

May Inflation/April Index of Industrial Production

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CPI Inflation At 4.9%; IIP Growth Also At 4.9%

Consumer Price Index or CPI inflation in India stood at 4.87% YoY in May 2018, broadly in line with consensus estimate of 4.9% growth and a tad below our forecast of 5%. It was up from 4.6% in the previous month. Core inflation stood at 6.2%, broadly in line with our estimate and up from 5.9% in the previous month. Food and beverage inflation rose 3.4%YoY, up from 3.0% in the previous month. CPI inflation is likely to rise further and peak in June 2018, before moderating. However, we expect the upward pressure on inflation to sustain in the wake of higher crude oil prices, increase in allowances for state government employees and the proposed increase in minimum support price for kharif crops. Therefore, we expect one more 25bps rate hike by the Reserve Bank of India or RBI in late 2018 or early 2019. Index of Industrial Production or IIP for April 2018 stood at 4.9% YoY, broadly in line with our estimate of 4.8% but below consensus expectation of 5.7%. It was up from 4.6% in the previous month, with a broad-based pick-up. 16 out of 23 manufacturing industries registered positive growth, up from 11 in the previous month. Overall, the manufacturing sector's growth registered a mild pick-up to 5.2% from 4.4% earlier. Mining sector's output increased by a robust 5.1% YoY, up from 2.8% in the previous month. Electricity production acted as a drag, up 2.1% YoY, but down from 5.9% in the previous month.

Headline CPI inflation at 4.9%, core inflation rises above 6%: CPI inflation stood at 4.87% YoY in May 2018, broadly in line with consensus estimate of 4.9% growth and a tad below our forecast of 5%. It was up from 4.6% in the previous month. The downside surprise came from a slower-than-estimated rise in fruit prices. Vegetable prices rose 2.5% MoM. Sugar prices declined 3.5% MoM against our expectation of a 2% decline. Food and beverage inflation rose 3.4%YoY, up from 3.0% in the previous month. Fuel and light inflation rose 5.8% YoY, up from 5.2% in the previous month. Inflation in the transport and communication segment also rose 5.3% YoY, up from 4.5% earlier. Core inflation stood at 6.2%, broadly in line with our estimate and up from 5.9% in the previous month. Core inflation, excluding the impact of house rent allowance, was around 5.6%, up from around 5.3% earlier. Nevertheless, there is respite from the fact that both headline CPI and core CPI are likely to peak in June 2018 and moderate thereafter.

Upside pressure on inflation likely to sustain in 2HFY19, expect one more 25bps rate hike: Headline inflation is likely to be within the RBI's target range of 4.8%-4.9%, or at worst a tad higher at 5%. However, we expect the upward pressure on inflation to sustain in the wake of higher crude oil prices, increase in allowances for state government employees and the proposed hike in minimum support price for kharif crops. CPI inflation is likely to be higher than the RBI's 4.7% forecast for 2HFY19 and will average around 5% in FY19, in our view. Therefore, we expect one more 25bps rate hike by the RBI in late 2018 or early 2019.

IIP growth at 4.9% YoY; volatility ahead but the broad uptrend to sustain: IIP for April 2018 stood at 4.9% YoY, broadly in line with our estimate of 4.8% but below consensus expectation of 5.7%. It was up from 4.6% in the previous month, with a broad-based pick-up. 16 out of 23 manufacturing industries registered positive growth, up from 11 in the previous month (Exhibit 3). Overall, the manufacturing sector's growth registered a mild pick-up to 5.2% from 4.4% earlier. Mining sector's output increased by a robust 5.1% YoY, up from 2.8% in the previous month. Electricity production acted as a drag, rising 2.1% YoY and down from 5.9% in the previous month. Going forward, we expect some volatility, although overall the uptick in industrial activity should sustain. Mining activity is likely to be relatively robust as evinced by the recent trend in coal production. Other sectors such as commercial vehicles and cement, which contributed positively to manufacturing output, should also sustain their uptrend. Export-oriented sectors may also benefit from the recent depreciation in the Indian rupee or INR, provided trade tensions do not escalate significantly. Nevertheless, certain sectors which have been a drag on growth such as jewellery production reflecting the recent scams in the industry, copper-related industries on account of closure of Vedanta's Tuticorin plant, and plastics on account of the ban on plastic packaging material by some states may continue to weigh on industrial growth. On a positive note, capital goods production rose 13% YoY after a 5.7% decline in the previous month, indicating that a capex revival is on the anvil. Capital goods production averaged 8.6% YoY over the past nine months, with the last month's decline being a blip (Exhibit 4).

