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Economic Round-up: April 2022

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War between Russia and Ukraine continues to keep global commodity prices elevated. On the other hand, rise in Covid-19 cases in China has slowed the momentum. However, major global central banks are still on track to tighten their monetary policies, despite weakening prospects of global growth. We expect RBI will also follow the same path. It has already begun policy normalisation with the introduction of SDF and implicit reduction in the LAF corridor.

Global growth dented: The war between Russia and Ukraine has dented global growth prospects and has led to IMF and World Bank slashing their global growth forecasts for 2022 to 3.6% and 3.2%, respectively. Building up of price pressures, translating into higher global inflation and withdrawal of monetary policy support by major central banks is also expected. US Fed is likely to hike rates in its upcoming May’22 meeting. Elevated CPI will take precedence over contraction in Q1CY22 GDP. Currently, international crude price are hovering near US$ 109/bbl with 10% (MoM) increase since the war started. Prices of food and edible oil too remain elevated.

Deviation in global Central Banks: While US Fed has indicated aggressive policy tightening in the coming months, ECB is also expected to follow the same path soon, It has hinted at ending its bond purchase program, and raising rates soon. On the other hand, BoJ and PBOC continue to maintain accommodative monetary policy. While BoJ has vowed unlimited bond buying, PBOC has announced RRR cuts to stimulate growth.

Key macro data releases: Latest data shows that India’s eight core industries eased to 4.3% in Mar'22 compared with a growth of 6% in Feb'22. This was led by moderation in refinery products, natural gas, and steel output. Separately, India’s exports rose to a historic-high of US$ 42.2bn in Mar’22 from US$ 34.6bn in Feb’22. In FY22, exports have risen to US$ 416.3bn, surpassing the government’s target of US$ 400bn and well above US$ 291.6bn in FY21. India’s trade deficit narrowed to US$ 18.5bn in Mar’22 from US$ 20.9bn in Feb’22.

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. Core inflation also rose by 40bps to 6.3% in Mar’22. RBI expects inflation average 5.7% in FY23, while we maintain our forecast of 5.5-6%. We thus expect at least a 50bps repo rate hike in FY23.

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Global developments

All eyes on US Fed

US GDP in Q1CY22 fell by (-) 1.4% on a QoQ annualised basis, following 6.9% increase in Q4CY21. Contraction was on account of decrease in private inventory investment, exports and government (federal, state and local) spending. On the other hand personal consumption expenditure, non-residential, residential fixed investment increased. US is also facing inflationary pressures as CPI for Mar'22 came in at 8.5% (highest since 1981). In the wake of this enviornment, Fed chair Powell has indicated that the central bank will opt for aggressive policy tightening and markets are expecting a 50bps rate hike in May'22.

In addition, as Russia-Ukraine war continues and EU is mulling ban on Russian oil imports, commodity prices remain elevated, adding pressure on global inflation. This can be seen in input price index of global PMIs. While manufacturing activity remains steady for now (as per preliminary PMI prints), growth in new orders for manufacturing companies around the globe has seen a decline. This could also be attributed to surge in Covid-19 cases in China and stringent lockdown restrictions. Business optimism (12-months ahead) index has also fallen.

Assessing the impact of war (rising price pressures, falling output, deteriorating confidence), IMF has slashed its global growth forecast to 3.6% for 2022, down by 0.8% from its Jan'22 forecast. World Bank has also lowered growth forecast to 3.2% from 4.1% earlier. On inflation, IMF also expects global prices to rise by 7.4% in 2022.

Central Bank decisions

Globally, ECB, BoJ and PBOC announced their policy decisions this month. Both ECB and BoJ decided to keep their policy rates unchanged. ECB hinted that policymakers are keen to end their bond purchase scheme at the earliest and raise interest rates as soon as July. Markets are pricing 75bps of interest-rate hikes by the ECB's December decision. This is up from less than 25bps increase expected at the start of the year. ECB's deposit rate is currently at a record low of (-) 0.5%.

On the other hand, Bank of Japan continues to keep its policy stance accommodative and has vowed to provide monetary stimulus through unlimited bond buying, to keep yields within the targeted band (0-0.25% for 10Y yield). BoJ's stance is significantly deviant from US Fed or ECB and resulted in depreciation of Japanese Yen.

