

INFLATION AND IIP

12 July 2019

Inflation inches up, IIP moderates

CPI inflation rose to 8-month high of 3.2% in Jun'19 led by food inflation, in particular pulses, meat and fish. Industrial activity, on the other hand, moderated to 3.1% in May'19. With drop in sown area this year, pulses prices and thus food inflation is expected to increase. However, core inflation is likely to moderate (4.1% in Jun'19). In FY20, CPI inflation will be within RBI's target of 4%. A slowing global and domestic economy along with fiscal consolidation implies room for 25 bps rate cut in Aug'19.

Sameer Narang

+91 22 66985713

chief.economist@bankofbaroda.com

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

Jahnavi

jahnavi@bankofbaroda.com

IIP growth moderates: Industrial growth for May'19 moderated to 3.1% from 4.3% in Apr'19 on the back of deceleration in mining to 3.2% (5.1% in Apr'19) and manufacturing to 2.5% (4% in Apr'19). Within manufacturing, capital goods reported an increase of only 0.8% (1.2% in Apr'19) and consumer durables contracted by (-) 0.1%. On the other hand, FMCG production accelerated to 7.7% from 5.9% in Apr'19. Positive base effect had a role to play. Infra sector rose by 5.5% compared with 7.2% in Apr'19. Electricity production improved to a 7-month high of 7.4% in May'19 (6% in Apr'19).

Food inflation drove CPI higher: CPI inflation rose to 8-month high of 3.2% in Jun'19 from 3% in May'19 led by 30bps jump in food inflation (2.2% in Jun'19 from 1.8% in May'19). Higher food inflation was seen in meat and fish at 9% in Jun'19 (8.1% in May'19) and pulses at 5.7% in Jun'19 (2.1% in May'19). Veggie prices rose by 4.7% in Jun'19 compared to 5.5% in May'19. Given the large drop seen in sowing in pulses and oilseeds, we believe food inflation will accelerate further in the year. However, excess supply in cereals (food stocks) will ensure that food inflation remains anchored at less than 4% in FY20.

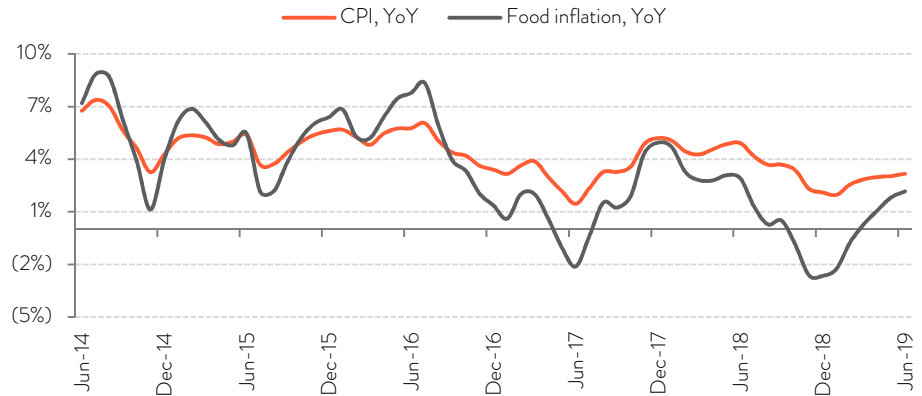
Core edged lower: Core inflation fell by 10bps to 4.1% in Jun'19 compared to 4.2% in May'19. Deceleration was visible in household goods and services at 4.3% in Jun'19 (4.6% in May'19), transport and communication at 0.7% in Jun'19 (1.6% in May'19) and recreation and amusement at 5.2% in Jun'19 (5.6% in May'19). Lower oil price (10% in Jun'19) have had a positive impact. Health and education prices continued to gain traction. Higher gold prices led to personal care inflation also inching up. Budget will also impart an inflationary impulse in the form of higher taxes on motor spirit and customs duties. However, an appreciating currency and muted demand will neutralise the impact. For the year, CPI inflation is likely to remain below RBI's target of 4%.

KEY HIGHLIGHTS

- CPI inflation rose by 3.2% in Jun'19 vs 3% in May'19.
- Core inflation cools off to 4.1% in Jun'19 vs 4.2% in May'19.
- IIP growth eases to 3.1% in May'19 from 4.3% in Apr'19.

