

## CPI and IIP

12 April 2022

**Industrial output up; inflation firms up**

India's industrial output inched up at a much slower pace to 1.7% in Feb'22 (1.5% in Jan'22) with manufacturing output up by 0.8%. CPI inflation rose to 7% in Mar'22 led by jump in food inflation to 7.7%. Core inflation accelerated to 6.3% in Mar'22. RBI had revised its inflation forecast upwards (5.7% in FY23) on the back of escalated geopolitical tensions. With inflation above its mandate, a pivot towards inflation and calibrated withdrawal of liquidity measures are prudential steps.

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**IIP growth inch up:** Industrial output rose to 1.7% in Feb'22 (-3.2% in Feb'21) from 1.5% in Jan'22 led by improvement across all the sectors. Mining sector edged upwards to 4-month high of 4.5% in Feb'22 (2.8% in Jan'22). Manufacturing output also crept up; albeit at much slower pace to 0.8% with over 12 sectors registering an improvement. Electricity output rose to a 6-month high at 4.5% in Feb'22 from 0.9% in Jan'22. On a FYTD basis, IIP growth has improved by 1.7% in Apr-Feb'22 compared with a contraction of (-) 3.2% in Apr-Feb'21. Notably, over a 2-year horizon, IIP index is (-) 1.6% below the pre-pandemic level, signally impact of higher commodity prices. Both Mining and manufacturing output too dropped (-) 0.1% (+0.3% in Jan'22) and (-) 2.5% (+0.4% in Jan'22) in Feb'22. Electricity output turned out to be 4.6% below the pandemic level (6.4% in Jan'22).

**Infra and primary goods strengthen:** Within use-based classification, primary and infra goods have registered an improvement. Primary goods clocked to 4-month high at 4.6% in Feb'22 from 1.6% in Jan'22. Infra and intermediate goods also registered a higher growth at 9.4% and 4.3% in respectively Feb'22. However, output of capital goods moderated to 1.1% in Feb'22 compared with a growth of 1.4% in Jan'22. Output of both consumer durable and non-durable goods declined sharply by (-) 8.2% (-3.6% in Jan'22) and (-) 5.5% (+2.1% in Jan'22) in Feb'22. On a FYTD basis, all the sectors registered an improvement in Apr-Feb'22 on a YoY basis led by base effect. Barring consumer non-durables, all the other sectors registered double digit growth in Apr-Feb'22.

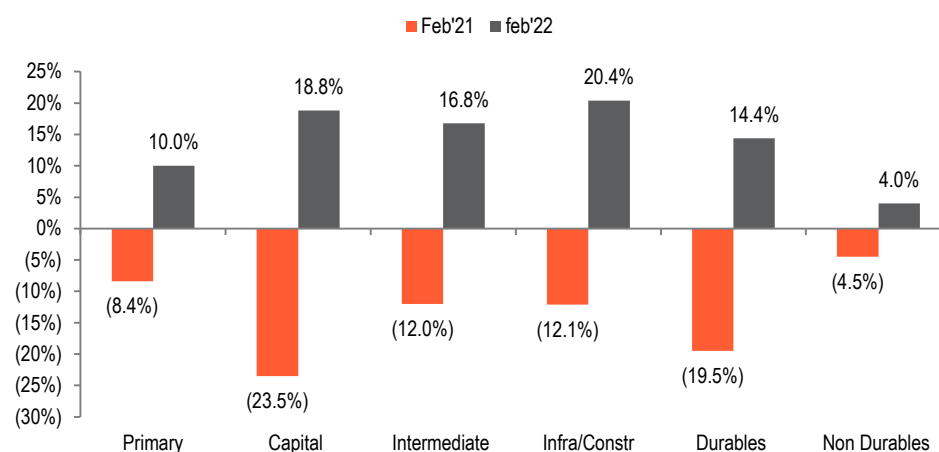
**CPI rises further:** CPI inflation rose to 13-month high to 7% in Mar'22 from 6.1% in Feb'22 surpassing RBI mandate for the second straight month. Food inflation quickened to 16-month high of 7.7% in Mar'22 from 5.9% in Feb'22. Vegetable prices accelerated further and hit double digit mark at 11.6% in Mar'22 from 6.1% in Feb'22. Oil and fat index remained elevated at 18.8% versus 16.4% in Feb'22. Prices of meat and fish edged upwards to 9.6% in Mar'22 (7.4% in Feb'22). Inflation in fruits (2.5%) and sugar (5.5%) inched up marginally. On the other hand, prices of eggs and pulses moderated to 2.4% and 2.6% respectively in Mar'22. Global supply chain disruption is likely to drive food inflation higher.

**Core inflation elevated:** Core inflation rose by 40bps to 6.3% in Mar'22. This was led by significant jump in Personal care and effects (8.7% in Mar'22 versus 5.5%), clothing and footwear (9.4% in Mar'22 versus 8.9%), household's goods and services (7.7% in Mar'22 versus 7.2% in Feb'22) and health (7% in Mar'22 from 6.8% in Feb'22). Transport and communication (8% from 8.1% in Feb'22), housing (3.4% from 3.65 in Feb'22) and education showed some moderation.

