

INFLATION AND IIP

12 March 2021

IIP falls and inflation inches up

India's industrial output fell by 1.6% in Jan'21 (+1.6% in Dec'20) led by drop in capital goods and consumer non-durables. CPI inflation inched up to 5% in Feb'21 from 4.1% in Jan'21 led by jump in food inflation to 3.9% (2% in Jan'21). Core inflation too edged up to 6% in Feb'21. We expect CPI inflation at 4.6% in FY22 (6.2% in FY21). However, upside risk from higher global commodity prices and domestic core inflation are not ruled out. Food inflation is likely to be benign on the back of ample cereals stock and normal monsoon.

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IIP contracts: Industrial output slipped back into contraction zone with a print of (-) 1.6% in Jan'21 from an increase of 1.6% in Dec'20. This was led by manufacturing sector which contracted by 2% in Jan'21 compared with an increase of 2.1% in Dec'20. Within manufacturing, both capital and consumer non-durable good contracted sharply by 9.6% (from an increase of 1.5%) and 6.8% (from an increase of 0.5%) respectively in Jan'21. Consumer durable goods too declined by 0.2% in Jan'21. Electricity output improved to 5.5% in Jan'21 from 5.1% in Dec'20. This data is a bit at odds with manufacturing PMI, export growth seen in Jan'21 and consistently rising GST collections.

CPI inched up: CPI inflation edged up to 5% in Feb'21 after two consecutive months of sub-5% print. This was led by jump in food inflation (3.9% in Feb'21 versus 2% in Jan'21). Vegetable prices fell only by 6.3% versus a large decline of 15.8% seen in Jan'21. Prices of fruits also went up by 6.3% from 5%. Oil and fat index continued to surge at 20.8% in Feb'21. Other food categories which exhibited double digit inflation in Feb'21 are pulses and products (12.5%), meat and fish (11.3%) and eggs (11.1%). Notably, cereal inflation fell to its lowest (in the 2011-12 series) due to large stock built-up. With a prediction of normal monsoon, outlook on food inflation is positive.

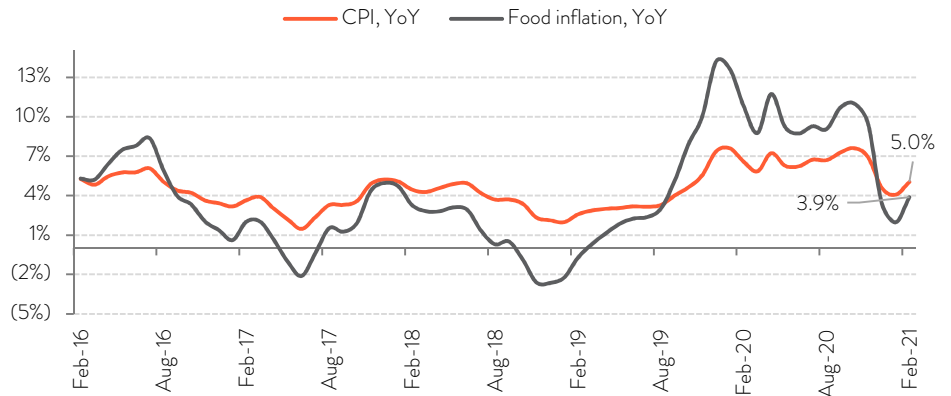
Core inflation also rises: Core inflation rose by 30bps to 6% from 5.7% in Jan'21. This was led by transport and communication which rose to 11.4% in Feb'21 from 9.4% in Jan'21. Upward momentum was seen in clothing and footwear at 4.2% from 3.8%, health at 6.3% from 6.1% and recreation and amusement at 5.8% from 5.5%. However, lower gold prices drove moderation in personal care and effects at 8.6% from 10.7%. We expect CPI inflation to stabilise at 5% in H1FY22. While it is expected to come down in H2, an upward push from higher commodity prices and core inflation cannot be ruled out.

KEY HIGHLIGHTS

- CPI inflation edged up to 5% in Feb'21 from 4.1% in Jan'21.
- Core inflation increased to 6%. RBI may be more watchful of rising core inflation.
- IIP growth contracts by 1.6% in Jan'21 from 1.6% in Dec'20.