PBOC has reduced RRR requirement for locally operated city commercial banks and rural lenders, by 25bps (w.e.f. 25 Apr 2022). This brings the weighted average RRR for the whole banking system down to 8.1% from 8.4% (achieved following 50bps RRR cut Dec'21). Also, PBOC has lowered RRR on foreign exchange deposits by 100bps to 8% w.e.f. 15 May 2022. This move is expected to tame deprecation of Chinese Yuan.

On the domestic front, RBI has kept the policy rates unchanged and is tilted towards what may be called a hawkish view as it has rephrased its accommodative stance while keeping it unchanged. Amidst the escalated concerns over geopolitical conflict and surge in global commodity prices; inflation forecast has been revised upwards and growth

projections downwards across all quarters for FY23. RBI"s forecasts are now 7.2% for GDP and 5.7% for inflation. We expect inflation at 5.5-6% and growth at 7.4%-7.5% in FY23. RBI has announced SDF with the objective to manage liquidity and will serve as the floor rate for LAF corridor at 3.75%. There will be a gradual and calibrated withdrawal of surplus liquidity measures over a multi-year period. We expect Repo Rate hike of at least 50 bps in FY23.

Special studies

Which industries are vulnerable in terms of fuel cost

RBI in a recent report has highlighted three industries-electricity, chemicals and automobiles, as being the most vulnerable sectors in terms of fossil fuel intensity. As a corollary banks need to keep this in mind when lending. This study looks at the energy intensity of various industries and also juxtaposes the same with the banking system's exposure to them.

Our study looked at the share of power and fuel to total expenditure to analyse energy intensity of industries. Admittedly the energy component includes all sources and not just fossil fuels. We have taken an aggregate of 2648 companies and evaluated their Power and fuel cost as share of total expenditure.

What our study says: Our study shows that the energy intensity for the aggregate sample has remained by and large stable in the range of 9.4% to 10.2% in the last 6 years ending 2020-21. There has been a marginal decline in 2020-21 which can be attributed more to the decline in overall production. The leading sectors in terms of energy intensity are communications, glass and glassware, paper and paper products, metals and products and transport besides electricity which inherently is fuel intensive. If we exclude electricity (as it is an outlier), the average of the past 6 years (since Mar-16) stands at 6%.

Limitation of our study: We have taken the power and fuel cost in the Income Expenditure Statement, so it incorporates both renewable and non-renewables. The share of non-conventional energy is limited (as 80% of India's energy needs are met by coal, oil and solid biomass-IEA report on India Energy Outlook, 2021).

How have prices moved since the Ukraine war?

Global commodity prices have moved quite significantly in the upward direction due to the war. Two sets of factors contributed to this increase. The first was the physical supply of commodities which are exported by Russia and Ukraine. The second was due to rebalancing acts by various countries to match supply with demand on account of supply-chain disruptions.

High commodity prices work in two ways. The first is through the imported inflation route when commodities are purchased by domestic players. The other is where domestic prices tend to match those overseas. For example, wheat prices have started increasing in India as the export market opens up and matches the higher price in the global market.

War has destabilized prices of commodities across the board. Precious metals which are also investment options have risen by 4.9-9.3%, though gold has increased by 7.3%. Metal prices have increased disparately. Iron ore, aluminium and nickel have increase at high double digit rates while the others have been modest. Within fertilizers which are gas intensive, TSP and DAP have increased by 17.2% and 34.1% respectively. Wheat and maize have increased by over 20% each.

Higher global commodity prices would enter our imports basket. In FY22 for instance, crude basket was around $ 161bn, followed by $ 31.5bn of coal, $ 39.8bn machinery and $ 18.9bn of vegetable oils. These groups would witness upward pressure in the absence of any moderation in demand.

Inflation going by WPI is already in double digits for wheat, crude oil, edible oils, fuel and chemicals. Therefore the overall impact of the increase in global commodity prices will be sharp and a worry for India.

