

Stable CPI inflation but weak industrial growth; trade deficit to widen

Among the India macro data releases this month, we expect retail inflation (CPI) to remain broadly stable at 3.2% in July (vs. Bloomberg poll: 3.1%), as core inflation continues to decline, partly offset by a marginal rise in transportation cost. On the other hand, wholesale price inflation (WPI) is expected to inch lower to 1.8% in July (vs. Bloomberg poll: 1.9%), as lower prices of non-food articles and manufacturing products more than offset a marginal rise in food inflation at the wholesale level. Industrial production, on the other hand, is likely to remain lacklustre at 1.5% in June (vs. Bloomberg poll: 1.4%), reflecting the current macro slowdown across the board. The monthly trade deficit is expected to widen to US\$15.8bn in July (vs. Bloomberg poll: US\$14.9bn), as weak global demand continues to weigh on exports, even as declining imports provide some relief.

The Central Bank's Monetary Policy Committee (MPC), in its recent policy review, expressed concerns on the deteriorating economic activity, and views addressing the same as its highest priority at the current juncture, particularly when inflation is expected to remain within the 4% target over next 12 months. While the MPC has reduced policy rates by 110bps in this year thus far, transmission is crucial for the real economy to benefit. Nevertheless, weak growth-inflation dynamics is likely to offer room for further monetary easing—we expect another 25bps rate cut in the second half of the fiscal, *ceteris paribus*.

- **Retail inflation to remain broadly stable but wholesale inflation to ease further:** With the monsoon having picked up in the second half of July, leading to cumulative rainfall improving from being ~32% below normal as of June 30th to ~9% as of July end, sowing activity improved meaningfully, even as total *Kharif* acreage is still down 6.6% YoY (as of August 2nd). This has somewhat limited the increase in food prices. On the negative side, crude oil prices inched up from three-month low of \$60/bbl on June 12th to \$67/bbl by July 10th, even as it has fallen sharply since then. A lag effect of this resulted in an increase in domestic fuel prices by 2-3% MoM in July, translating into higher transportation inflation. This is likely to be outweighed by lower inflation in housing, education, household goods & services and health, resulting in a modest decline in core inflation from 4.1% in June 2019 to 4.0%. Contrastingly, WPI inflation is expected to ease to 1.8% in July from 2.0% in June as lower prices of non-food articles and manufacturing products are expected to more than offset the marginal rise in food inflation at the wholesale level.
- **Industrial production to remain lacklustre:** Industrial production is expected to remain weak at 1.5% YoY in June vs. 3.1% in the previous month, albeit off a high base (7.0% IIP growth in June 2018) as mining activity is likely to witness a setback as the monsoon season started. Further, with slowdown getting severe across segments, especially visible in the weak auto sales numbers, we expect manufacturing production growth to decline for the third consecutive month (est. 0.8%). Electricity production, on the other hand, is expected to grow at a strong 7.3%.
- **Trade deficit to widen:** India's trade deficit is expected to widen to US\$15.8bn in July, vs. US\$15.3bn in June, as imports are likely to contract further to US\$41.9bn (est. -5.5%) on a continued drop in non-oil non-gold imports (6M avg. -3.9%) as well as fall in oil imports on account of softening crude oil prices. A sharp surge in gold prices, however, is likely to result in higher gold imports (4M avg. 33.9%). Exports on the other hand, are expected to grow at a modest 1.3% YoY to US\$26.1bn, as weak global demand, ongoing trade war tensions and geopolitical risks continue to put pressure on demand for Indian goods.
- **Growth-inflation dynamics to remain weak for now:** The MPC, in its recent policy review, acknowledged further deterioration in domestic economic activity, slashing its FY20 GDP growth forecast, even as it remains comfortable on inflation. The recent sharp drop in crude oil prices, coupled with a strong revival in monsoon, bodes well for inflation, even as INR depreciation remains a risk. Growth, however, is likely to remain bleak, which in turn opens room for further monetary easing. We expect further 25bps in the rest of the fiscal, *ceteris paribus*.

Tables/charts with NSE estimates for macro data releases this month

Figure 1: Consumer price inflation (%YoY) (Release date: August 12)

	Weight (%)	Jul-19E	Jun-19	Jul-18	Apr-Jul'19	Apr-Jul'18
CPI		3.2	3.2	4.2	3.1	4.6
Food & Beverages	45.9	2.5	2.4	1.7	2.1	2.8
Pan, Tobacco & Intoxicants	2.4	5.1	4.1	6.3	4.3	7.6
Clothing & Footwear	6.5	1.4	1.5	5.3	1.7	5.4
Housing	10.1	4.5	4.8	8.3	4.7	8.4
Fuel & Light	6.8	2.4	2.3	8.0	2.4	6.5
Miscellaneous	28.3	4.3	4.4	5.8	4.6	5.5
Core inflation	44.9	4.1	4.0	4.1	6.3	4.2

Source: CSO, NSE

Figure 2: Wholesale price inflation (%YoY) (Release date: August 14)

	Weight (%)	Jul-19E	Jun-19	Jul-18	Apr-Jul'19	Apr-Jul'18
WPI		1.8	2.0	5.3	2.3	4.8
Primary articles	22.6	6.8	6.7	2.0	6.6	3.3
Fuel & power	13.2	(2.7)	(2.2)	18.1	(0.1)	13.8
Manufactured products	64.2	0.6	0.9	4.5	1.2	4.0
Food group	24.4	5.0	5.0	(0.8)	4.9	0.7

Source: CSO, NSE

Figure 3: Industrial production (%YoY) (Release date: August 12)

