

November CPI Inflation/ October IIP

13 December 2019

CPI at 5.54%YoY, IIP declines 3.8%YoY but rate cut may get pushed back

Consumer Price Index or CPI inflation rose 5.54%YoY in November'19 higher than Bloomberg consensus estimate of 5.3% and significantly higher than our estimate of 4.69%. It rose from 4.62% in the previous month. The deviation from our estimate was on account of a sharper than expected rise in vegetable prices. Core inflation stood at 3.49% broadly in line with our estimate. Apart from vegetables, prices of other food items such as cereals, pulses, meat, fish, egg and milk are also edging up. Food and beverage inflation stood at 8.66%, up from 6.93% in the previous month. While we do not expect the spike in vegetable prices to sustain at current levels, the gradual increase in prices of other food items is likely to sustain. Meanwhile, core inflation is also likely to gradually move up even with soft demand conditions keeping price pressures relatively subdued. The most recent hike in telecom tariffs could add about 70bps to headline inflation over the next couple of months, while any increase in GST rates for basic consumption goods may also be inflationary. Consequently, we expect headline inflation to remain at an elevated level into 1HFY21, pushing the prospect of a rate cut into 2HFY21. We also anticipate that inflation could average 4.5% or higher in FY21, as a result of which we are factoring in only one more rate cut with a terminal repo rate of around 4.9-5%, sluggish growth notwithstanding. Index of industrial production or IIP growth declined 3.8%YoY in October'19 which was better than our expectation of a 5.3% decline and consensus expectation of a 5% decline. It was also marginally better than a 4.3% decline in the previous month.

CPI inflation surges led by food prices: CPI inflation came in at 5.54%YoY in November'19, up from 4.62% in the previous month led by higher food prices. Food and beverage inflation stood at 8.66%, up from 6.93% in the previous month led by higher vegetable prices. Vegetable prices were up 36%YoY. Apart from vegetables, prices of other food items such as cereals, pulses, meat, fish, egg and milk are also edging up. While we do not expect the spike in vegetable prices to sustain at current levels, the gradual increase in prices of other food items is likely to sustain.

Core steady at 3.49% but likely to inch up: Core inflation stood at 3.49% broadly unchanged from 3.50% in the previous month. Going forward, core inflation is likely to gradually move up even with soft demand conditions keeping price pressures relatively subdued. The most recent hike in telecom tariffs could add about 70bps to headline inflation over the next couple of months, while any increase in GST rates for basic consumption goods may also be inflationary.

How low can rates go?: We expect headline inflation to remain at an elevated level into 1HFY21, pushing the prospect of a rate cut into 2HFY21. We also anticipate that inflation could average 4.5% or higher in FY21, as a result of which we are factoring in only one more rate cut with a terminal repo rate of around 4.9-5%, sluggish growth notwithstanding. We had highlighted in our note [How low can rates go?](#) that an inflation targeting central bank has limited room to react to recessionary conditions until inflation expectations are anchored. This we believe is a dilemma that the RBI will face going forward. While 10 year bond yields may react negatively to the inflation data and the prospect of limited rate cuts, we believe the current selloff in the bond market is overdone as liquidity remains in surplus, and tepid credit growth will force banks to park their surplus funds in G-secs keeping demand relatively favourable.

IIP declines 3.8%YoY: IIP growth declined 3.8%YoY in October'19 which was better than our expectation of a 5.3% decline and consensus expectation of a 5% decline. It was also marginally better than a 4.3% decline in the previous month. Mining was down 8%YoY, manufacturing was down 2.1%YoY and electricity production was down 12.2%YoY. Within manufacturing intermediate goods did well and was up 7.1%YoY largely supported by robust growth in the chemicals sector (Exhibit 4). Consumer non-durables was also in positive territory up 1.1%YoY. Capital goods contracted 20.1%YoY and consumer durables declined 11.7%YoY. Growth was sluggish across the board with only 5 of 23 manufacturing sectors in positive territory down from 6 in the previous month.

