

Macro data for April/May likely to be muted

Among the India macro data releases this month, we expect retail inflation (CPI) to remain largely unchanged from 2.9% in Apr'19 to 2.8% in May'19 (vs. Reuters poll: 3.0%), as the impact of lower crude and decline in consumption would offset the slight uptick in food prices. Similarly, wholesale inflation (WPI) is also projected to ease slightly to 2.8% in May'19 (vs. Reuters poll: 3.1%) from 3.1% in Apr'19. The weak aggregate demand is visible in the industrial production numbers as well, with Apr'19 IIP expected to come at a mere 1.8% (vs. Reuters poll: 0.8%), as manufacturing activity continues to worsen. And trade deficit is expected to deteriorate further to US\$16.2bn in May'19 (vs. Reuters poll: US\$15.8bn), as the slowdown in global growth and the ongoing trade war crisis have impacted exports globally, with India no exception.

On the whole, the macro picture could be rosier. This was also evident with the recent FY19 GDP print coming in at a 5-year low, and the RBI lowering its FY20 GDP target from 7.2% to 7.0%. While we remain comfortable on the current inflation level (i.e., within RBI's target band of 4+/-2%), weakening exports and lacklustre production levels remain a major concern for now.

- **Inflation to remain largely unchanged:** With the monsoon season only a month away, food prices have begun to pick up slowly. The sharp drop in crude oil prices (-11%), however, has offset this rise in food prices for May, which has led retail inflation to remain largely unchanged at 2.8% YoY. Similarly, WPI inflation is also expected to be marginally lower at 2.8% in May'19 from 3.1% in Apr'19, as the impact of both lower fuel prices and manufacturing inflation have a significant on the headline print. Going forward, risks around baseline inflation mainly emanate from uncertainties relating to the monsoon: While the IMD recently projected a normal monsoon season, the weak *El-Nino* conditions could lead to an unseasonal spike in vegetable prices, posing risks to the biggest component (~45%) of the inflation basket, food & beverages.
- **Industrial production remains lacklustre:** Industrial production is expected to remain weak at 1.8% YoY in May (6M average of 2.1%), as mining activity is likely to witness a setback as we approach the monsoon months. Further, with a structural slowdown visible across segments; auto sales have had a steep fall with large manufacturers now cutting down the number of production days in a month (e.g., Maruti has cut production by 18% in May¹), we do not expect production levels to see any meaningful uptick in the near-term.
- **Trade deficit to worsen further:** India's trade deficit is expected to widen further to US\$16.2bn in May, as exports are likely to contract by 3.9% due to the ongoing trade crisis, geopolitical risks, and an overall slowdown in both domestic and foreign demand. Additionally, imports are expected to grow by a mere 1.0% to US\$41.bn, as the aggregate slowdown in demand would likely lead to a further dip in non-oil non-gold imports that has already been contracting for last six months (6M average -2.8%).
- **Way forward:** With indicators such as electricity consumption, two-wheeler sales, commercial vehicle sales, tractor sales, airline passenger traffic, foreign tourist arrivals, railway freight traffic and overall credit growth showing signs of weakness in the economy, we are not surprised that the above macro indicators are also pointing in the same direction. This trend has also been reiterated by the IMF and RBI lowering their FY20 GDP estimate for India. We believe this slowdown is likely to continue in the near to medium-term, and major policy changes to boost both consumption and private investment would be essential to engender a steady growth revival.

¹ https://www.business-standard.com/article/pti-stories/maruti-cuts-vehicle-production-by-18-per-cent-in-may-119061000542_1.html

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

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

	Weight (%)	May-19E	Apr-19	May-18	Apr-May'19
CPI		2.8	2.9	4.9	2.9
Food & Beverages	45.9	1.5	1.4	3.3	1.5
Pan, Tobacco & Intoxicants	2.4	4.1	4.3	8.0	4.2
Clothing & Footwear	6.5	1.7	2.0	5.5	1.8
Housing	10.1	4.9	4.8	8.4	4.8
Fuel & Light	6.8	2.5	2.6	5.8	2.5
Miscellaneous	28.3	4.8	5.1	5.4	5.0

Source: CSO, NSE

Figure 2: Wholesale price inflation (%YoY) (Release data: June 14)

	Weight (%)	May-19E	Apr-19	May-18	Apr-May'19
WPI		2.8	3.1	4.8	2.9
Primary articles	22.6	6.6	6.5	3.8	6.6
Fuel & power	13.2	0.5	3.8	12.7	2.2
Manufactured products	64.2	1.2	1.7	3.8	1.5
Food group	24.4	5.6	4.9	1.2	5.3

Source: CSO, NSE

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

	Weight (%)	Apr-19E	Mar-19	Apr-18
IIP		1.8	(0.1)	4.5
Sectoral indices	Mining	14.4	2.3	0.8
	Manufacturing	77.6	1.5	(0.4)
	Electricity	8.0	3.4	2.2
Use-based Goods	Primary Goods	34.0	3.6	2.5
	Capital Goods	8.2	(5.7)	(8.7)
	Intermediate Goods	17.2	1.1	(2.5)
	Infra/Construction Goods	12.3	6.9	6.4
	Consumer Goods	28.2	7.5	(2.0)
	Consumer Durables	12.8	1.0	(5.1)
	Consumer Non-durables	15.3	6.8	0.3

