

Inflation remains benign; IIP picks up

India's retail inflation (CPI) inched up marginally, albeit remaining fairly benign, to 3.21% in August (Refinitiv Datastream poll: 3.3%) vs. 3.15% in July. This was primarily on account of a pick-up in food inflation, largely attributable to vegetables and pulses but off a low base, largely offset by a drop in fuel inflation (LPG). Nevertheless, food inflation has remained fairly comfortable, thanks to a strong revival in Southwest monsoon in July and August. Core inflation (excluding food and fuel) has remained broadly steady at 4.2%, thanks to a decline in transport and communication inflation amid low fuel prices, partly offset by higher inflation in personal care and effects (gold/silver). Industrial production growth accelerated from a 4-month low of 1.2% in June to 4.3% in July 2019 (Refinitiv Datastream poll: 2.3%), on the back of an improvement in mining and manufacturing production, even as electricity production decelerated following a strong show over the previous two months.

We expect inflation to inch up over the next few months, thanks to an unfavourable base, but remain within the RBI's projected trajectory. Growth impulses, on the other hand, are expected to remain weak, even as easy financial conditions and lower lending rates should provide some respite. Nevertheless, with the Central Bank's Monetary Policy Committee's focus decisively shifting towards boosting aggregate demand, further monetary easing is imperative, *ceteris paribus*.

- **Food inflation leads to a marginal pick-up in headline retail inflation...:** Retail inflation (CPI) inched up marginally from 3.15% in July to 3.21% in August, but stood lower than the Consensus estimate of 3.3%, broadly tracking the RBI's projections. This was largely on account of higher vegetable (tomato, onion, cabbage and cauliflower) and pulses inflation, which increased to 14-month and 36-month high respectively, albeit off a very low base. Nevertheless, food inflation has remained fairly benign, supported by a sharp improvement in the performance of Southwest monsoon in July-August—cumulative rainfall in the season picked up meaningfully from a deficit of ~9% as of July-end to 3% surplus as of September 12th.
- **Core inflation remains broadly steady:** Core inflation (ex-food ex-fuel) remained steady at 4.2% in August, signalling weak demand conditions. A sharp increase in gold (+21.3% YoY) and silver prices (+10% YoY), translating into higher inflation in personal care & effects category was largely curbed by a continued decline in inflation in household goods and services and a dip in transportation & communication prices during the month. Excluding gold and silver, core inflation actually declined by ~20bps on a sequential basis. Housing inflation remained broadly unchanged at 4.8%.
- **Industrial production witnesses a modest rebound:** Industrial production growth improved from a 4-month low of 1.2% in June (revised downwards from the previous reading of 2.0%) to 4.3% in July, beating consensus expectations (based on Refinitiv Datastream poll) of a 2.3% growth. This was largely on account of an improvement in mining production growth from 1.5% in June to 4.9% and manufacturing production from a 4-month low of 0.2% in June to 4.2% in July. Electricity sector, on the other hand, took a breather after a strong show over the previous few months (average growth of 7.2% in Q1 FY20), registering a growth of 4.8% in July, slightly above the eight-core electricity print of 4.2%. Among manufacturing sectors, 13/23 sectors reported positive growth (vs. 8 in the previous month), with food products, basic metals and wearing apparel leading the pack, while paper & paper products, motor vehicles, trailers & semi-trailers and printing and reproduction of recorded media were the laggards.

The slowdown in investment and consumption was visible in the tepid performance of capital goods and consumer durable goods that declined by 7.1% and 2.7% respectively in July. On a positive note, consumer non-durables registered a strong 8.3% growth for the third consecutive month.