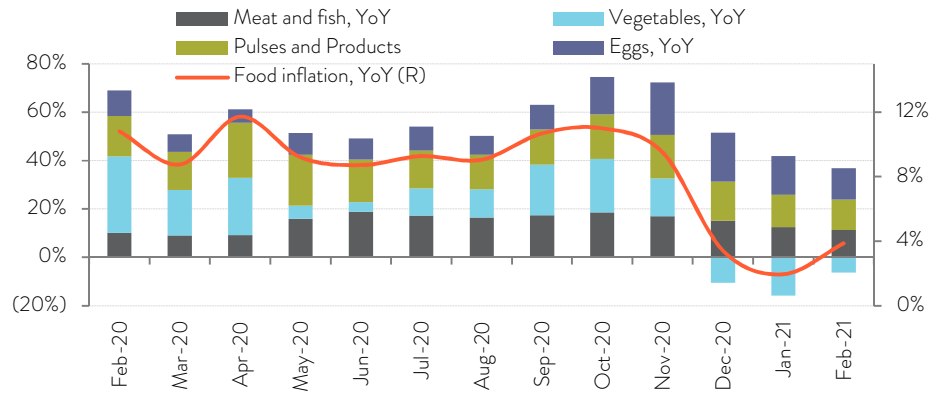


FIG 1 – CPI INFLATION INCHED UP LED BY 190 BPS JUMP IN FOOD



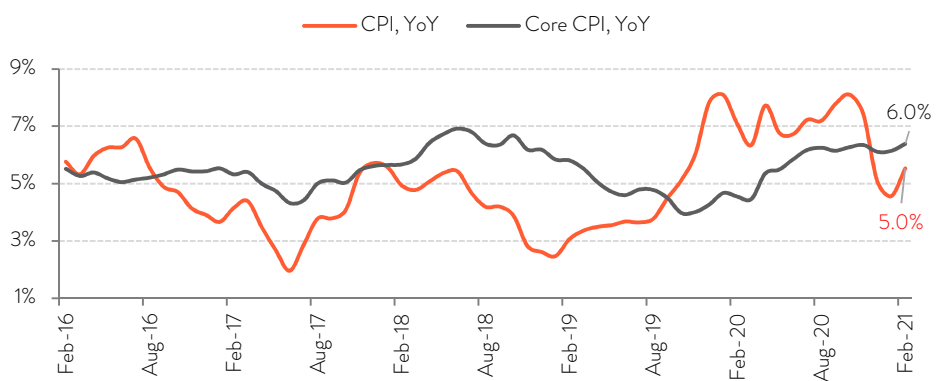
Source: CEIC, Bank of Baroda Research

FIG 2 – LED BY VEGETABLE PRICES

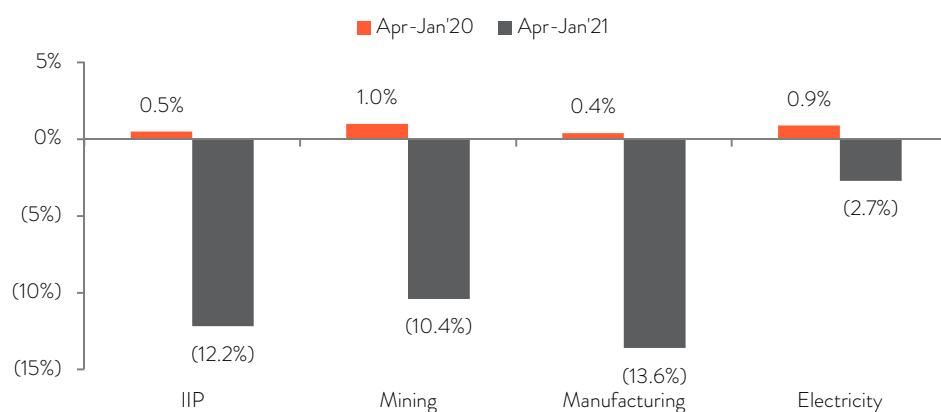


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE INCHES UP BY 30BPS TO 6%



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 FALLS IN JAN'21

Sectoral (%)	Weight	Jan-21	Dec-20	Jan-20	Apr-Jan'21	Apr-Jan'20
IIP	100.0	(1.6)	1.6	2.2	(12.2)	0.5
Mining	14.4	(3.7)	(4.2)	4.4	(10.4)	1.0
Manufacturing	77.6	(2.0)	2.1	1.8	(13.6)	0.4
Electricity	8.0	5.5	5.1	3.1	(2.7)	0.9
Use-Based						
Primary Goods	34.1	0.2	(0.1)	1.8	(9.0)	0.6
Capital Goods	8.2	(9.6)	1.5	(4.4)	(25.6)	(11.6)
Intermediate Goods	17.2	0.5	2.2	15.6	(13)	11.1
Infrastructure and Construction Goods	12.3	0.3	2.7	(0.3)	(13.3)	(1.9)
Consumer Durables Goods	12.8	(0.2)	5.7	(3.7)	(22.1)	(6.2)
Consumer Non-Durables Goods	15.3	(6.8)	0.5	(0.6)	(4.9)	2.3

Source: CEIC, Bank of Baroda Research

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