

CPI/IIP on a rise; temporary relief in trade deficit

Among the India macro data releases this month, we expect retail inflation (CPI) to inch up slightly to 3.4% in June (vs. Reuters poll: 3.2%), as the delay in onset of the summer monsoon (~28% below LPA in June) has led to an unseasonal spike in food prices. On the other hand, wholesale price inflation (WPI) is expected to inch lower to 2.0% in June (vs. Reuters poll: 2.4%), as the recent drop in fuel prices would more than offset the rise in food prices at the wholesale level. Industrial production, on the other hand, is likely to remain lacklustre at 2.8% in May (vs. Reuters poll: 3.2%), reflecting the current macro slowdown across the board. The monthly trade deficit is likely to narrow marginally to US\$14.0bn in June (vs. Reuters poll: US\$15.6bn), with some relief from falling imports, while exports would likely maintain their ~US\$29bn monthly run-rate.

With the recently announced Union Budget's clear alignment with the US\$5trn by 2025 objective, we believe that policy announcements such as increase in infra spending, focus on Make in India and a boost to rural development would have a significant impact on the economy. However, this is still a long-term growth story, and in the near-term we would continue to hope for rosier days. In light of recent developments, we expect the RBI to cut policy rates by another 25bps in the August 7 policy meet, with another 25bps cut later in the fiscal.

- **Retail inflation to inch higher:** With the monsoon season starting on a weak note (rainfall at ~28% below LPA for June), farmers have delayed sowing in June by two weeks or so, which has led to an unseasonal spike in food prices. Amidst these conditions, we expect CPI inflation to rise to 3.4% in June'19, 40bps higher than the previous month, as food, beverages, pan & tobacco account for ~48% of the inflation basket. Further, crude oil price fell to a 3-month low of US\$60.6/bbl on June 12, additionally lowering fuel inflation for the month. Core inflation (ex-food ex-fuel), on the other hand, is expected to rise by a mere 14bps in June on higher housing, health and education costs. Contrastingly, WPI inflation is expected to ease to 2.0% in June (from 2.5% in May), as the impact of lower prices of non-food articles, fuel & power and manufacturing will outweigh the marginal rise in food prices at the wholesale level. And finally, with the rains showing some positive signs of a pick-up in July (at ~28% above LPA in July so far), some relief on food prices could reduce inflation levels in the coming months.
- **Industrial production remains lacklustre:** Industrial production is expected to remain weak at 2.8% YoY in May vs. 3.4% in the previous month, as mining activity is likely to witness a setback as we approach the monsoon months. Further, with a structural slowdown visible across segments, especially in the weak auto sales numbers reported by SIAM, we do not expect manufacturing production (est. 2.5% in May vs. 2.8% in April) to see any meaningful uptick in the near-term.
- **Trade deficit to narrow marginally:** India's trade deficit is expected to narrow to US\$14.0bn in June, vs. US\$15.4bn in the previous month, as imports are likely to contract further to US\$43bn (est. -2.9%) on a drop in non-oil non-gold imports that have already been contracting for last seven months (7M average -2.6%). Exports on the other hand, are expected to remain largely unchanged at US\$29bn, as the weak domestic and global demand, ongoing trade war crisis and geopolitical risks will continue to remain an overhang on the demand for India's exports.
- **Way forward:** We believe the Union Budget's renewed focus on rural development, infra spending and the Make in India initiative are all positive signs towards encouraging private investment, consumption demand and industrial production. However, since these are long-term tools to raise India's growth output, the near-term picture still looks bleak with a slowdown across major high-frequency indicators such as auto sales, passenger traffic, credit growth, etc. And with the southwest monsoon having a disappointing start this year (12% below LPA thus far), we would continue to track (and remain cautious of) the rains this year; hopes of a normal monsoon would boost rural sentiments, keep inflation under control and lift the overall economy in general.

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

Figure 1: Consumer price inflation (%YoY) (Release data: July 12)

	Weight (%)	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
CPI		3.4	3.0	4.9	3.1	4.8
Food & Beverages	45.9	2.3	2.0	3.1	1.9	3.1
Pan, Tobacco & Intoxicants	2.4	4.2	3.9	8.1	4.1	8.0
Clothing & Footwear	6.5	1.6	1.8	5.6	1.8	5.4
Housing	10.1	5.7	4.8	8.4	5.1	8.5
Fuel & Light	6.8	1.8	2.5	7.2	2.3	6.1
Miscellaneous	28.3	4.6	4.6	5.7	4.8	5.3

Source: CSO, NSE

Figure 2: Wholesale price inflation (%YoY) (Release data: July 15)

	Weight (%)	Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
WPI		2.0	2.5	5.7	2.5	4.7
Primary articles	22.6	6.5	6.2	4.7	6.4	3.7
Fuel & power	13.2	(0.6)	1.0	16.5	1.4	12.3
Manufactured products	64.2	1.0	1.3	4.2	1.3	3.8
Food group	24.4	5.3	5.1	1.6	5.1	1.2

Source: CSO, NSE

Figure 3: Industrial production (%YoY) (Release data: July 12)