Figure 1: Consumer price inflation (%YoY)

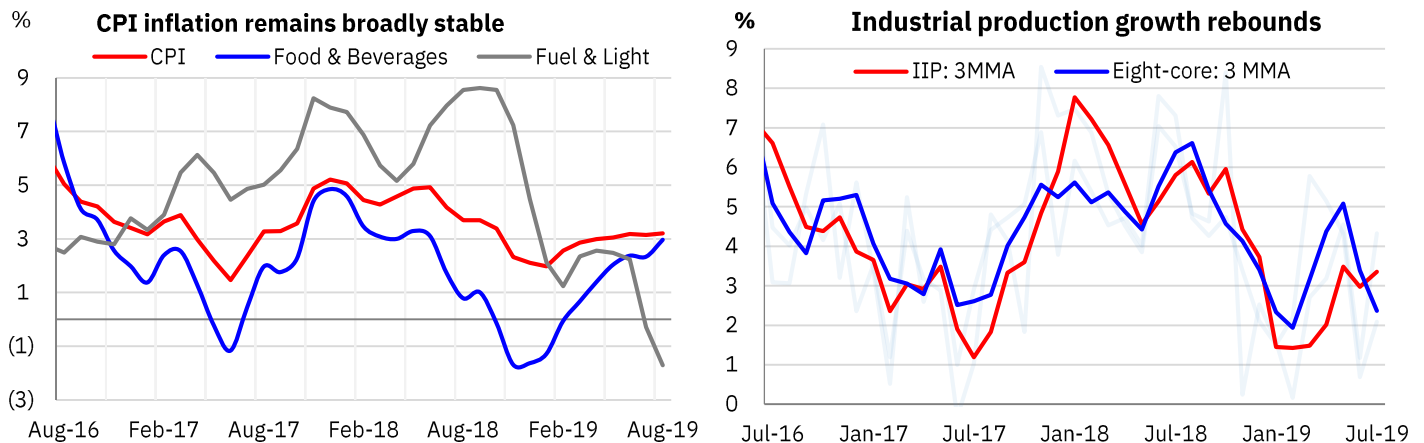
	Weight (%)	Aug-19	Jul-19	Aug-18	FY20TD	FY19TD
CPI		3.2	3.1	3.7	3.1	4.6
Food & Beverages	45.9	3.0	2.3	0.8	2.0	2.8
Pan, Tobacco & Intoxicants	2.4	5.0	4.9	5.4	4.3	7.6
Clothing & Footwear	6.5	1.2	1.4	4.9	1.7	5.4
Housing	10.1	4.8	4.9	7.6	4.8	8.4
Fuel & Light	6.8	(1.7)	(0.3)	8.6	1.7	6.5
Miscellaneous	28.3	4.7	4.7	5.6	4.7	5.5

Source: CSO, NSE

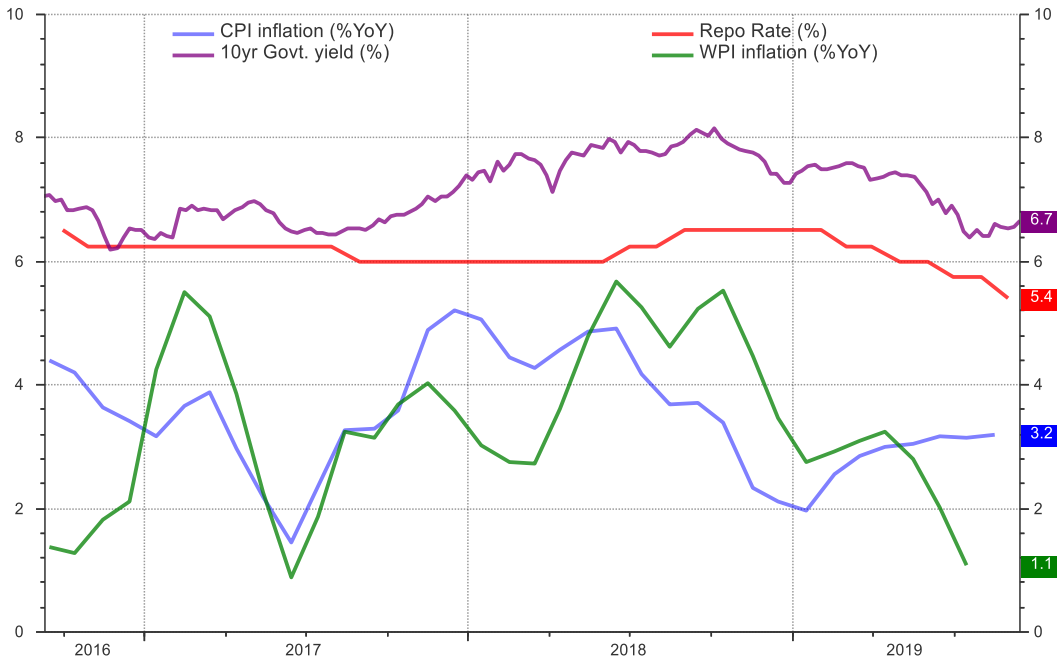
Figure 2: Industrial production (%YoY)

