

INFLATION AND IIP

12 May 2021

Industrial activity rebounds, inflation eases

India's industrial output rose by a stellar 22.4% in Mar'21, even after adjusting for a low base. CPI inflation eased to 4.3% in Apr'21 from 5.5% in Mar'21 led by moderation in food inflation to 2% in Apr'21 (4.9% in Mar'21). Core inflation too edged down to 5.5% in Apr'21 from 6.1% in Mar'21. While industrial activity has lost momentum on the back of lockdowns, inflationary pressure is building up due to rising international commodity prices. Inflation trajectory is contingent on monsoon rainfall (projected to be normal).

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IIP sees a rebound in Mar'21: Industrial output contracted by 8.6% in FY21 compared with a dip of 0.8% in FY20 led by 7.8% decline in mining and 9.8% decline in manufacturing. Electricity output was stable. However, in Mar'21, IIP increased by 22.4%. A low base (-18.7% in Mar'20) explain this. Electricity output was resilient at 22.5% even after adjusting for a decline of 8.2% in Mar'20. Manufacturing output saw an increase of 25.8% in Mar'21 on the back of a low base of (-) 22.8% in Mar'20. The uptick in IIP was broad based led by capital and consumer durable goods at 41.9% (-38.8% in Mar'20) and 54.9% (-36.8% in Mar'20) respectively. Infra and FMCG goods output also rose by 31.2% (-24.3% in Mar'20) and 27.5% (-22.3% in Mar'20) in Mar'21.

Food inflation moderates: CPI inflation softened to 4.3% in Apr'21 from 5.5% in Mar'21. A favourable base explains this. Food inflation moderated to 2% in Apr'21 from 4.9% in Mar'21 led by vegetables index which fell by 14.2% in Apr'21 compared with a dip of 5% in Mar'21. Cereal prices fell by 3% after a 0.7% contraction in Mar'21. Prices of pulses rose by 7.5% in Apr'21 (13.3% in Mar'21). Price pressure was visible in meat and fish (16.7% versus 15.1%), eggs (10.6%), oil and fats (25.9% versus 24.9%) and fruits (9.8% versus 7.9%). While surplus cereal stocks are a positive, food inflation depends on monsoon. A below normal monsoon when global food prices are rising will be inflationary.

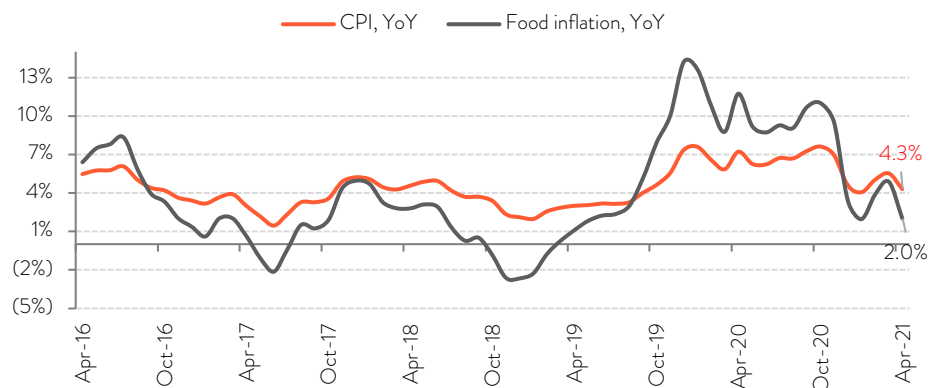
Core inflation tapers off: Core inflation edged down to 5.5% (6.1% in Mar'21). This was led by decline in transport and communication (11% versus 12.5%). The dip in core was broad based as seen in household goods and services (2% versus 3.3%), recreation and amusement (4.6% versus 6.2%), education (0.9% versus 2.6%) and personal care and effects (5.4% versus 5.9%). Clothing and footwear prices rose by 3.5% from 4.4%. Given muted demand outlook, core is expected to gravitate lower in coming months. Higher oil prices are a risk.

KEY HIGHLIGHTS

- CPI inflation edged down to 4.3% in Apr'21 from 5.5% in Mar'21.
- Food inflation fell to 2%. Core inflation moderated to 5.5%.
- Industrial activity saw a strong rebound in Mar'21 at 22.4%. For FY21, IIP fell by 8.6%.