Exhibit 1: CPI inflation at 4.9%, core inflation at 6.2%

%YoY	Weight (%)	Mar-17	Apr-18	May-18
CPI	100	2.2	4.6	4.9
Food and beverage	45.86	(0.2)	3.0	3.4
Cereals and products	9.7	4.8	2.6	2.8
Milk and milk products	6.6	4.6	3.2	3.2
Vegetables	6.0	(13.4)	7.5	8.0
Prepared meals and snacks	5.6	5.2	4.9	5.0
Paan, tobacco and intoxicants	2.38	6.2	7.9	8.0
Clothing and footwear	6.53	4.4	5.1	5.5
Housing	10.07	4.8	8.5	8.4
Fuel and light	6.84	5.5	5.2	5.8
Miscellaneous	28.32	3.8	5.0	5.3
Transport and communication	8.59	3.5	4.5	5.3
Core CPI	47.3	4.3	5.9	6.2

Source: Central Statistical Organisation or CSO, Nirmal Bang Institutional Equities Research

Exhibit 2: IIP registers a mild uptick

% YoY	Apr-17	Mar-18	Apr-18
IIP	3.2	4.6	4.9
Mining	3.0	3.1	5.1
Manufacturing	2.9	4.7	5.2
Electricity	5.4	5.9	2.1
Goods-based classification			
Primary goods	3.0	3.0	3.1
Capital goods	(4.8)	(5.7)	13.0
Intermediate goods	3.6	2.3	1.6
Infrastructure and construction goods	4.7	8.9	7.5
Consumer durables	(0.7)	4.1	4.3
Consumer non-durables	8.8	12.7	7.0

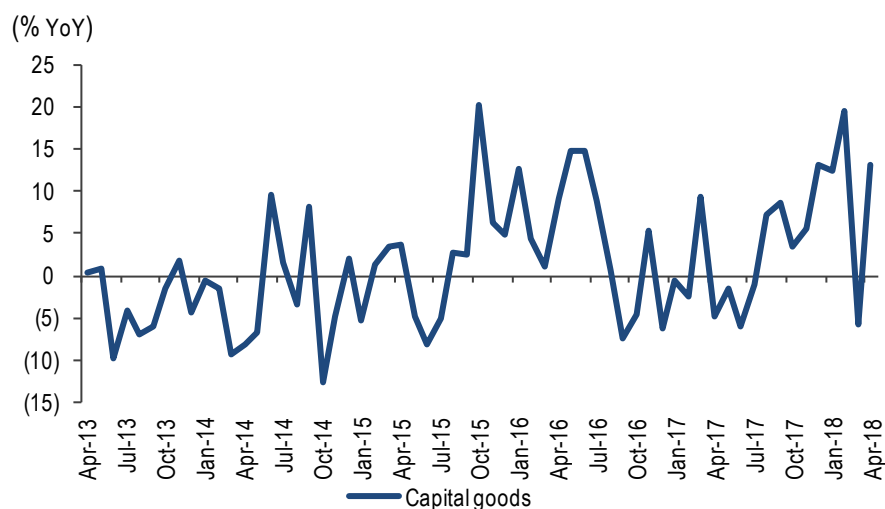
Source: CSO, Nirmal Bang Institutional Equities Research