	Weight (%)	Jul-19	Jun-19	Jul-18	Apr-Jul'19	Apr-Jul'18
IIP		4.3	1.2	6.5	3.3	5.5
Sector-based indices						
Mining	14.4	4.9	1.5	3.4	3.4	4.9
Manufacturing	77.6	4.2	0.2	7.0	2.8	5.6
Electricity	8.0	4.8	8.2	6.6	6.6	5.3
Use-based Goods						
Primary Goods	34.0	3.5	0.4	6.8	2.8	6.1
Capital Goods	8.2	-7.1	-6.8	2.3	-4.2	7.0
Intermediate Goods	17.2	13.9	12.6	1.3	10.8	0.8
Infra/Construction Goods	12.3	2.1	-1.9	9.2	0.3	8.7
Consumer Goods	28.2	3.3	-0.9	9.2	2.8	5.7
Consumer Durables	12.8	-2.7	-10.2	14.1	-2.7	9.5
Consumer Non-durables	15.3	8.3	7.1	5.3	7.2	2.7

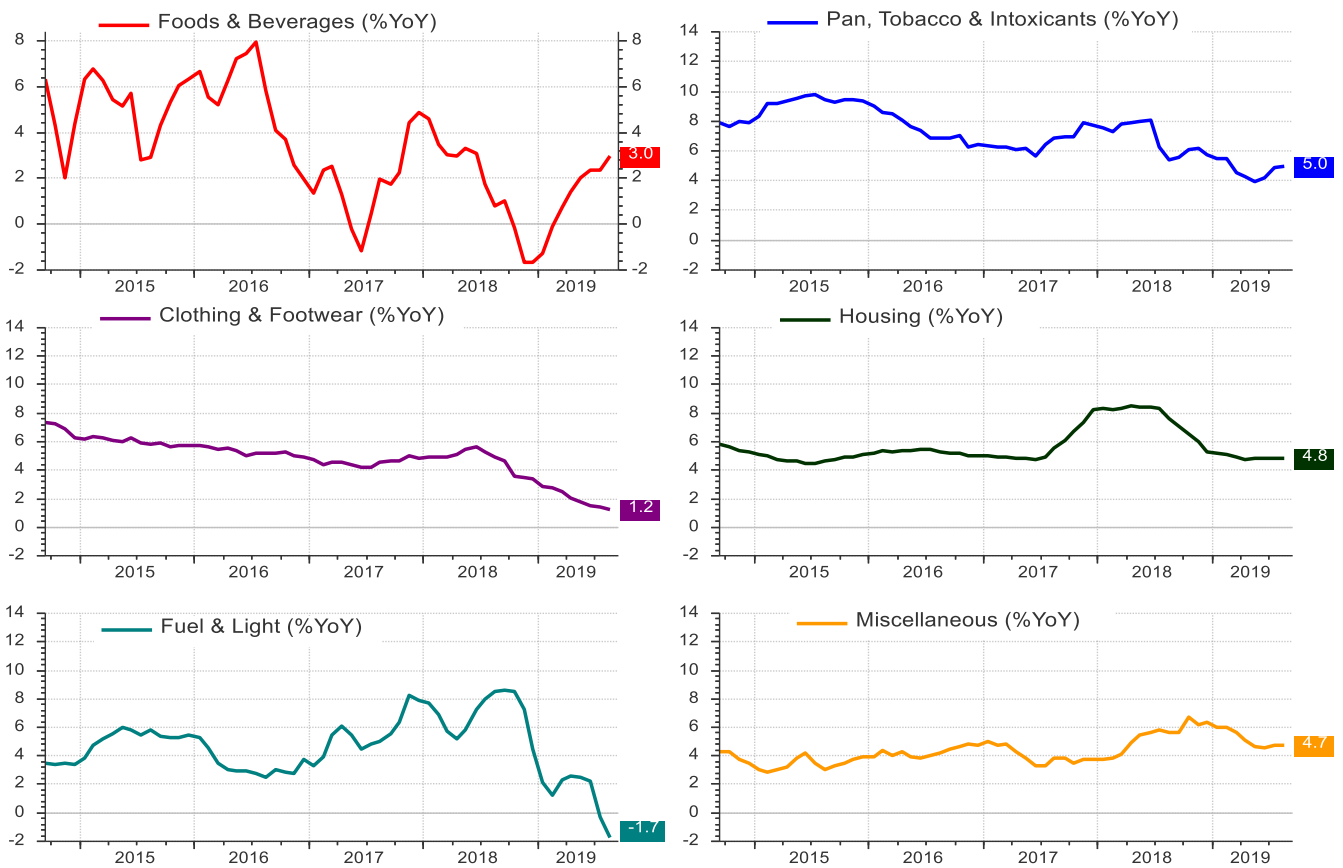
Source: CSO, NSE

Figure 3: CPI inflation remains steady but IIP rebounds from a 4-month low in June


