

## INFLATION AND IIP

12 June 2019

### Food inflation rises, core dips

**CPI inflation rose to a 7-month high of 3.05% in May'19. IIP growth also recovered to a 6-month high at 3.4% in Apr'19. Food inflation inched by 70bps MoM led by vegetable prices. Core inflation eased to 4.2% driven by across the board decline in all components. While CPI has risen for 4-straight months now, it is still below RBI's target. Also, with oil prices currently at US\$ 60/bbl, RBI has room to cut rates further to spur growth. Progress of monsoon and Budget will however dictate the timing of the rate cut.**

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**IIP growth picks up:** Industrial output growth recovered in Apr'19 to a 6-month high of 3.4% from 0.4% in Mar'19. All sectors reported an improvement with electricity output rising by 6%, mining by 5.1% and manufacturing by 2.8% compared to 2.2%, 0.8% and 0.1% respectively in Mar'19. Capital goods rose by 2.5% in Apr'19 after declining for three straight months. Primary, intermediate, FMCG and consumer durables also reported positive traction in Apr'19. However, infrastructure output decelerated to a 19-month low of 1.7%.

**CPI jumps to 7-month high:** CPI inflation increased to 3.05% in May'19 from 2.99% in Apr'19 led by 70bps increase in food inflation (1.8% in May'19 from 1.1% in Apr'19). This was led by vegetable prices which rose by 5.5% in May'19 compared to 2.9% in Apr'19. Inflation in protein based items such as meat and fish also accelerated to 8.1% in May'19 compared with 7.5% in Apr'19. Pricing pressure was also seen in pulses which reversed its deflation trajectory seen in the past 29-months and increased by 2.1% in May'19. Cereal inflation however remained stable at 1.2%. Stable international prices explain this. Pressure on food inflation is likely to persist.

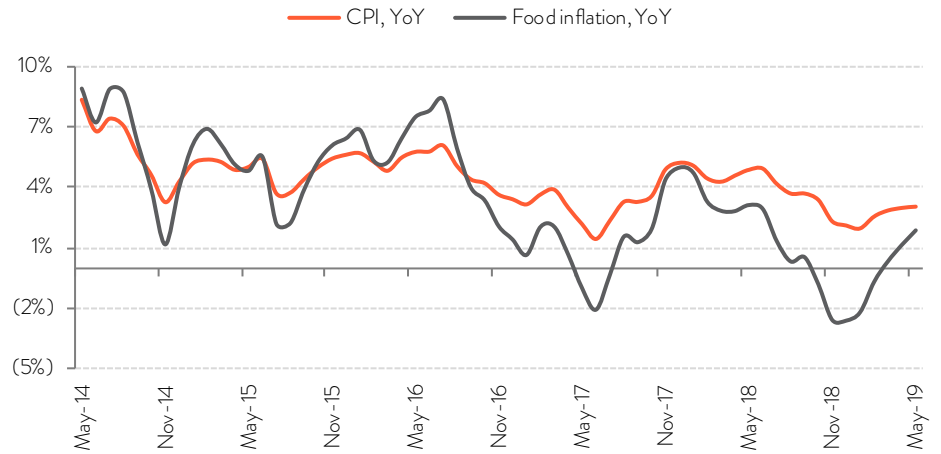
**Lower core provides a respite:** Core inflation dipped to a 22-month low of 4.2% in May'19 compared with 4.6% in Apr'19. The decline was broad-based with ~50bps decline coming from miscellaneous items (4.6% in May'19 compared to 5.1% in Apr'19). Sharpest decline was visible in transport and communication at 1.6% in May'19 against 2.5% in Apr'19 with declining oil prices (11% in May'19). Even health and education components of core have come-off considerably and declined by 42bps and 32bps MoM respectively. Falling oil prices (3.4%) in Jun'19 is positive for core in the coming months.

### KEY HIGHLIGHTS

- CPI inflation edged up by 3.05% in May'19 vs 2.99% in Apr'19.
- Core inflation moderated to 4.2% vs 4.6% in Apr'19.
- IIP growth rebounds to 3.4% in Apr'19 from 0.4% in Mar'19.

