

March CPI Inflation/February IIP

15 April 2019

CPI Inflation Inches Up To 2.86%; IIP Growth Plunges To 0.1%

Consumer Price Index or CPI inflation in March 2019 stood at 2.86%, slightly above Bloomberg consensus estimate of 2.80% but below our estimate of 3.09%. It moved up from 2.56% in the previous month. The softer-than-expected reading was mainly on account of the fact that the rise in vegetable prices was lower than anticipated, while core inflation was muted. Food and beverage inflation rose 0.7%YoY, after a 0.1% decline in the previous month. Core inflation also stood at 5%YoY in March 2019, below our expectation of 5.15%. CPI inflation in FY19 averaged 3.4%, the lowest level in more than a decade, and lower than 3.6% in the previous year. Index of Industrial Production or IIP growth stood at 0.1% YoY in February 2019, down from 1.4% in the previous month. It was significantly below Bloomberg consensus estimate of 3% and our estimate of 1.1%. The slowdown was led by the manufacturing sector, which declined 0.3% YoY. Electricity production rose 1.2% YoY, up from 0.9% in the previous month. Mining output stood at 2%YoY, down from 3.9% in the previous month. The sluggishness in IIP reading suggests that India's gross domestic product or GDP growth is likely to deteriorate from the 6.6% reading in 3QFY19. However, we expect the Reserve Bank of India or RBI to remain in a wait-and-watch mode at its June 2019 policy meeting with uncertainty around the monsoon, the bottoming-out of food inflation and the proclivity to populist fiscal policy. We see 50% probability of another rate cut, mostly in August 2019 as long as inflation remains within the RBI's forecasted range.

CPI inflation rises even as food inflation bottoms out: CPI inflation in March 2019 stood at 2.86%, up from 2.56% in the previous month. However, it was below our estimate of 3.09%, mainly on account of the fact that vegetable prices rose less than what we had anticipated. Vegetable prices were down 1.5% YoY in March 2019, after a 7.7% decline in the previous month. However, overall food inflation is bottoming out. Food and beverage inflation rose 0.7% YoY, after a 0.1% decline in the previous month. Pulses prices also moved up on a sequential basis. Fuel and light inflation stood at 2.4% YoY in March 2019, after a 1.2% increase in the previous month on account of higher LPG prices.

Core inflation softens to 5%: Core inflation stood at 5%YoY in March 2019, below our expectation of 5.15%. The softening of core inflation was mainly because of muted readings in the paan, tobacco and intoxicants segment and a sequential decline in the personal care segment, apart from a high base. We had expected inflation in the personal care segment to remain flat on account of the decline in gold prices and the Indian rupee's or INR's appreciation, but it declined 0.5% sequentially.

IIP growth plunges to 0.1%: IIP growth stood at 0.1% YoY in February 2019, down from 1.4% in the previous month. The slowdown was led by the manufacturing sector, which declined 0.3% YoY. The slowdown was across the board with only 8 out of 23 manufacturing segments in positive territory, down from 11 in the previous month. Growth was supported by consumer non-durables, which rose 4.3% YoY and up from 3.3% in the previous month. Consumer durables were up 1.2% YoY, but down from 2.3% earlier. Capital goods plunged 8.8% YoY. Electricity production rose 1.2% YoY, up from 0.9% in the previous month. Mining output stood at 2%YoY, down from 3.9% in the previous month.

RBI may adopt a wait-and-watch policy: The sluggishness in IIP readings suggests that India's GDP growth is likely to deteriorate from the 6.6% reading in 3QFY19. However, we expect the RBI to remain in a wait-and-watch mode at its June 2019 policy meeting with uncertainty around the monsoon, the bottoming-out of food inflation and the proclivity to a populist fiscal policy. We see 50% probability of another rate cut, mostly in August 2019, as long as inflation remains within the RBI's forecasted range.

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Exhibit 1: CPI moves higher to 2.86%

%YoY	Weight (%)	Mar-18	Feb-19	Mar-19
CPI	100.0	4.3	2.6	2.9
Food and beverage	45.9	3.1	(0.1)	0.7
Cereals and products	9.7	2.2	1.3	1.2
Milk and milk products	6.6	138.3	0.9	0.8
Vegetables	6.0	11.7	(7.7)	(1.5)
Prepared meals and snacks	5.6	4.4	3.5	3.3
Paan, tobacco and intoxicants	2.4	7.7	5.5	4.6
Clothing and footwear	6.5	4.9	2.7	2.6
Housing	10.1	8.3	5.1	4.9
Fuel and light	6.8	5.7	1.2	2.4
Miscellaneous	28.3	4.2	6.0	5.7
Household Goods and services	3.8	4.2	6.3	6.0
Health	5.9	5.1	8.8	8.9
Transport and communication	8.6	2.9	3.1	3.0
Recreation and amusement	1.7	4.3	5.5	5.6
Education	4.5	4.5	8.1	7.6
Personal care and effects	3.9	4.6	5.0	4.1
Core CPI	47.3	6.2	5.3	5.0

Source, CSO, Nirmal Bang Institutional Equities Research

Exhibit 2: IIP plunges to 0.1%

% YoY	Feb-18	Jan-18	Feb-19
IIP	6.9	1.4	0.1
Mining	(0.4)	3.9	2.0
Manufacturing	8.4	1.0	(0.3)
Electricity	4.5	0.9	1.2
Goods based classification			
Primary goods	3.7	1.4	1.2
Capital goods	16.6	(3.4)	(8.8)
Intermediate goods	3.4	(3.2)	(4.9)
Infrastructure and construction goods	13.0	6.8	2.4
Consumer durables	7.5	2.3	1.2
Consumer non-durables	7.4	3.3	4.3