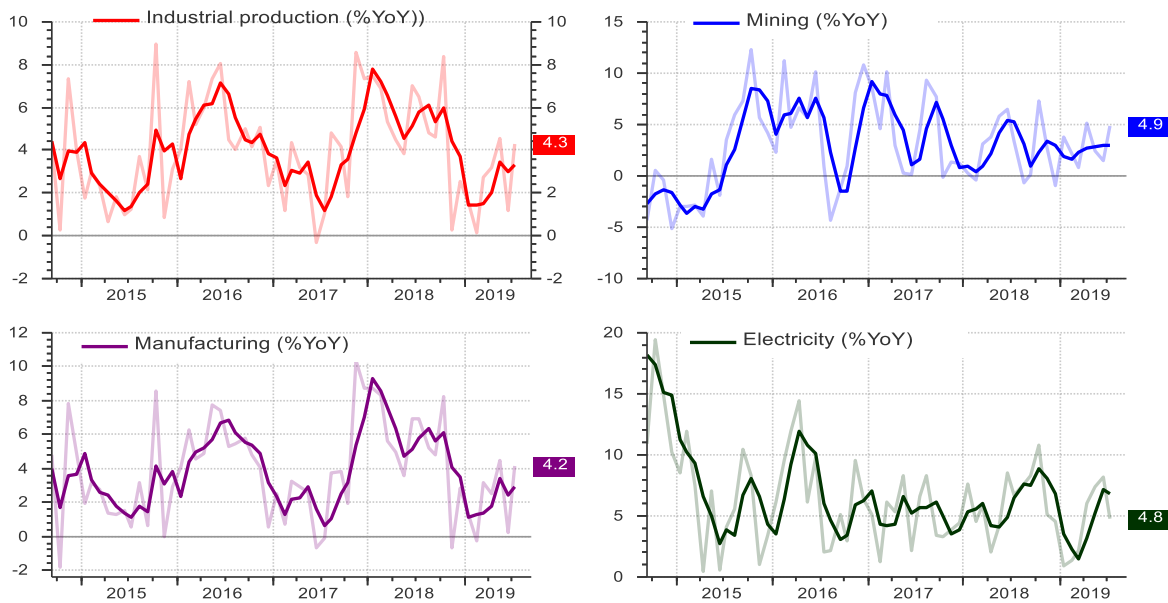
Source: CSO, Ministry of Commerce, NSE

Figure 4: India inflation vs. interest rates