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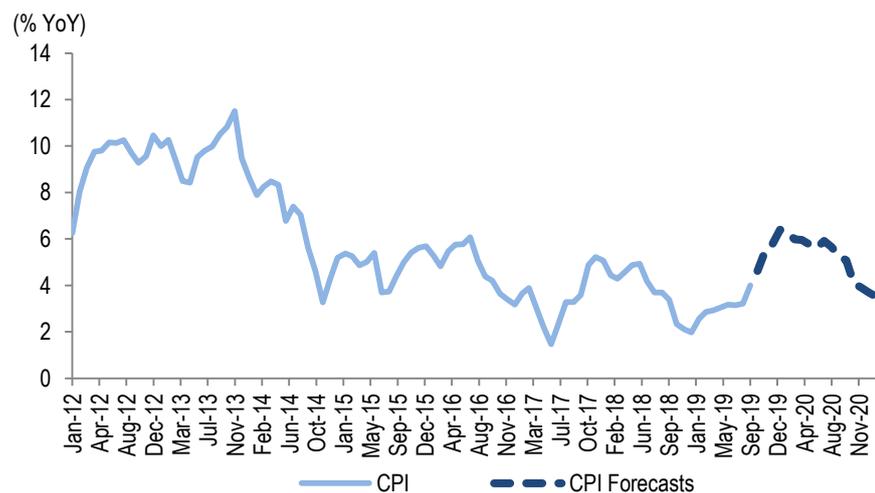
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Exhibit 1: CPI inflation rises to 5.54% in November'19

%YoY	Weight (%)	Nov-18	Oct-19	Nov-19
CPI	100.0	2.3	4.6	5.5
Food and beverage	45.9	(1.7)	6.9	8.7
Cereals and products	9.7	1.3	2.2	3.7
Meat and Fish	3.6	4.8	9.7	9.4
Egg	0.4	(4.1)	6.3	6.2
Milk and milk products	6.6	0.7	3.1	3.5
Vegetables	6.0	(15.6)	26.1	36.0
Prepared meals and snacks	5.6	3.8	2.2	1.9
Paan, Tobacco and Intoxicants	2.4	6.1	3.9	3.3
Clothing and Footwear	6.5	3.5	1.6	1.3
Housing	10.1	6.0	4.6	4.5
Fuel and Light	6.8	7.2	(2.0)	(1.9)
Miscellaneous	28.3	6.2	3.4	3.7
Household Goods and Services	3.8	5.8	2.4	2.2
Health	5.9	7.2	5.6	5.5
Transport and communication	8.6	6.1	(0.5)	0.9
Recreation and Amusement	1.7	5.9	5.0	4.1
Education	4.5	6.6	6.1	5.2
Personal Care and Effects	3.9	4.1	5.5	6.3
Core CPI	47.3	6.2	3.5	3.5

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

Exhibit 2: CPI inflation may remain elevated into 1HFY21 pushing back window for a rate cut



Source: CSO, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 3: IIP growth declines 3.8% YoY

% YoY	Oct-18	Sep-19	Oct-19
IIP	8.4	(4.3)	(3.8)
Mining	7.3	(8.5)	(8.0)
Manufacturing	8.2	(3.9)	(2.1)
Electricity	10.8	(2.6)	(12.2)
Goods based classification			
Primary goods	6.1	(5.1)	(12.0)
Capital goods	16.9	(20.7)	(20.1)
Intermediate goods	2.4	7.0	7.1
Infrastructure and construction goods	9.0	(6.4)	(10.8)
Consumer durables	17.4	(9.9)	(11.7)
Consumer non-durables	8.6	(0.4)	1.1