Source, CSO, Nirmal Bang Institutional Equities Research

Exhibit 3: Across the board slowdown with only 8 of 23 manufacturing segments in positive territory

Industry / %YoY	Weights	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Food Products	5.3	12.5	19.2	20.6	19.1	12.1	5.3	2.4	9.4	16.9	20.6	5.8	14.8	17.0	13.8
Beverages	0.8	12.0	12.5	2.6	3.7	10.0	10.6	12.6	7.3	5.1	(1.6)	1.2	(0.1)	(3.5)	(4.9)
Tobacco Products	1.0	(46.5)	(1.6)	(20.6)	3.0	(13.7)	(32.4)	28.1	(17.0)	(7.3)	0.6	6.2	27.8	2.0	(0.7)
Textiles	3.3	2.7	0.8	(2.0)	0.2	1.9	1.6	2.9	7.8	5.4	5.6	(4.6)	(2.1)	(2.2)	(1.3)
Wearing Apparel	1.3	(10.7)	(10.1)	(18.6)	(19.4)	(3.8)	5.8	9.5	18.9	20.9	31.5	22.2	24.5	16.4	19.3
Leather and Related Product	0.5	7.7	0.4	(2.8)	(3.9)	(2.8)	2.3	9.6	6.7	2.7	10.6	(9.4)	(4.1)	(1.7)	(2.5)
Wood and Wood Products	0.2	1.7	(0.4)	(4.9)	4.3	3.3	10.1	5.8	12.7	20.6	39.6	6.7	10.9	7.1	8.3
Paper and Paper Products	0.9	(3.3)	(3.8)	(3.7)	(2.7)	(5.0)	3.3	(2.6)	(5.1)	(0.5)	0.1	(4.9)	(5.7)	(6.4)	(8.8)
Printing and Reproduction of Recorded Media	0.7	(13.2)	(9.4)	(3.4)	(10.5)	(2.5)	-	(2.6)	(19.2)	(12.9)	6.6	(5.7)	2.7	10.4	3.2
Coke and Refined Petroleum Products	11.8	11.5	6.8	(0.8)	1.2	4.9	11.7	10.7	2.6	0.2	1.6	3.0	(5.4)	(2.3)	(0.5)
Pharma, Medicinal Chemical and Botanical Products	7.9	22.3	7.4	16.6	7.0	(7.7)	(0.5)	6.6	7.9	5.7	6.1	(2.1)	0.4	(2.3)	0.8
Chemicals and Chemical Products	5.0	3.6	(2.5)	1.5	4.0	5.5	5.8	4.1	7.7	1.3	0.9	(7.1)	2.9	2.1	1.4
Rubber and Plastics Products	2.4	(2.4)	(8.1)	(12.5)	(10.4)	(8.4)	2.6	(0.4)	(1.5)	4.4	7.2	(7.6)	(3.7)	(4.2)	(2.6)
Other Non-Metallic Mineral Products	4.1	15.5	13.5	8.7	13.9	10.2	10.9	5.5	9.2	11.3	14.1	4.4	6.0	4.8	3.7
Basic Metals	12.8	4.0	10.7	9.7	2.2	2.1	2.2	3.9	3.1	4.2	3.1	1.9	5.3	2.8	(1.8)
Fabricated Metal Products ex Machinery and Equipment	1.6	6.6	16.4	9.4	9.3	12.9	12.2	10.1	(2.2)	1.2	3.4	(13.8)	(3.5)	(9.0)	(10.7)
Computer, Electronic and Optical Products	3.0	22.1	17.7	12.2	30.1	35.8	44.0	27.7	(7.3)	(1.0)	29.9	1.0	4.5	0.4	4.1
Electrical Equipment	2.7	(2.0)	(2.3)	(9.0)	4.1	2.2	14.8	7.7	1.5	(3.2)	2.5	(9.8)	12.4	7.8	0.2
Machinery and Equipment N.E.C.	4.8	14.9	27.0	(4.2)	4.8	(1.3)	7.0	(1.2)	3.0	5.8	21.9	(0.2)	8.4	(2.2)	(12.8)
Motor Vehicles, Trailers and Semi-Trailers	4.9	26.6	20.5	17.2	23.0	23.1	20.5	14.8	12.0	9.5	16.0	(6.0)	(3.2)	(1.4)	(3.8)
Other Manufacturing	1.8	(32.4)	(29.0)	(30.7)	(32.8)	(32.0)	(40.2)	3.7	(6.9)	(10.7)	23.2	(7.5)	(16.4)	(5.9)	3.9
Furniture; Manufacturing N.E.C.	0.1	27.8	22.4	41.5	7.6	10.4	14.2	42.7	29.2	32.8	39.7	(14.8)	(8.7)	(12.0)	(9.7)
Other Transport Equipment	0.9	33.1	32.0	15.9	13.1	8.1	18.1	18.9	9.0	11.4	24.8	8.3	16.2	6.8	(1.5)
Number of industries showing positive growth		16.0	14.0	11.0	17.0	14.0	20.0	19.0	16.0	17.0	22.0	10.0	13.0	11.0	8.0

Source, CSO, Nirmal Bang Institutional Equities Research

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