Sri Lanka financial crisis: Explained

Sri Lanka has been embroiled in an economic crisis amidst record-high inflation and mounting debt. Prices of essential items including food, fuel and medicines have skyrocketed and foreign exchange reserves have plunged amidst a shortage of dollars to finance imports. The ruling government has been scrambling to secure finance from major international agencies such as IMF and ADB as well as seeking support from other neighbouring countries. In this note, we attempt to briefly understand the roots of the crisis.

Risks brewing: Even before the Covid-19 pandemic hit, Sri Lanka was facing problems on several fronts. This included a constitutional crisis in 2018, resulting from dismissal of the Sri Lankan Prime Minister by the President. In 2019, Easter bombings in churches and luxury hotels killed hundreds of people. Further, government announced several tax cuts in 2019 which led to credit rating downgrade in 2020, thus impeding Sri Lanka access to international financial markets. This was followed by the Covid-19 pandemic in 2020.

Surging inflation: After remaining suppressed in 2020, due to a fall in demand during the Covid-19 pandemic as well as VAT cuts in 2019, inflationary pressures built up steadily since the mid of last year. This was due to a number of factors including, improved demand and higher global commodity prices. This coincided with a depreciating currency and supply shortages. From 4.1% in Mar’21, inflation had accelerated sharply to 18.7% in Mar’22 led by a steep increase in food inflation at 30.2%.

Monetary policy response: During the Covid-19 pandemic, Central Bank of Sri Lanka (CBSL) had cuts its key policy rates (standard lending and deposit rate) by a cumulative 200bps between Mar’20 and Jul’21, before raising it by 50bps in Aug’21. However, in response to the surging inflation, it has raised policy rates by 150bps each this year. Market participants are expecting a 100bps increase in both the standard deposit and lending rates.

Twin-deficit: Sri Lanka has been running large current account and fiscal deficit in recent years. CAD is estimated at 3.8% in 2021 and 2022. Fiscal deficit has been pushed to 12.8% of GDP in 2020 (8% in 2019) and 11.4% in 2021. In addition, tourism receipts too

fell sharply in 2020 due to the Covid-19 pandemic and continues to trail even till now. Even remittances lost momentum as the government pegged the exchange rate at 200/$ since Oct'21. This led to a severe dollar shortage to fund imports of essential commodities such as food and fuel. More recently, CBSL allowed the currency to depreciate to 230/$ in hopes of attracting investment and remittances.

Dwindling foreign exchange reserves: Sri Lanka used its foreign exchange reserves to fund its burgeoning deficits. As a result, foreign exchange reserves fell from US$ 6.9bn in 2018 to about US$ 2.3bn in 2022 (Feb'22). While Sri Lanka's forex reserves could cover 5.9 months of imports in 2019, it can only cover 1 month of imports at present levels.

Is Normal Monsoon a good indicator for Agriculture?

Every year, before the beginning of the monsoon season, different agencies predict if the rainfall will be normal or not. How have these conditions fared in the past? Does normal monsoon translate in to good crop production? Is this the sole criteria or are there other factors at play. While there is no denying that monsoon is critical condition for higher crop production, as 60% of the cultivable land in India relies on South West Monsoon, uniform distribution of rainfall along with other climatic conditions drive the production higher/lower. Our study attempts to shed light on the same and see how other host of factors are responsible for agriculture growth.

Private organizations such as Skymet and government organization namely IMD predicts monsoon each year. Both Skymet and IMD forecast carry the model error of (+ -) 5% and have estimated normal monsoon for the current year. It is interesting to notice, that in the past there has been much higher deviation in actual rainfall compared with the first IMD forecast. Specially, a much higher deviation level was seen for the year 2019 and 2020.

The prediction of a normal monsoon is a necessary condition for the fructification of a good kharif harvest though not a sufficient one. With over 60% of the land under cultivation dependent on the monsoon, the arrival, spread and progress will drive the cropping pattern and prospects. Ultimately the withdrawal will be important as any delay here can destroy crops as this is also the harvest time.

In 6 of the last 10 years the monsoon came in lower than what was predicted by the IMD/Skymet in terms of % of LPA. Also two successive normal monsoons do not necessarily lead to higher growth rate in agricultural production (as per GVA). Lastly, state of monsoon and production prospects of various crops varies due to other factors including distribution of rainfall, and hence even in normal monsoon years there would be decline in output for some of them.

