-month low: CPI inflation slipped to its lowest level since Sep'19 at 4.1% in Jan'21 from 4.6% in Dec'20. This was led by 150bps drop in food inflation (1.9% from 3.4%). Vegetable inflation declined sharply by 15.8% from 10.5% in Dec'20. Except fruits (+5% in Jan'21 versus +2.7% in Dec'20), all items of food showed moderation/decline. Cereal prices moderated to 0.1% from 1% in Dec'20. Meat and fish inflation moderated to 12.5% from 15.2% in Dec'20. Eggs prices increased by 12.8% from 16% in Dec'20 driven by impact of Avian flu. We see benign food inflation scenario to prevail in the coming months due to absent of any supply side disruption from monsoon.

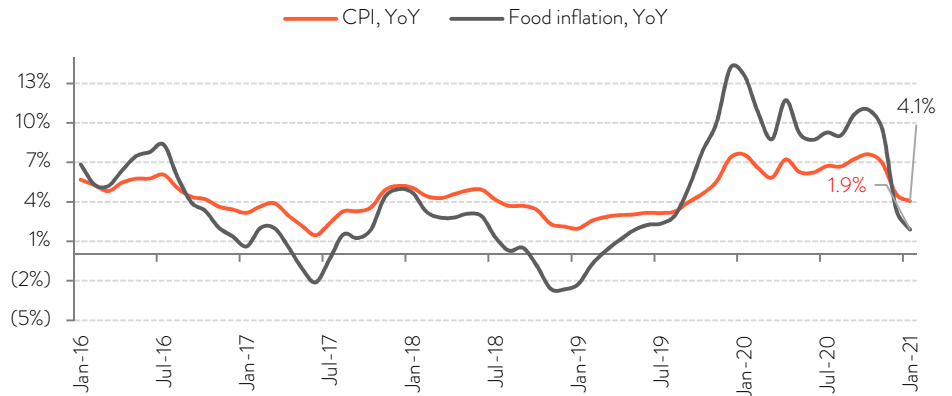
Core inflation remains sticky: Core inflation was stable at 5.7% in Jan'21. Clothing and footwear (3.8% from 3.5%), health (6% from 5.9%), recreation and amusement (5.5% from 5.1%) inched up. Household goods and services (2.8% from 2.9%) and personal care and effects (10.6% from 11.7%) moved down. Retail fuel prices (petrol 4.3%, diesel +4.7% in Feb'21 MoM) continue to edge up as international oil prices have moved higher. Opening up of economy in coming months is likely to put upward pressure on core inflation. The recent prints should give RBI room to maintain accommodative liquidity stance. We see more intervention in long-end.

KEY HIGHLIGHTS

- CPI inflation moderated to 4.1% in Jan'21 from 4.6% in Dec'20, led by food inflation.
- Core inflation was sticky at 5.7%.
- IIP growth improves to 1% in Dec'20 after falling by 2.1% in Nov'20.