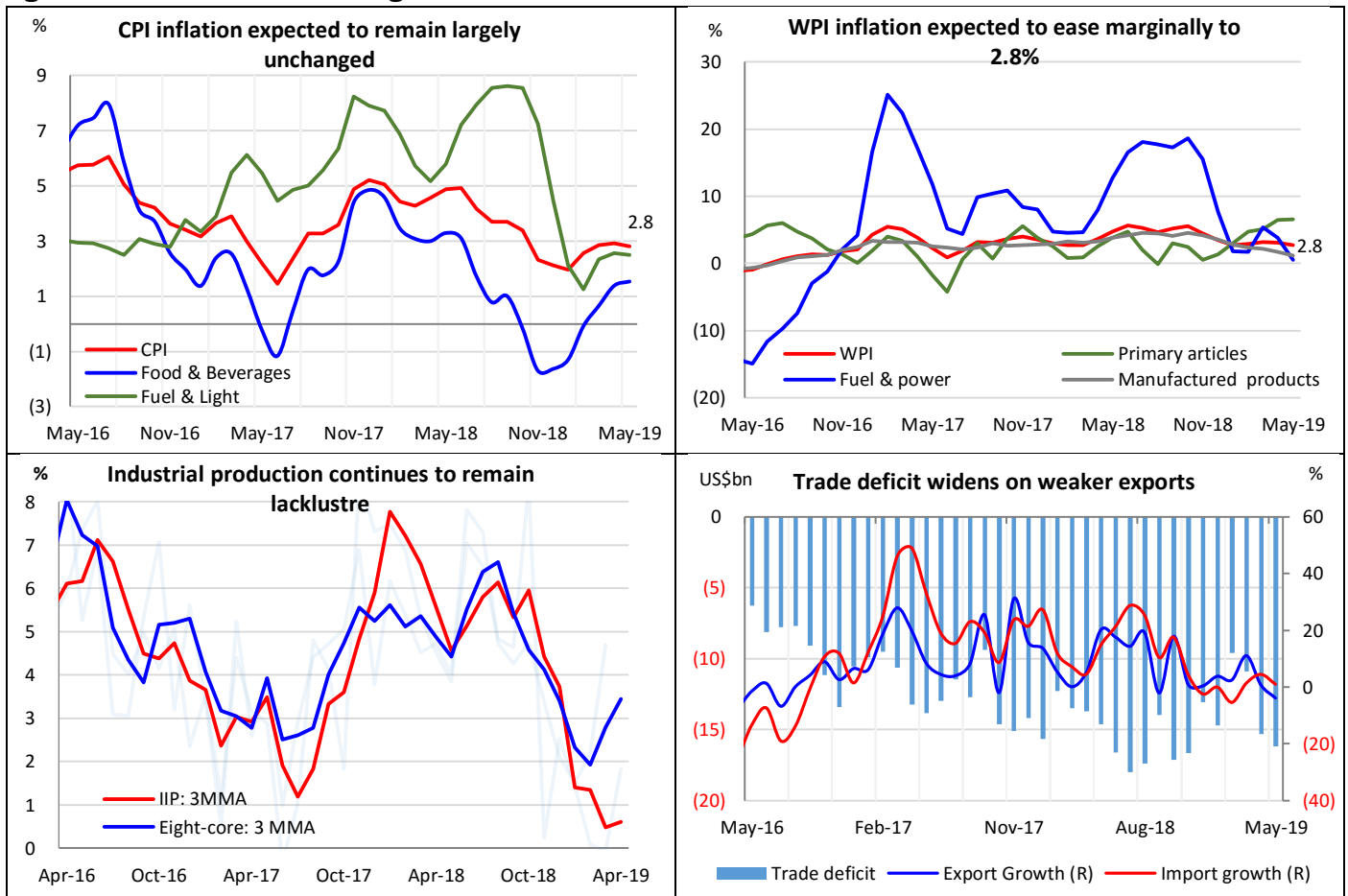
Source: CSO, NSE

Figure 4: Trade balance

		May-19E	Apr-19	May-18	Apr-May'19
Exports	USD bn	27.7	26.1	28.9	53.8
	%YoY	(3.9)	0.6	20.2	(1.8)
Imports	Total (USD bn)	43.9	41.4	43.5	85.3
	%YoY	1.0	4.5	14.9	2.6
Trade balance	USD bn	(16.2)	(15.3)	(14.6)	(31.5)

Source: Ministry of Commerce, NSE

*E- NSE estimates

Figure 5: Macro data charts along with the NSE estimates


Source: CSO, Ministry of Commerce, NSE

Economic Policy & Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Saloni Agarwal, CFA	sagarwal@nse.co.in	+91-22-26598163
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163
Prerna Singhvi	psinghvi@nse.co.in	+91-22-26598163

Disclaimer

This report is intended solely for information purposes. This report is under no circumstances intended to be used or considered as financial or investment advice, a recommendation or an offer to sell, or a solicitation of any offer to buy any securities or other form of financial asset. The Report has been prepared on best effort basis, relying upon information obtained from various sources, but we do not guarantee the completeness, accuracy, timeliness or projections of future conditions provided herein from the use of the said information. In no event, NSE, or any of its officers, directors, employees, affiliates or other agents are responsible for any loss or damage arising out of this report. All investments are subject to risk, which should be considered prior to making any investment decisions. Consult your personal investment advisers before making an investment decision.