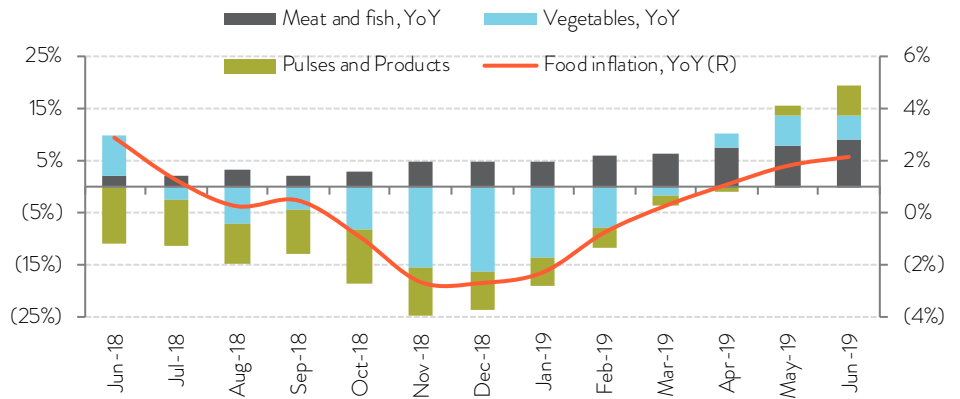


FIG 1 – CPI RISES TO A 8-MONTH HIGH AT 3.2%



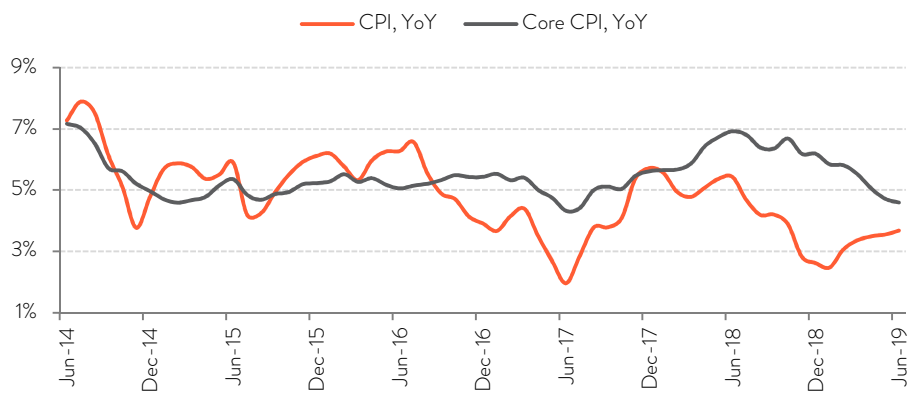
Source: CEIC, Bank of Baroda Research

FIG 2 – LED BY HIGHER FOOD INFLATION

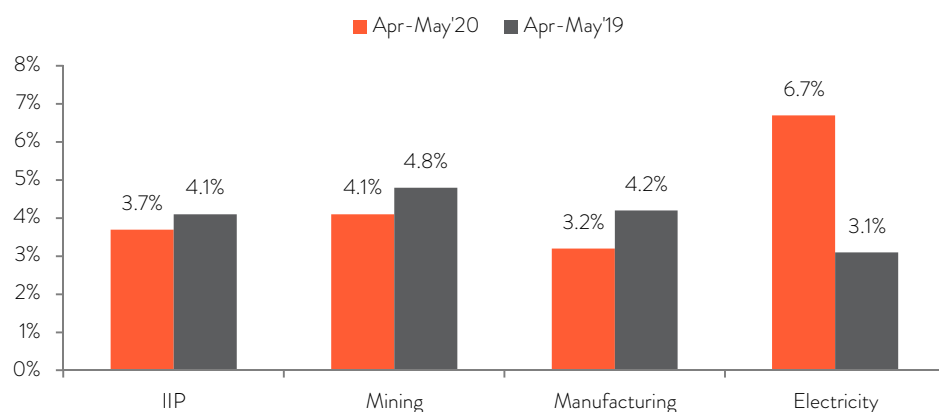


Source: CEIC, Bank of Baroda Research

FIG 3 – CORE EDGED DOWN TO 4.1% IN JUN'19 VS 4.2% IN MAY'19



Source: CEIC, Bank of Baroda Research

FIG 4 – MINING AND MANUFACTURING PUSHING IIP GROWTH LOWER

Source: CEIC, Bank of Baroda Research

FIG 5 – IIP EASES IN MAY'19

Sectoral (%)	Weight	May-19	Apr-19	May-18	Apr-May'20	Apr-May'19
IIP	100.0	3.1	4.3	3.8	3.7	4.1
Mining	14.4	3.2	5.1	5.8	4.1	4.8
Manufacturing	77.6	2.5	4.0	3.6	3.2	4.2
Electricity	8.0	7.4	6.0	4.2	6.7	3.1
Use-Based						
Primary Goods	34.1	2.5	5.1	5.7	3.7	4.3
Capital Goods	8.2	0.8	1.2	6.4	1.0	8.1
Intermediate Goods	17.2	0.6	1.9	0.1	1.2	0.2
Infrastructure and Construction Goods	12.3	5.5	7.2	7.6	6.4	8.1
Consumer Durables Goods	12.8	(0.1)	2.2	6.7	1.0	5.4
Consumer Non-Durables Goods	15.3	7.7	5.9	(1.6)	6.9	2.6

Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com