	Weight (%)	May-19E	Apr-19	May-18	Apr-May'19	Apr-May'18
IIP		2.8	3.4	3.8	3.1	4.7
Sector-based indices						
Mining	14.4	3.9	5.1	5.8	4.4	5.5
Manufacturing	77.6	2.5	2.8	3.6	2.7	4.6
Electricity	8.0	3.1	6.0	4.2	4.5	4.7
Use-based Goods						
Primary Goods	34.0	1.9	5.2	5.7	3.5	5.1
Capital Goods	8.2	(1.9)	2.5	6.4	0.2	5.9
Intermediate Goods	17.2	0.6	1.0	0.1	0.8	0.6
Infra/Construction Goods	12.3	6.9	1.7	7.6	4.3	7.5
Consumer Goods	28.2	6.6	4.0	1.9	5.3	5.0
Consumer Durables	12.8	(1.9)	2.4	6.7	0.2	6.7
Consumer Non-durables	15.3	7.8	5.2	(1.6)	6.5	3.7

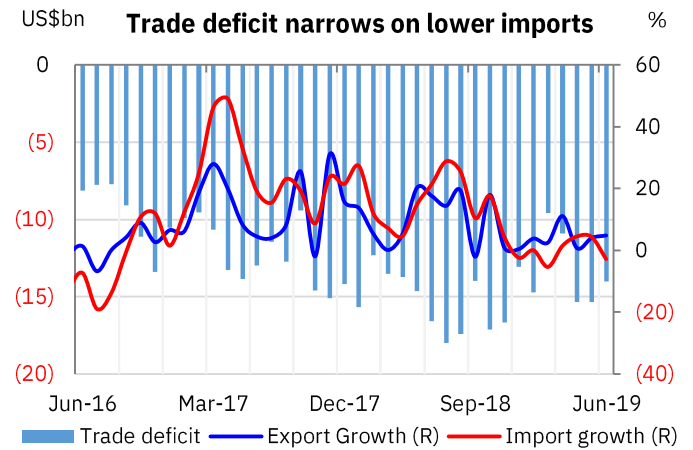
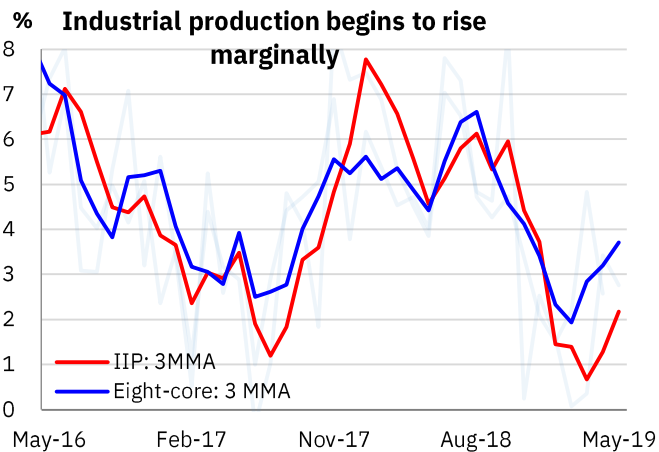
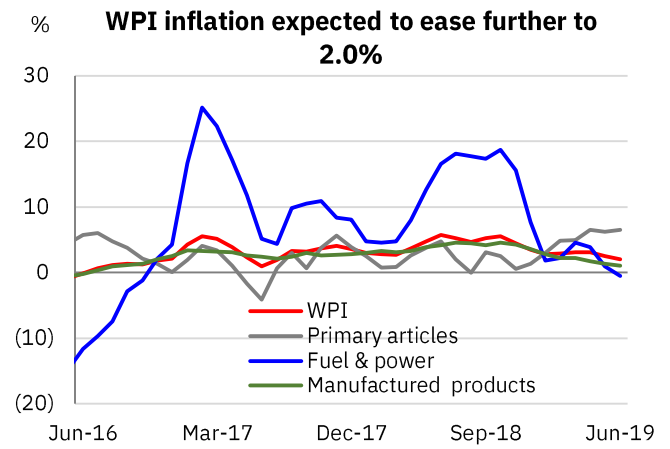
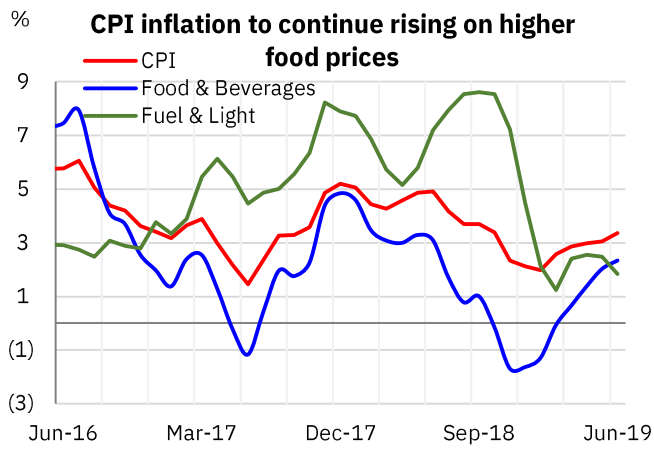
Source: CSO, NSE

Figure 4: Trade balance

		Jun-19E	May-19	Jun-18	Apr-Jun'19	Apr-Jun'18
Exports	US\$ bn	29.0	30.0	27.7	85.1	82.5
	%YoY	4.7	3.9	17.6	3.2	14.2
Imports	US\$ bn	43.0	45.4	44.3	129.8	127.4
	%YoY	(2.9)	4.3	21.3	1.9	13.5
Trade balance	US\$ bn	(14.0)	(15.4)	(16.6)	(44.7)	(44.9)

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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