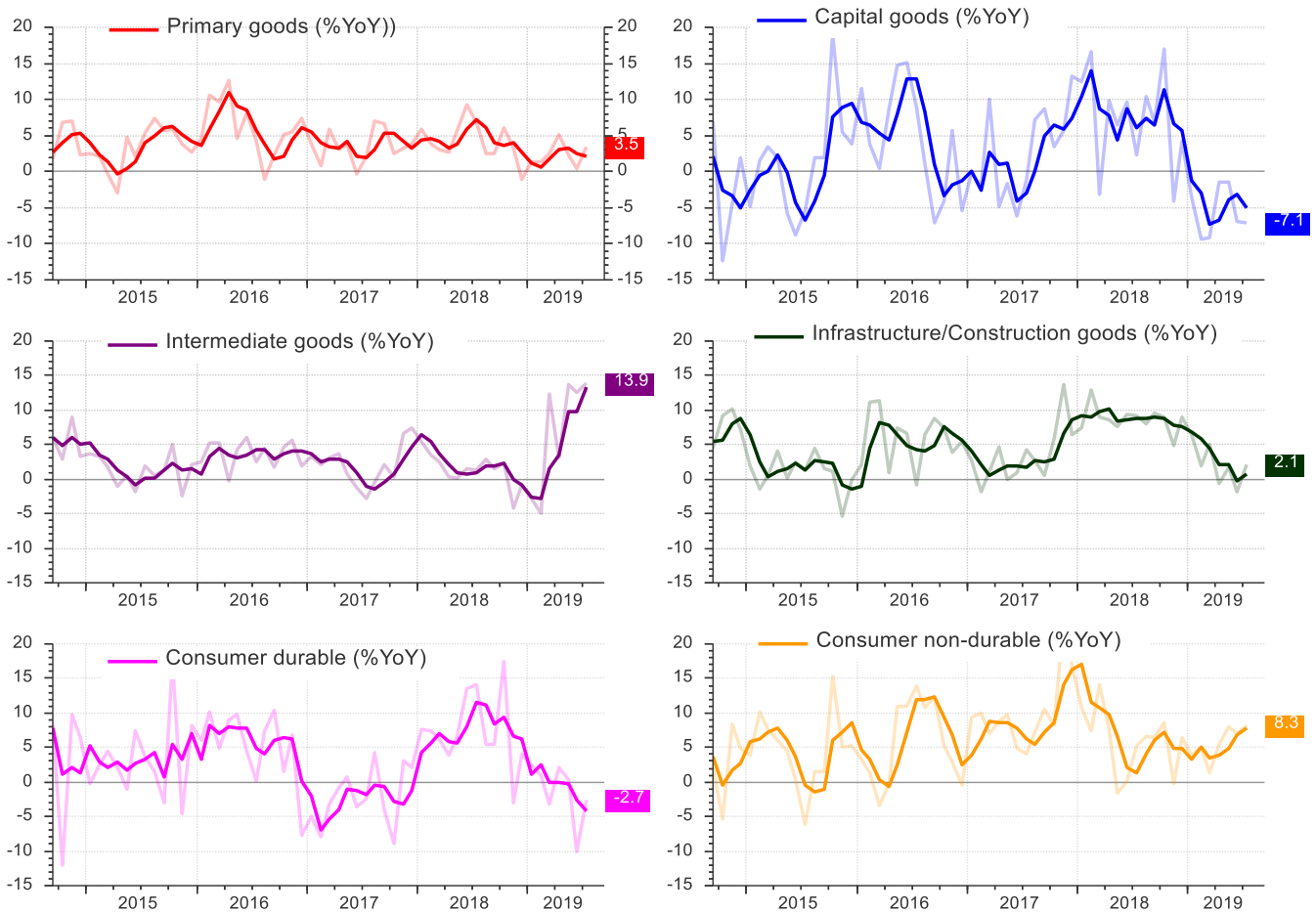
Source: Refinitiv Datastream, NSE

Figure 5: Category-wise India consumer price inflation (CPI)


