

## Inflation remains steady but IIP softens further

India's retail inflation (CPI) was largely unchanged at 3.15% in July (NSE est.: 3.2%, Bloomberg poll: 3.1%) vs. 3.18% in June. This was primarily on account of a sharp decline in fuel and light inflation (the lowest since January 2012), even as food inflation was broadly stable. A meaningful revival in the Southwest monsoon in July (deficit falling to ~9% as of July-end) provided upside support to food inflation, with further improvement in August to keep vegetable prices under check. On the other hand, core inflation (ex-food, ex-fuel) inched up from 4.1% in June to 4.3% in July, reversing the declining trend witnessed over the previous seven months. This was due to an increase in inflation of transportation & communication, personal care and recreation & amusement. Wholesale price inflation declined further to 25-month low of 1.1% (NSE est.: 1.8%, Bloomberg poll: 1.9%) in July led by decline in prices across the board. The index of industrial production (IIP) softened further to come in at a 4-month low of 2.0% in June (NSE est.: 1.5%, Bloomberg poll: 1.4%) led by weakness in mining and manufacturing sectors, while electricity sector production surprised positively.

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, 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 remains stable but wholesale inflation continues to decline:** Retail inflation (CPI) was largely unchanged at 3.15% in July 2019, marginally lower than our estimate of 3.2%, led by a sharp decline in fuel & light inflation to -0.4%—the lowest yoy price increase in this category in the new series. Food inflation remained broadly stable at 2.3% in July as lower inflation in vegetable, sugar and eggs more than offset the high inflation in meat and pulses. With the monsoon having picked up further in August—deviation of cumulative SW monsoon from long-period average falling from ~9% as of July end to near-0% by August 13<sup>th</sup>, vegetable prices are likely to remain under check. Core inflation (ex-food ex-fuel), on the other hand, inched up from 4.1% in June to 4.3% in July, as decline in the inflation of household goods & services, health and education was more than offset by an increase in inflation of transportation & communication, personal care and recreation & amusement. Housing inflation remained unchanged at 4.8%.

Wholesale price inflation (WPI) continued to move south, falling to 25-month low of 1.1%, lower than our estimate of 1.8%. This was led by a decline across the board. The inflation trajectory has broadly tracked the RBI's estimates in this fiscal thus far, and is expected to remain within the RBI's target band of 4%+/-2% over the next 12 months.

- **Industrial production softens further in June:** Industrial production growth fell to four-month low of 2.0% in June from the upwardly revised 4.6% in May, slightly above our estimate of 1.5%. While mining and manufacturing production growth continued to decline, falling to 1.6% and 1.2% respectively (vs. 2.4% and 4.5% in May), electricity production growth surprised positively, registering a strong gain of 8.2% in May—the highest growth in eight months, vs. 7.4% in May. This was higher than the eight-core electricity print of 7.3% in June. Among manufacturing sectors, just 8/23 sectors reported positive growth with basic metals, food products, and tobacco products leading the pack, while paper & paper products, furniture and motor vehicles, trailers & semi-trailers were the laggards. The slowdown in investment and consumption was visible in the tepid performance of capital goods and consumer goods that fell to -6.5% and 1.6 respectively in June (vs. -1.4% and 4.6% in May). On a positive note, consumer non-durables registered a strong 7.8% growth for the second consecutive month.

**Figure 1: Consumer price inflation (%YoY)**

	Weight (%)	Jul-19	Jul-19E	Jun-19	Jul-18	Apr-Jul'19	Apr-Jul'18
<b>CPI</b>		3.1	3.2	3.2	4.2	3.1	4.6
Food & Beverages	45.9	2.3	2.5	2.4	1.7	2.0	2.8
Pan, Tobacco & Intoxicants	2.4	4.9	5.1	4.2	6.3	4.3	7.6
Clothing & Footwear	6.5	1.6	1.4	1.5	5.3	1.7	5.4
Housing	10.1	4.9	4.5	4.8	8.3	4.8	8.4
Fuel & Light	6.8	(0.4)	2.4	2.2	8.0	1.7	6.5
Miscellaneous	28.3	4.7	4.3	4.5	5.8	4.7	5.5

Source: CSO, NSE

**Figure 2: Wholesale price inflation (%YoY)**

	Weight (%)	Jul-19	Jul-19E	Jun-19	Jul-18	Apr-Jul'19	Apr-Jul'18
<b>WPI</b>		1.1	1.8	2.0	5.3	2.3	4.8
Primary articles	22.6	5.0	6.8	6.7	2.0	6.3	3.3
Fuel & power	13.2	(3.6)	(2.7)	(2.2)	18.1	(0.1)	13.8
Manufactured products	64.2	0.3	0.6	0.9	4.5	1.2	4.0
Food group	24.4	4.5	5.0	5.0	(0.8)	4.9	0.7