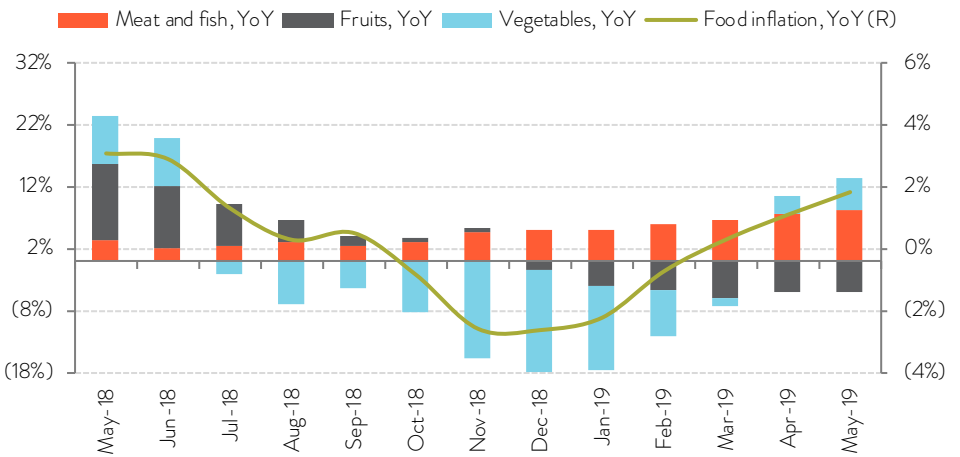


**FIG 1 – CPI RISES TO A 7-MONTH HIGH AT 3.05%**



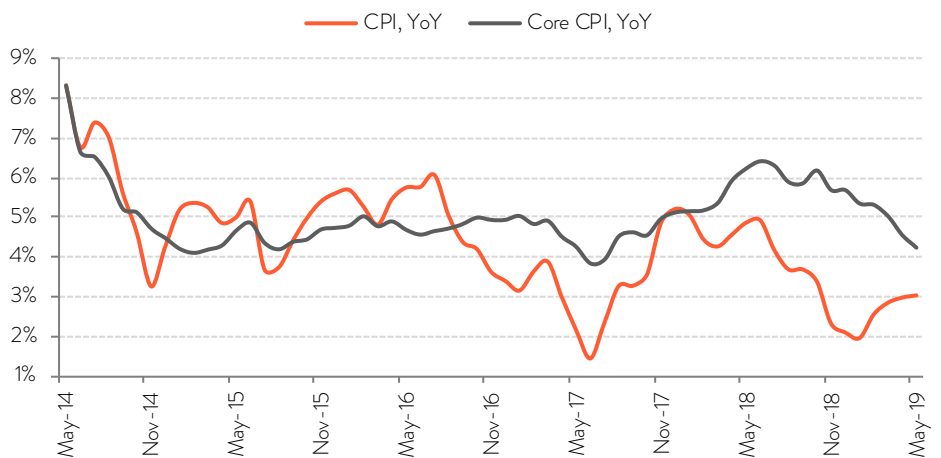
Source: CEIC, Bank of Baroda Research

**FIG 2 – LED BY HIGHER FOOD INFLATION**

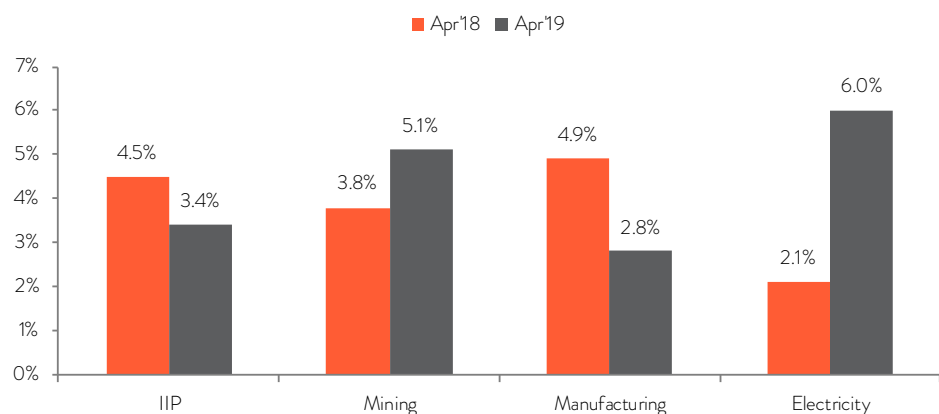


Source: CEIC, Bank of Baroda Research

**FIG 3 – CORE EDGED DOWN TO 4.2% IN MAY'19 VS 4.6% IN APR'19**



Source: CEIC, Bank of Baroda Research

**FIG 4 – MINING AND ELECTRICITY PUSH IIP GROWTH HIGHER**

Source: CEIC, Bank of Baroda Research

**FIG 5 – MANUFACTURING TOO SEES A PICKUP FROM MAR'19**

Sectoral (%)	Weight	Apr-19	Mar-19	Apr-18
IIP	100.0	3.4	0.4	4.5
Mining	14.4	5.1	0.8	3.8
Manufacturing	77.6	2.8	0.1	4.9
Electricity	8.0	6.0	2.2	2.1
<b>Use-Based</b>				
Primary Goods	34.1	5.2	2.6	2.7
Capital Goods	8.2	2.5	(8.4)	9.8
Intermediate Goods	17.2	1.0	(2.5)	0.4
Infrastructure and Construction Goods	12.3	1.7	6.4	8.5
Consumer Durables Goods	12.8	2.4	(3.1)	3.9
Consumer Non-Durables Goods	15.3	5.2	1.0	7.5

Source: CEIC, Bank of Baroda Research

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