	Weight (%)	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
IIP		1.5	3.1	7.0	3.2	5.1
Sector-based indices						
Mining	14.4	1.0	3.2	6.5	3.1	5.4
Manufacturing	77.6	0.8	2.5	6.9	2.4	5.1
Electricity	8.0	7.3	7.4	8.5	6.9	4.9
Use-based Goods						
Primary Goods	34.0	0.7	2.5	9.2	2.7	5.9
Capital Goods	8.2	-1.4	0.8	9.7	0.2	8.6
Intermediate Goods	17.2	0.4	0.6	1.5	1.0	0.7
Infra/Construction Goods	12.3	3.4	5.5	9.4	5.4	8.5
Consumer Goods	28.2	2.9	4.3	6.0	4.1	4.5
Consumer Durables	12.8	-2.8	-0.1	13.6	-0.3	8.0
Consumer Non-durables	15.3	7.8	7.7	0.2	7.1	1.9

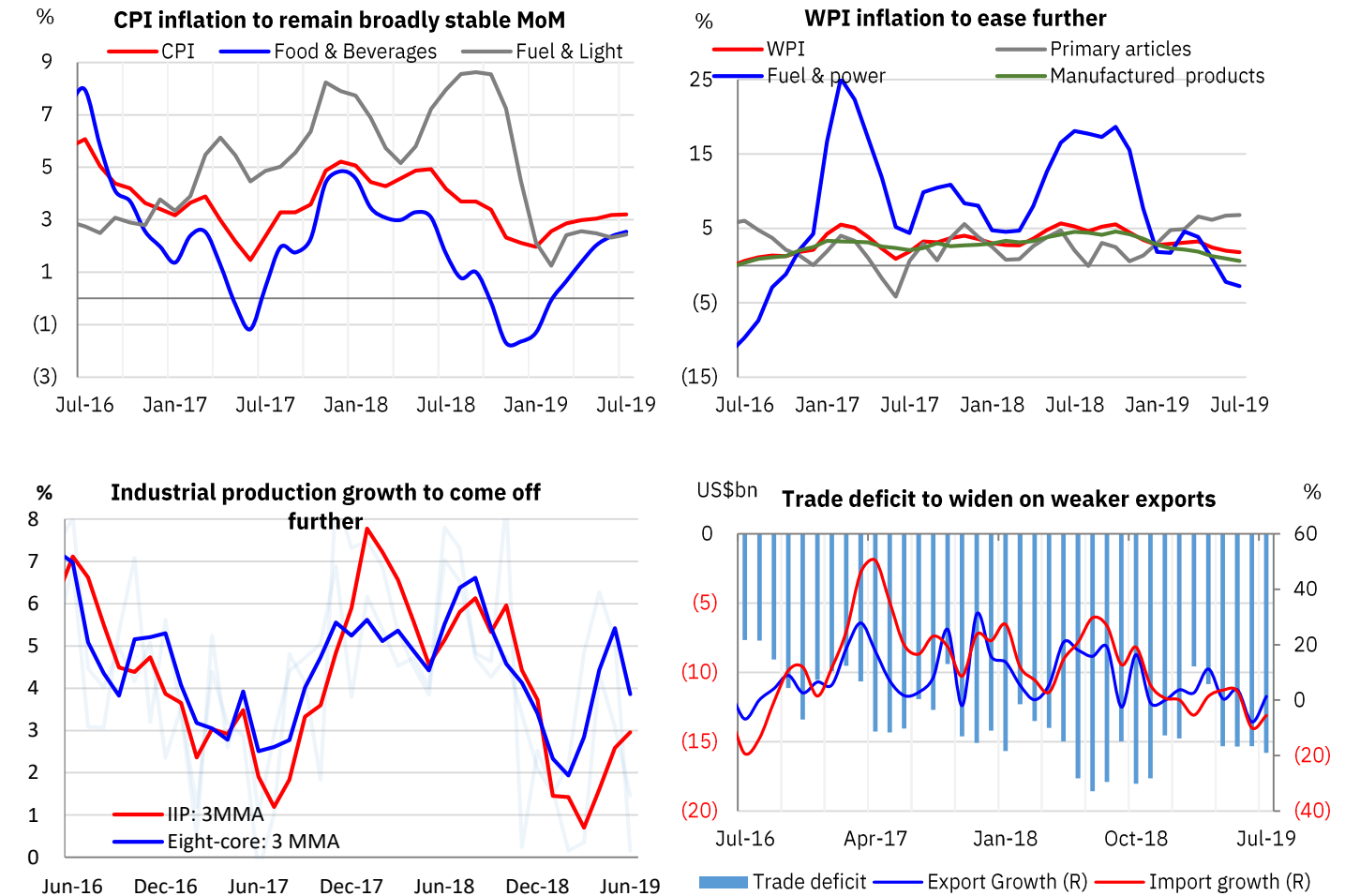
Source: CSO, NSE

Figure 4: Trade balance

		Jul-19E	Jun-19	Jul-18	Apr-Jul'19	Apr-Jul'18
Exports	US\$ bn	26.1	25.0	25.8	107.2	107.9
	%YoY	1.3	(7.9)	15.8	(0.6)	15.0
Imports	US\$ bn	41.9	40.3	44.4	169.0	173.1
	%YoY	(5.5)	(10.0)	29.7	(2.3)	16.6
Trade balance	US\$ bn	(15.8)	(15.3)	(18.6)	(61.8)	(65.2)

Source: Ministry of Commerce, NSE

*E- NSE estimates

Figure 5: Macro data charts along with the NSE estimates


Source: CSO, Ministry of Commerce, NSE

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