Source: CSO, CEIC, Nirmal Bang Institutional Equities Research

Exhibit 4: Only 5 out of 23 manufacturing segments register positive growth

Industry / %YoY	Weights	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Food Products	5.3	16.3	19.4	6.5	14.6	16.7	14.4	7.5	11.2	15.9	16.3	22.6	6.6	3.3	(2.1)
Beverages	0.8	3.6	(2.4)	1.2	0.9	(0.4)	(2.1)	(3.9)	3.8	(3.8)	6.7	1.6	(4.9)	(3.9)	(7.2)
Tobacco Products	1.0	(6.7)	0.2	9.5	27.7	3.7	(0.8)	15.6	(3.6)	8.8	10.3	9.2	3.4	3.0	(7.6)
Textiles	3.3	5.6	5.9	(3.5)	(1.6)	(1.8)	(1.0)	(0.9)	4.0	3.6	(1.7)	(5.4)	(7.6)	(5.3)	(6.8)
Wearing Apparel	1.3	19.7	32.7	14.9	24.6	21.8	20.0	15.1	32.5	8.6	6.2	14.6	10.3	3.2	(2.6)
Leather and Related Product	0.5	2.5	11.4	(8.9)	(3.6)	1.0	(1.2)	2.1	3.3	-	(1.8)	(0.4)	(2.6)	(0.8)	(6.3)
Wood and Wood Products	0.2	19.5	39.9	5.4	10.9	6.8	15.8	8.6	30.7	24.8	16.5	5.4	11.3	15.5	6.4
Paper and Paper Products	0.9	(2.3)	(0.1)	(5.0)	(5.9)	(6.9)	(9.2)	(11.7)	(12.5)	(12.2)	(18.7)	(13.0)	(12.6)	(8.7)	(15.4)
Printing and Reproduction of Recorded Media	0.7	(10.5)	4.7	(4.5)	7.8	12.9	1.5	(3.2)	16.4	5.6	(5.6)	(10.8)	(6.6)	(7.2)	(17.3)
Coke and Refined Petroleum Products	11.8	0.2	1.6	3.0	(5.4)	(2.3)	(0.4)	4.7	3.9	(2.1)	(7.7)	0.7	3.3	(5.3)	0.7
Pharma, Medicinal Chemical and Botanical Products	7.9	6.3	6.3	(2.3)	1.5	(2.2)	1.9	(1.8)	5.1	8.1	5.9	3.0	7.4	(1.3)	2.3
Chemicals and Chemical Products	5.0	1.5	0.9	(6.9)	2.9	3.0	0.6	1.6	3.0	(14.1)	(0.9)	7.0	(4.4)	(1.4)	31.8
Rubber and Plastics Products	2.4	5.4	7.2	(7.5)	(4.5)	(4.9)	(2.0)	(2.7)	(3.8)	(2.3)	(4.1)	(0.8)	(7.3)	(12.6)	(15.6)
Other Non-Metallic Mineral Products	4.1	11.3	14.2	4.5	6.0	4.6	2.6	8.1	0.4	(0.1)	(3.8)	7.1	(4.1)	(2.6)	(9.5)
Basic Metals	12.8	4.2	3.3	2.1	4.3	1.6	(2.0)	1.1	8.5	7.6	16.9	19.5	11.8	9.2	9.4
Fabricated Metal Products ex Machinery & Equipment	1.6	1.7	3.3	(13.9)	(3.2)	(10.5)	(12.5)	(15.7)	(10.6)	(8.7)	(10.4)	(10.5)	(17.3)	(22.0)	(19.5)
Computer, Electronic and Optical Products	3.0	(0.9)	29.7	1.0	3.9	1.1	3.8	10.6	11.9	9.4	(16.8)	2.8	(3.7)	(10.6)	(31.3)
Electrical Equipment	2.7	(2.2)	2.4	(9.7)	13.4	8.6	(0.7)	(8.0)	0.7	(2.6)	(10.3)	1.9	0.8	1.3	(4.3)
Machinery and Equipment N.E.C.	4.8	6.6	21.7	(1.6)	7.4	(2.8)	(12.7)	(5.1)	2.5	2.3	(7.2)	(5.3)	(21.7)	(18.1)	(18.1)
Motor Vehicles, Trailers and Semi-Trailers	4.9	10.3	16.0	(6.4)	(3.0)	(2.5)	(5.3)	(6.3)	(4.9)	(6.2)	(14.0)	(12.9)	(23.1)	(24.8)	(27.9)
Other Manufacturing	1.8	(10.7)	22.9	(7.6)	(17.0)	(5.3)	2.4	4.7	(2.1)	(6.4)	(8.2)	(0.1)	(18.0)	(6.6)	(26.4)
Furniture; Manufacturing N.E.C.	0.1	33.8	28.5	(11.2)	(10.2)	(14.7)	(6.7)	(19.1)	(4.6)	(9.9)	(11.2)	(8.5)	(7.6)	(23.6)	(15.2)
Other Transport Equipment	0.9	10.5	24.8	8.1	16.2	6.7	(0.3)	(18.6)	(4.1)	2.0	(3.5)	(4.2)	(13.6)	(8.9)	(18.8)
Number of industries showing positive growth		17.0	22.0	10.0	13.0	11.0	10.0	11.0	14.0	12.0	7.0	12.0	8.0	6.0	5.0

Source: CSO, Nirmal Bang Institutional Equities Research

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