Rising oil prices: What does the past tell us?

Evaluating historical data of international crude price and its impact on India's growth and inflation reveal some interesting results. Over the past 51 years, we found that on 16 occasions (excl. FY22-base anomaly), global crude prices rose more than 20% in a year. And within these 16 events, India's growth was adversely impacted in 9 of them. For inflation (WPI: Fuel and power) pass through is more evident, where on 13 occasions

inflation rose considerably. Thus, we feel that downside risk to our growth forecast of 7.4-7.5% and upside risk to our CPI inflation forecast of 5.5%-6% prevails.

In FY73, when OPEC imposed oil embargo, crude prices rose by 27%, India's GDP showed a decline of 0.3% during the same period. In FY79 and 80, during the Iran-Iraq war, when crude prices rose by 48% and 57% (on an average by 53% during these two years), India's growth fell from 7.5% in FY78 to 5.5% and (-) 5.2% respectively, in the subsequent two years (on an average growth was 0.2% during FY79-80). Even in FY91 post the Gulf war, crude prices rose by 28%, GDP growth moderated to 5.3% from 6.1% in FY90. Similar thing happened during the financial crisis as well, crude price rose by 26% and in FY08, India's growth moderated to 7.7% from 8.1% in FY07.

In the past the responsiveness of the WPI to changes in crude oil price has ranged between 36-53%. However, until the last 8-12 years when subsidy was being provided on certain products by the government the ratio of impact was lower. The last three episodes show an average impact of around 48% on the WPI.

We expect growth at 7.4%-7.5% in FY23. However, this depends on how prolonged the war will be and the likely impact on supply disruption. It is quite likely that higher oil price will weigh on private consumption demand and in turn impact growth as also pointed by IMF in its recent report. Thus, there remains a downside risk to our forecast and another 25-50bps may be shed off if crude continues to remain in the range of US$ 100-110/bbl in the next 6-months. Our forecast of CPI print is in the range of 5.5-6% for FY23. For WPI, we expect it to be above 13% in FY23.

Is India Inc. deleveraging?

A trend which is picking up in corporate India is that companies are deleveraging as witnessed by the overall level of debt of various sectors coming down. This is notwithstanding the fact that there has been a very favourable interest rate regime since the lockdown was announced which should have made borrowing easier. However, there have been other forces at play which has led to a slowdown in growth of debt of companies. How far is this true?

For purpose of this analysis a sample of 4,827 non-finance companies have been considered across 36 major sectors for the period of 2016-17 to 2020-21. The outstanding debt of these companies as of March 2021 was Rs 41.07 lakh crore which is around 20% of nominal GDP in FY21. Debt for these companies had increased by a CAGR of 4.5% during this period against a CAGR of 2.4% in real GDP. If FY21 is excluded given that it was a black swan year, then the CAGR in debt would be 6.9% per annum for the 3-years period while GDP growth would be 5.8%. In FY21, GDP growth rate fell by 6.6% and debt by 2.5%. Hence there has been a tendency for debt of corporates to increase at a faster rate than the real GDP growth rate.

There is concentration in the sectors that require heavy investment and would require progressively more finance as India focuses on an investment led growth path in future in the tryst to attain the $ 5 trillion economy. The top five sectors: power, crude oil, telecom, infrastructure and iron and steel had a share of a little more than 2/3 of total debt at 65.8%.

While prima facie it may appear that deleveraging would have accelerated during the pandemic, interestingly, the process had started earlier. There were 1842 and 1899 companies respectively in FY18 and FY19 which had witnessed a drop in their debt levels. Subsequently the number of companies deleveraging increased to 2139 in FY2020 and 2144 further in FY21.

Reasons for debt levels coming down are: Insolvency resolution; Companies have not been borrowing afresh due to the state of the industry; Some have used their cash surpluses for repaying expensive debt or used the same for expanding capacity; Some companies have sold off assets and used the proceeds to repay debt; Companies have also lowered their debt levels to improve their credit profile; The buoyant equity markets has also been an option for companies to raise funds; Overall investment in the economy had reached the lowest level as denoted by the gross fixed capital formation rate of 26.6% in FY21.