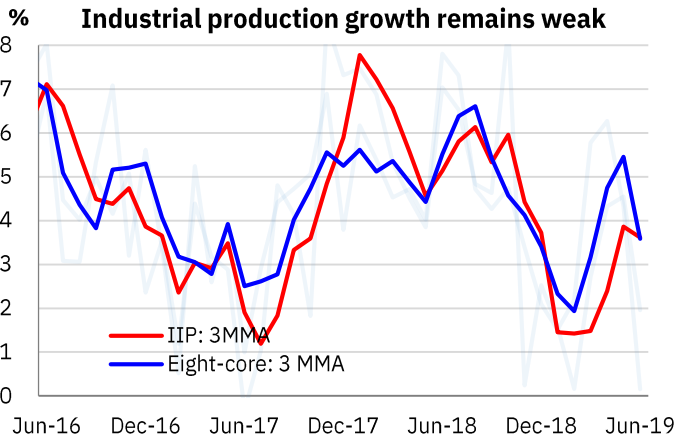
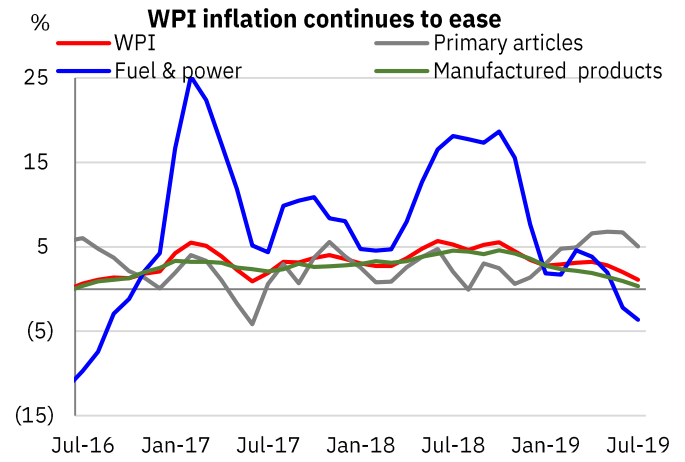
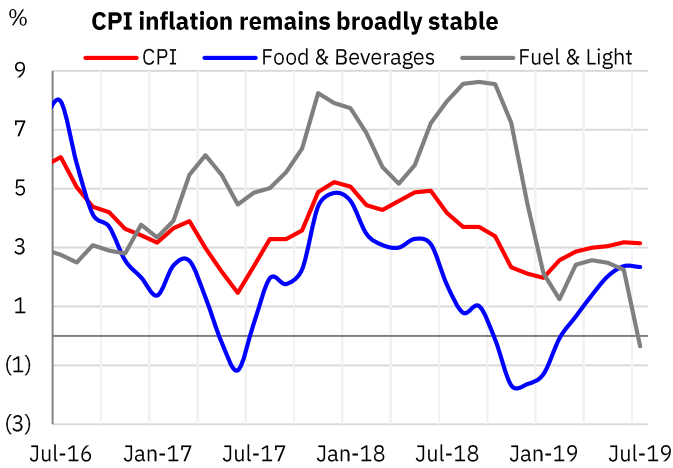
Source: CSO, NSE

**Figure 3: Industrial production (%YoY)**

	Weight (%)	Jun-19	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
<b>IIP</b>		2.0	1.5	4.6	7.0	3.6	5.1
Sector-based indices							
Mining	14.4	1.6	1.0	2.4	6.5	3.0	5.4
Manufacturing	77.6	1.2	0.8	4.5	6.9	3.2	5.1
Electricity	8.0	8.2	7.3	7.4	8.5	7.2	4.9
Use-based Goods							
Primary Goods	34.0	0.5	0.7	2.2	9.2	2.6	5.9
Capital Goods	8.2	-6.5	-1.4	-1.4	9.7	-2.4	8.6
Intermediate Goods	17.2	12.4	0.4	13.7	1.5	9.4	0.7
Infra/Construction Goods	12.3	-1.8	3.4	1.8	9.4	2.3	8.5
Consumer Goods	28.2	1.6	2.9	4.6	6.0	3.5	4.5
Consumer Durables	12.8	-5.5	-2.8	0.3	13.6	-1.1	8.0
Consumer Non-durables	15.3	7.8	7.8	8.1	0.2	7.3	1.9

Source: CSO, NSE

**Figure 4: Macro data charts**



Source: CSO, Ministry of Commerce, NSE

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