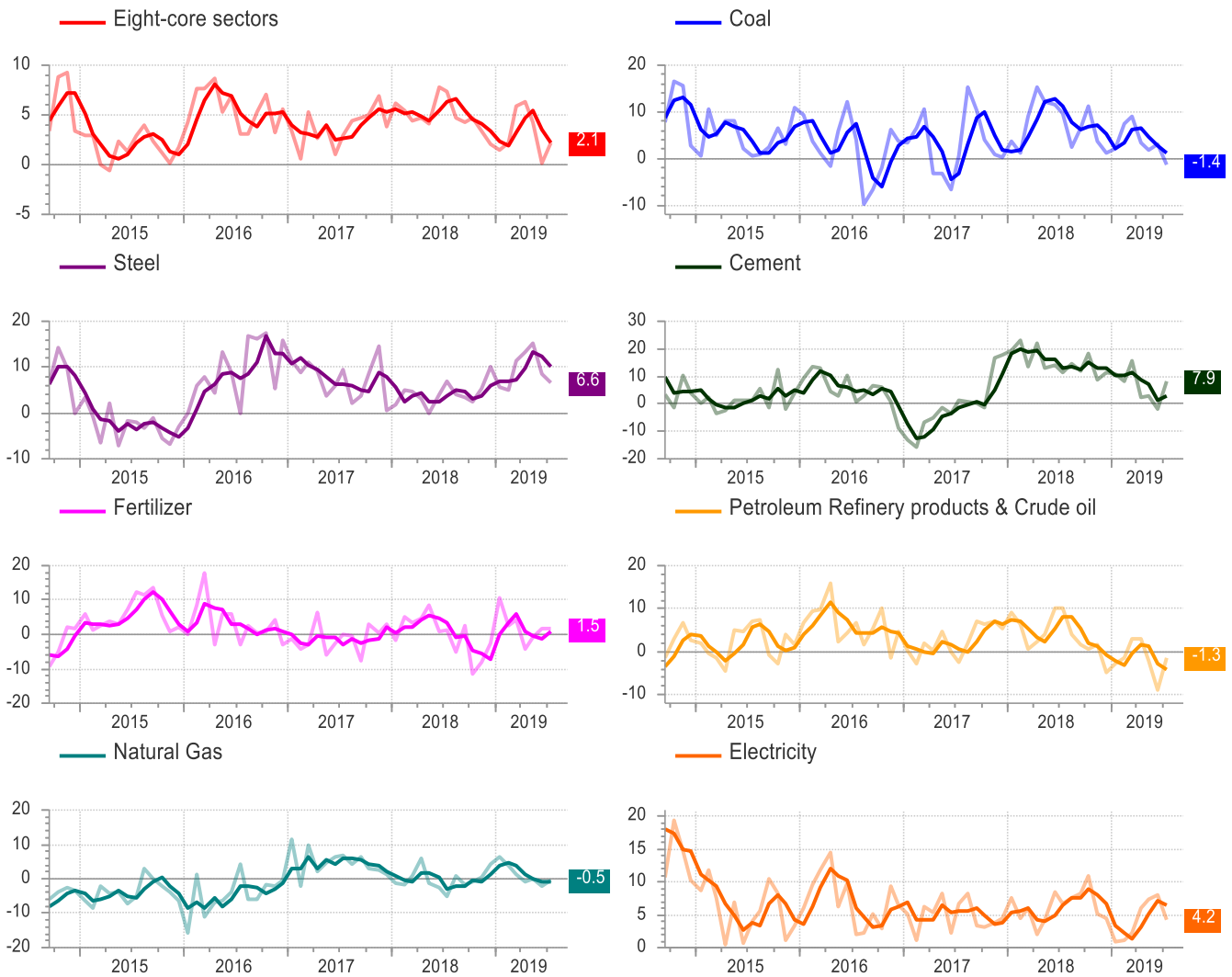
Source: Refinitiv Datastream, NSE

Figure 6: India industrial production (3MMA)


Source: Refinitiv Datastream, NSE

Figure 7: India industrial production use-based goods (3MMA)


Source: Refinitiv Datastream, NSE

Figure 8: India eight-core sector growth (3MMA)


Source: Refinitiv Datastream, NSE

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