Key policy announcements

- Union Cabinet has approved the proposal of the Department of Fertilizers for Nutrient Based Subsidy (NBS) rates for Phosphatic and Potassic (P&K) fertilizers for Kharif Season - 2022 (from 01.04.2022 to 30.09.2022). Subsidy approved will be Rs. 60,939.23 Crores including support for indigenous fertilizer (SSP) through freight subsidy and additional support for indigenous manufacturing and imports of DAP.

- The Cabinet Committee on Economic Affairs has approved the continuation of lending under the Prime Minister Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) beyond March 2022 till December 2024, with focus on enhanced collateral free affordable loan corpus, increased adoption of digital transactions and holistic socio-economic development of the Street Vendors and families.

- The tax revenue in the Union Budget for 2021-22 was estimated at ₹22.17 lakh crore against the revised estimates of ₹19 lakh crore, with a growth of 17%. Against the Budget estimates of ₹22.17 lakh crore, the revenue collections as per the pre-actual figures is ₹27.07 lakh crore, almost ₹5 lakh crore above the budget estimates. This is a growth of 34% over last year's revenue collection of ₹ 20.27 lakh crore, led by growth of 49% in direct taxes and supported by 20% growth in indirect taxes.

- Ministry has granted additional borrowing permission of Rs 28,204 crore to 10 States for undertaking the stipulated reforms in power sector in 2021-22. In order to avail additional borrowing, State governments had to undertake a set of mandatory reforms. The reforms to be carried out by the States were: Progressive assumption of responsibility for losses of DISCOMs by the State Government; Transparency in the reporting of financial affairs of power sector including payment of subsidies and recording of liabilities of Governments to DISCOMs and of DISCOMs to others; Timely rendition of financial and energy accounts and timely audit; Compliance with legal and regulatory requirements.

- Report on Third Round (Oct-Dec, 2021) of Quarterly Employment Survey (QES) a part of All India Quarterly Establishment based Employment Survey (AQEES) was released. Report indicates increasing trend in employment in organized

segment employing 10 or more workers, of the selected nine sectors viz. Manufacturing, Construction, Trade, Transport, Education, Health, Accommodation & Restaurants, IT/ BPOs and Financial Services. Manufacturing sector is the largest employer accounting for around 39% of the estimated total number of workers followed by Education Sector 22%.

Data Releases

Update on corporate results

A snapshot of corporate results of 207 companies which have announced their results so far shows: In value terms, both net sales and PAT have shown sustained improvement. However, on a YoY basis, while net sales of these companies has seen a marginal improvement, PAT has moderated due to high base. But the performance is impressive nonetheless.

Core industries

India's eight core industries eased to 4.3% in Mar'22 compared with a growth of 6% in Feb'22. This was led by moderation in refinery products (6.2% from 8.8%), natural gas (7.6% from 12.5%) and steel output (3.7% from 5.9%). Further, crude oil and coal output contracted by 3.4% and 0.1% respectively in Mar'22 and added to the growing concerns. On a cumulative basis, Infrastructure index had improved owing to favourable base by 10.4% in FY22 following a contraction of 6.4% in FY21.

Currency outlook: INR to remain range-bound

Global currencies depreciated against the dollar in the last fortnight of Apr’22. Concerns over global growth and inflation, as well as expectations of aggressive rate hikes by Fed, underpin the recent strength in US$. In fact, DXY index surged to a 20-year high in Apr’22. Other major currencies languished near multi-year lows, weighed down by increased policy divergence between Fed and other global central banks. GBP, EUR, CNY and JPY were the biggest losers. As a result, volatility in the forex market also increased. INR depreciated by 0.2% between 18-29 Apr 2022 amidst higher oil prices and FII outflows. We continue to believe that the rupee will trade the range of Rs 76-77/$ in the next fortnight of May’22.