**Inflation a concern:** On the back of uncertainty brewing amidst the geopolitical risks, disruption in global supply chain and elevated commodity prices remains a concern. This is likely to feed in to the food inflation and add to the input cost pressure in the coming months. RBI's proactive move to pivot towards inflation and withdrawal of liquidity measure in calibrated manner is a step in right direction.



**Fig 1 – Use Based: Growth Rate**



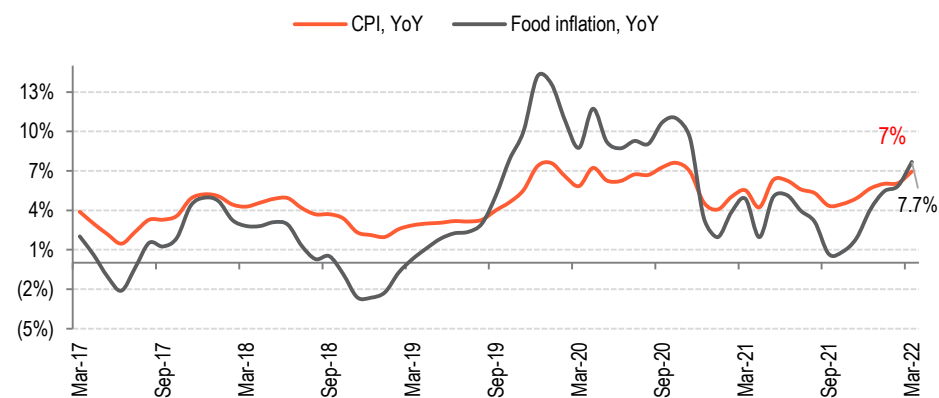
Source: CEIC, Bank of Baroda Research

**Table 1: IIP growth edges upwards**

(% change)	Feb'21	Feb'22	Apr-Feb'21	Apr-Feb'22
<b>Mining</b>	(4.4)	4.5	(9.4)	13.2
<b>Manufacturing</b>	(3.4)	0.8	(12.5)	12.9
<b>Electricity</b>	0.1	4.5	(2.4)	8.2
<b>IIP general</b>	(3.2)	1.7	(11.1)	12.5

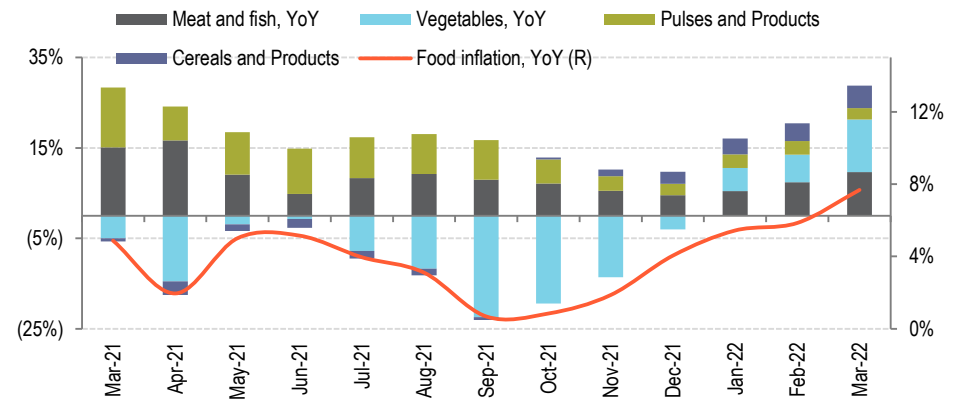
Source: CEIC, Bank of Baroda Research

**Fig 1 – CPI rises to 7% in Mar'22, led by food**



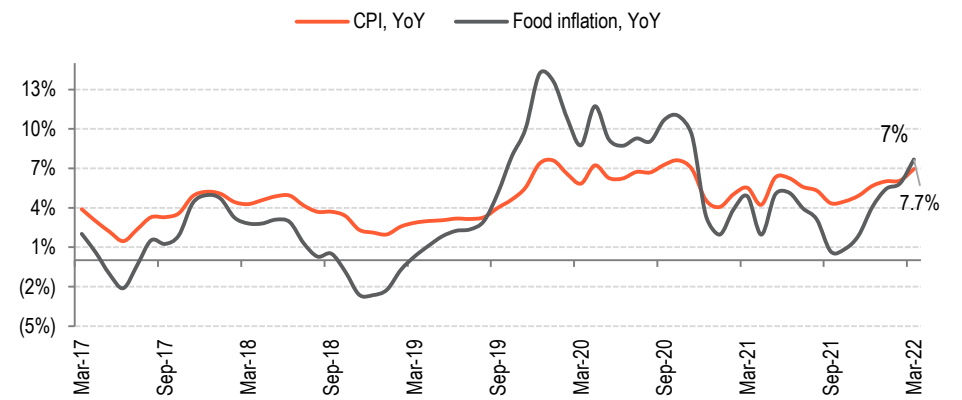
Source: CEIC, Bank of Baroda Research

**Fig 2 – Categories of food inflation exhibiting pressure**



Source: CEIC, Bank of Baroda Research

**Fig 3 – Elevated Core**



Source: CEIC, Bank of Baroda Research

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