Exhibit 3: 16 out of 23 manufacturing industries register positive growth

Industry / %YoY	Weights	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Food products	5.30	(3.17)	0.32	7.30	1.95	1.04	17.73	12.01	12.47	19.15	20.59	15.74
Beverages	0.80	(5.32)	(0.73)	(1.94)	1.12	2.45	5.60	7.56	11.99	12.46	2.60	4.10
Tobacco products	1.04	5.04	(43.67)	(13.44)	(20.99)	(20.73)	(5.83)	(28.13)	(46.48)	(1.62)	(20.57)	4.89
Textiles	3.29	(2.50)	(2.01)	(2.93)	(3.27)	(2.67)	3.16	7.37	2.71	0.80	(1.99)	(1.55)
Wearing apparel	1.32	(3.20)	(4.01)	(17.69)	(10.47)	(24.29)	(7.95)	(13.41)	(10.69)	(10.06)	(18.64)	(13.44)
Leather and related products	0.50	(1.23)	(2.21)	(5.11)	(5.49)	(1.64)	7.06	17.63	7.69	0.40	(2.76)	(1.98)
Wood and wood products	0.19	(6.30)	2.19	1.61	(6.65)	(1.93)	9.30	2.15	1.71	(0.43)	(4.89)	4.30
Paper and paper products	0.87	(9.28)	(5.86)	(4.29)	(8.83)	(3.38)	(0.85)	(2.33)	(3.32)	(3.81)	(3.74)	(2.71)
Printing and reproduction of recorded media	0.68	(10.99)	(8.51)	4.71	(3.09)	(2.55)	(6.70)	(14.05)	(13.23)	(9.44)	(3.40)	(10.34)
Coke and refined petroleum products	11.77	(1.18)	(4.14)	2.97	8.59	4.11	4.95	5.79	11.54	6.83	(0.85)	0.95
Pharma, medicinal chemical and botanical products	7.87	19.05	18.78	16.78	26.52	22.59	40.85	33.37	22.34	7.41	16.60	7.68
Chemicals and chemical products	4.98	(5.79)	(6.38)	(2.01)	1.37	0.09	6.66	5.50	3.61	(2.54)	1.52	3.96
Rubber and plastic products	2.42	(6.14)	(4.83)	(5.43)	(13.13)	(16.28)	(7.62)	(7.32)	(2.43)	(8.09)	(12.52)	(10.19)
Other non-metallic mineral products	4.09	(7.84)	(2.73)	(1.68)	(4.35)	(2.50)	9.90	14.55	15.45	13.48	8.75	11.12
Basic metals	12.80	2.82	3.55	1.87	2.77	6.12	13.09	4.80	4.01	10.69	9.73	3.89
Fabricated metal products excl. machinery and equipment	1.57	(13.68)	(6.00)	9.74	4.68	9.45	9.63	3.59	6.64	16.40	9.44	7.77
Computer, electronic and optical products	3.00	(2.36)	4.65	34.92	22.51	10.45	28.97	32.58	22.14	17.69	12.18	27.47
Electrical equipment	2.65	(19.32)	(12.74)	(7.74)	(18.72)	(18.96)	(9.98)	(14.93)	(2.02)	(2.31)	(8.97)	5.20
Machinery and equipment N.E.C.	4.77	(2.10)	(1.45)	9.33	9.93	2.04	5.87	11.01	14.92	26.95	(4.24)	8.51
Motor vehicles, trailers and semi-trailers	4.86	1.67	6.96	13.43	13.92	13.18	17.94	26.51	26.59	20.49	17.15	21.87
Other manufacturing	1.78	29.46	(21.48)	(3.91)	(26.15)	(36.75)	(15.37)	(22.84)	(32.41)	(28.96)	(30.65)	(30.74)
Furniture; manufacturing N.E.C.	0.13	14.45	(8.24)	(7.00)	0.00	(7.09)	6.21	33.63	27.81	22.36	41.52	10.27
Other transport equipment	0.94	7.99	10.49	11.72	4.33	0.69	22.37	26.67	33.07	32.04	15.86	13.86
Number of industries showing positive growth		6.00	8.00	11.00	12.00	11.00	16.00	16.00	16.00	14.00	11.00	16.00

Source: CSO, Nirmal Bang Institutional Equities Research

Exhibit 4: Capital goods production on an uptrend - signals capex revival may be on the anvil



Source: CSO, Nirmal Bang Institutional Equities Research

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