India’s foreign exchange reserves have declined to US$ 600.4bn as of 22 Apr 2022 from a record high of US$ 642.5bn in Sep’21. Forex reserves have declined for 7-straight weeks now as RBI intervened in the forex market to support INR. FPI outflows once again intensified amidst expectations of faster rate hikes by Fed. With the Fed likely to raise policy rates by 50bps this week, FPI outflows may accelerate further. Further, commodity prices remain elevated, which will have a negative impact on India’s trade balance. RBI is likely to intervene in the currency market to arrest any sharp movements in INR.

Trade- Record-high exports

India’s trade deficit narrowed to US$ 18.5bn in Mar’22 from US$ 20.9bn in Feb’22 as exports rose at a much faster pace than imports on a MoM basis. In FY22, exports have increased by 42.8%, while imports have increased by 55.4%. Oil imports have increased

by 93.1%, reflecting a sharp recovery in oil prices. With global commodity prices continuing an upward momentum, import bill is likely to remain elevated even in FY23. We expect CAD at 2.5% of GDP. Higher oil prices remain a key risk.

India's exports rose to a historic-high of US$ 42.2bn in Mar'22 from US$ 34.6bn in Feb'22. In FY22, exports have risen to US$ 416.3bn, surpassing the government's target of US$ 400bn and well above US$ 291.6bn in FY21. This was led by a sharp jump in oil exports (144% in FY22 versus decline of 37.5% in FY21). Non-oil exports too rose by 32.9% in FY22 from a decline of 2.3% in FY21. Within this, exports of gems and jewellery (50.2% versus decline of 27.3% in FY21), engineering goods (45% versus decline of 2.6% in FY21) and textiles (41.2% versus decline of 13.4% in FY21) showed maximum improvement.

Reflecting the impact of higher commodity prices, India's imports rose to a fresh record-high of US$ 60.7bn in Mar'22 from US$ 55.4bn in Feb'22. Imports have increased to US$ 609bn in FY22 (55.4% rise on a YoY basis), from US$ 392bn in FY21. Oil imports rose by 93.1% in FY22 compared with a dip of 36.7% in FY21. Gold imports too surged to US$ 46.2bn in FY22 (33.6% increase) compared with US$ 34.6bn in FY21. Even non-oil-non-gold imports saw a steep increase of 46.7% in FY22 following a decline of 13% in FY21. Improvement was seen across the board, with coal (94.9% in FY22 versus decline of 27.6%), ores and minerals (92.9% in FY22 versus decline of 8.9%) and vegetable oils (71.5% in FY22 versus 14.7% in FY21) showing maximum traction.

CPI Inflation firms up

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 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.

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.

WPI at 14.5% in Mar'22

This index is dominated by manufactured products which have a weight of 64% in the index and are influenced by global factors to a significant extent especially in the current context. Hence the tendency of global prices increasing gets reflected more in the WPI than CPI. This number has been above 10% throughout the year and only part of the explanation is in the low base effect.

Contrary to our expectations of 13.4% WPI in March, WPI has come in at 14.5%, which is higher than last month (13.1% in Feb'22). All three sub-heads, primary (15.5%), manufacturing (10.7%) and fuel (34.5%) witnessed an increase.

Pick up in food inflation from 8.5% in Feb'22 to 8.7% in Mar'22 was led by jump in prices of food grains, fruits, milk, and other protein based items. Fuel and power inflation in Mar'22 rose to 34.5% from 31.5% in Feb'22. Price build up was seen in mineral oil index (50.1% in Mar'22 from 49.6% in Feb'22) and electricity prices (21.8% versus 15.1%).

Core inflation in Mar'22 rose for the second consecutive month to 10.9% from 10% in Feb'22. Manufactured products inflation also hardened to 10.7% in Mar'22 from 9.8% in Feb'22. Of the 22 commodity indices, 9 rose at a faster pace in Mar'22 compared with Feb'22 led by basic metals, other manufacturing, electronic products, printing and recorded media, tobacco and food.

Inflation for fuel and manufactured products have remained elevated all through the year partly due to the base effect as well as producers regaining their pricing power post the lockdown where they were perforce compelled to hold on to their prices. With the war unleashing another round of price increases of commodities, we may expect producers to further increase their final prices in case there is no let down in the cost spiral.

IIP- Industrial output 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).

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.

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