

## RESEARCH

### BOB Economics Research | Inflation and IIP

Inflation rises, growth moderates

## SUMMARY

### India Economics: Inflation and IIP

Industrial growth eased to 1.7% in Jan'19 led by dip in capital, intermediate and consumer goods (durables and FMCG). On the other hand, CPI inflation increased to 2.6% in Feb'19 (2% in Jan'19) led by food inflation. Within food, prices of cereals and proteins went up while decline in vegetable prices moderated. Core inflation was stable. However, education and health remain elevated. The macro backdrop of slowing global and domestic growth should outweigh the rise in inflation as inflation outlook remains benign.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Axis Bank</a>	Buy	750
<a href="#">Cipla</a>	Buy	620
<a href="#">GAIL</a>	Buy	515
<a href="#">Reliance Industries</a>	Buy	1,300
<a href="#">TCS</a>	Buy	2,390

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Greenply Industries</a>	Buy	230
<a href="#">L&amp;T Infotech</a>	Buy	2,080
<a href="#">Laurus Labs</a>	Buy	495
<a href="#">Mayur Uniquoters</a>	Buy	540
<a href="#">Mphasis</a>	Buy	1,150

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.64	1bps	1bps	(23bps)
India 10Y yield (%)	7.51	(2bps)	(1bps)	(12bps)
USD/INR	69.89	0.4	2.0	(7.4)
Brent Crude (US\$/bbl)	66.58	1.3	7.2	2.5
Dow	25,651	0.8	2.2	1.9
Shanghai	3,027	1.9	13.3	(9.0)
Sensex	37,054	1.0	1.4	9.2
India FII (US\$ mn)	8 Mar	MTD	CYTD	FYTD
FII-D	582.5	648.0	(1,020.2)	(8,010.8)
FII-E	160.7	833.3	2,910.6	(3,772.3)

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## INFLATION AND IIP

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### Inflation rises, growth moderates

**Industrial growth eased to 1.7% in Jan'19 led by dip in capital, intermediate and consumer goods (durables and FMCG). On the other hand, CPI inflation increased to 2.6% in Feb'19 (2% in Jan'19) led by food inflation. Within food, prices of cereals and proteins went up while decline in vegetable prices moderated. Core inflation was stable. However, education and health remain elevated. The macro backdrop of slowing global and domestic growth should outweigh the rise in inflation as inflation outlook remains benign.**

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**IIP growth eases:** Industrial output moderated to 1.7% in Jan'19 from 2.6% in Dec'18 led by slowdown in both manufacturing and electricity production. Growth in manufacturing sector dropped to 1.3% versus 3% in Dec'18 and in electricity it fell to 0.8% in Jan'19 from 4.4% in Dec'18. Apart from primary goods, all other sectors reported deceleration led by capital and intermediate goods at (-) 3.2% in Jan'19 (from 4.9% in Dec'18) and (-) 3% in Jan'19 from (-) 0.8% in Dec'18. Consumer durables and FMCG also reported deceleration. Going forward, we expect uptick in IIP on the back of base effect as IIP growth in H1FY18 was 2.6% which rose to 6.2% in H2FY18.

**Headline CPI jumps to its 4-month high:** CPI shot up to 2.6% in Feb'19 from 2% in Jan'19. This was driven by lower pace of deflation in food prices. Overall food index declined by (-) 0.7% YoY in Feb'19 as against (-) 2.2% in Jan'19. Prices of cereals rose by 1.3% in Feb'19 vs 0.8% in Jan'19, that of meat & fish increased by 5.9% in Feb'19 vs 5% in Jan'19 and eggs rose by 0.9% in Feb'19 vs (-) 2.4% in Jan'19. Vegetable prices also deflated at a slower pace of (-) 7.7% in Feb'19 vs (-) 13.4% in Jan'19. Core inflation remained elevated, but unchanged at 5.3%. Both education and health inflation remains uncomfortably higher at 8.1% and 8.8% respectively. On the other hand, an appreciating currency, stable oil prices (along with high base of US\$ 75/bbl in H1FY19) and moderation in education and health should ensure deceleration in core inflation.

**Rate cut on the horizon:** While inflation has inched up moderately, it is expected to remain below RBI's target of 4% in the medium-term. The slip in IIP, exports and capital spending will continue to impact growth momentum of the economy. Most indicators are showing decelerating durables and even non-durables production and sales. Hence, growth concerns, both domestic and global, should outweigh concerns on inflation in RBI's policy due in Apr'19.

#### KEY HIGHLIGHTS

- CPI inflation rises to 2.6% in Feb'19 led by lower pace of deflation in food prices.
- Core inflation remains sticky at 5.3%.
- IIP growth slows down to 1.7% in Jan'19.



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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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