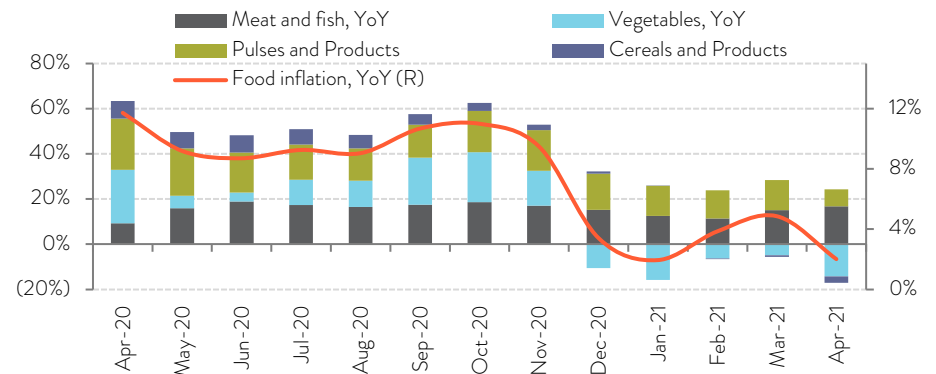


FIG 1 – CPI INFLATION EDGED DOWN LED BY 290BPS DECLINE IN FOOD INFLATION



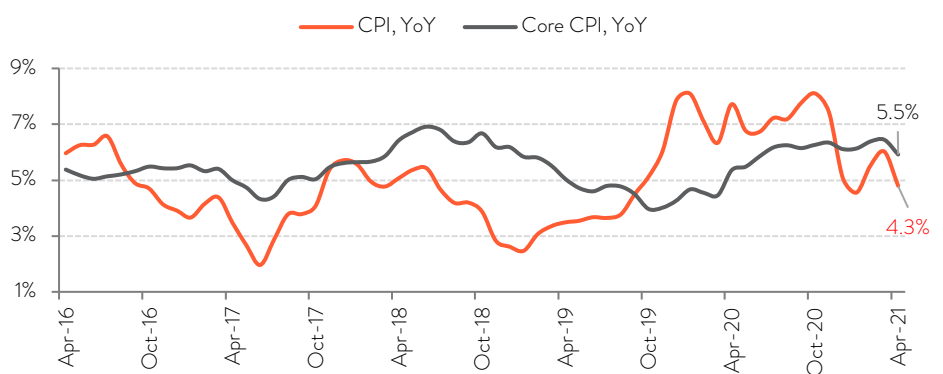
Source: CEIC, Bank of Baroda Research

FIG 2 – LED BY VEGETABLES, PULSES AND CEREALS

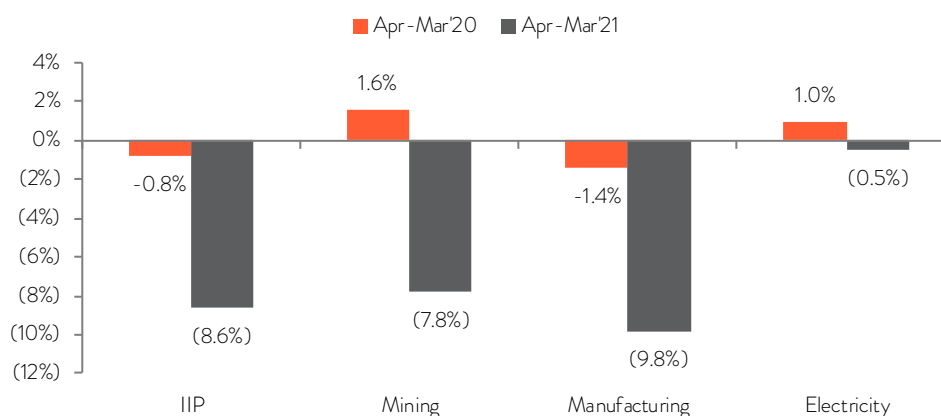


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE INFLATION STABLE



Source: CEIC, Bank of Baroda Research

FIG 4 – BROAD BASED SLOWDOWN IN IIP ON FY BASIS

Source: CEIC, Bank of Baroda Research

FIG 5 – IIP GROWTH CLOCKS DOUBLE DIGIT IMPROVEMENT

| Sectoral (%) | Weight | Mar-21 | Feb-21 | Mar-20 | Apr-Mar'21 | Apr-Mar'20 |
|---------------------------------------|--------|--------|--------|--------|------------|------------|
| IIP | 100.0 | 22.4 | (3.4) | (18.7) | (8.6) | (0.6) |
| Mining | 14.4 | 6.1 | (4.4) | (1.3) | (7.8) | 1.6 |
| Manufacturing | 77.6 | 25.8 | (3.7) | (22.8) | (9.8) | (1.4) |
| Electricity | 8.0 | 22.5 | 0.1 | (8.2) | (0.8) | (0.5) |
| Use-Based | | | | | | |
| Primary Goods | 34.1 | 7.7 | (4.7) | (4.0) | (7.0) | 0.7 |
| Capital Goods | 8.2 | 41.9 | (3.8) | (38.8) | (19.2) | (13.9) |
| Intermediate Goods | 17.2 | 21.2 | (5.6) | (18.6) | (9.7) | 9.1 |
| Infrastructure and Construction Goods | 12.3 | 31.2 | (4.0) | (24.3) | (9.1) | (3.6) |
| Consumer Durables Goods | 12.8 | 54.9 | 6.6 | (36.8) | (15.2) | (8.7) |
| Consumer Non-Durables Goods | 15.3 | 27.5 | (4.5) | (22.3) | (2.3) | (0.1) |

Source: CEIC, Bank of Baroda Research

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