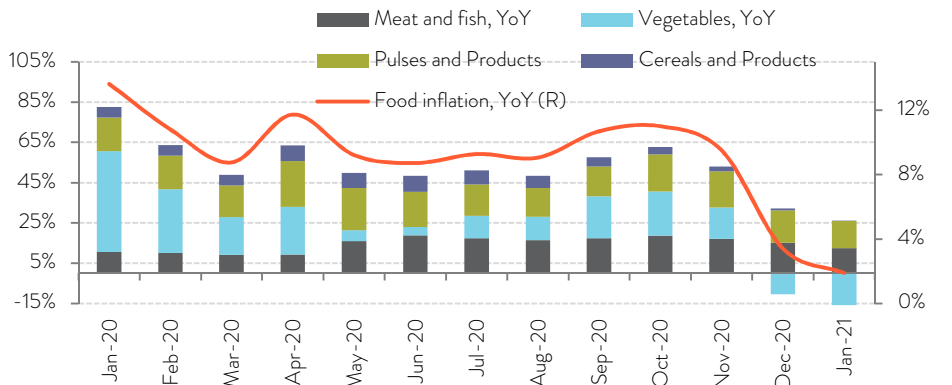


FIG 1 – CPI INFLATION FALLS TO 16-MONTH LOW DRIVEN BY FOOD



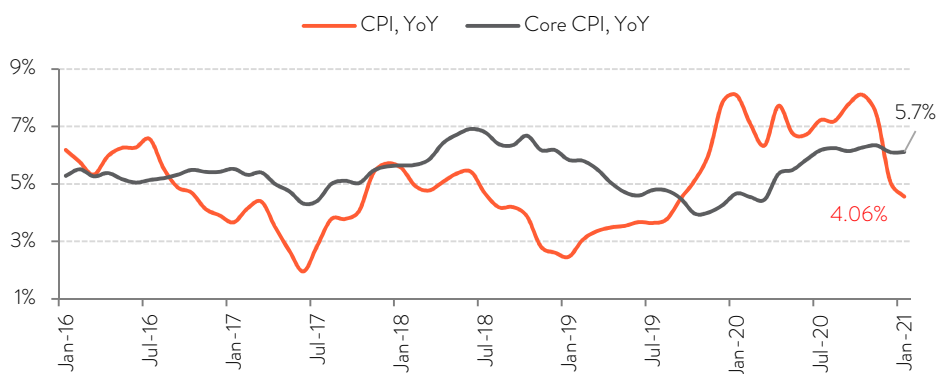
Source: CEIC, Bank of Baroda Research

FIG 2 – VEGETABLE PRICES LED THE DECREASE

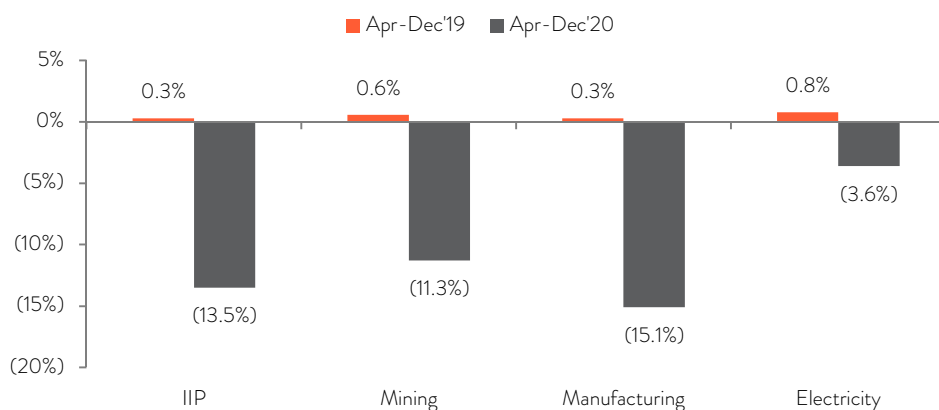


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE REMAINS STICKY AT 5.7%



Source: CEIC, Bank of Baroda Research

FIG 4 – BROAD BASED SLOWDOWN ON FYTD BASIS CONTINUES

Source: CEIC, Bank of Baroda Research

FIG 5 – IIP GROWTH RISES IN DEC'20

Sectoral (%)	Weight	Dec-20	Nov-20	Dec-19	Apr-Dec'20	Apr-Dec'19
IIP	100.0	1.0	(2.1)	0.4	(13.5)	0.3
Mining	14.4	(4.8)	(6.7)	5.7	(11.3)	0.6
Manufacturing	77.6	1.6	(2.0)	(0.3)	(15.1)	0.3
Electricity	8.0	5.1	3.5	(0.1)	(3.6)	0.8
Use-Based						
Primary Goods	34.1	(0.3)	(2.3)	2.4	(10.1)	0.3
Capital Goods	8.2	0.6	(7.4)	(18.3)	(27.5)	(12.5)
Intermediate Goods	17.2	0.4	(2.6)	13.1	(15.0)	10.7
Infrastructure and Construction Goods	12.3	0.9	1.7	0.2	(15.2)	(2.1)
Consumer Durables Goods	12.8	4.9	(3.4)	(5.6)	(24.7)	(6.4)
Consumer Non-Durables Goods	15.3	2.0	(1.3)	(3.2)	(4.5)	2.6

Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.in



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com