

## India Watch

## Feb CPI unchanged at 5.1%, Jan IIP down to 3.8%

**Feb CPI inflation unchanged at 5.1%, core fell further**

CPI inflation in Feb was unchanged at 5.1% yoy. This was in line with consensus' estimate but lower than our 5.5% yoy forecast. An unfavorable base effect in daily food price proxy did not reflect in the actual CPI number, causing this miss. Sequentially, the index rose by 0.16%, in line with median m-o-m increase of 0.18% typical of Feb. Category-wise data showed that higher inflation in vegetables and poultry was offset by fruits, condiments and a broad-based softening in miscellaneous CPI inflation (Exhibit 3). Core CPI continued to disinflate. Headline minus food and fuel fell further by 15bp to 3.37% yoy in Feb from 3.53% yoy in Jan. Our preferred core-core measure went below 3%, falling by 17bp vs Jan to 2.89% yoy (Exhibit 2). Food price data so far shows largely unchanged trends (Exhibit 4). Accordingly we expect Mar CPI inflation to come in at 5-5.1% yoy. FY24 CPI inflation is thus seen averaging at 5.4% yoy, in line with our and RBI's forecast (Exhibit 1). Exhibit 5 shows that contribution of food to overall CPI inched up while that of miscellaneous category and fuel & light moderated a shade. Stickiness in food inflation, particularly vegetables, continues to be a key risk to monitor. Lastly, while services CPI inflation softened further to 3.1% yoy in Feb from 3.3% yoy in Jan, goods CPI inflation was largely unchanged at 5.7% yoy (Exhibit 6).

**Jan IIP growth slowed to 3.8% yoy**

Industrial production growth slowed to 3.8% yoy in Jan from an upward revised 4.2% yoy in Dec (Exhibit 7). FY24 Apr-Jan IIP growth now stands at 6% yoy. Sequentially, the index grew by 0.6% vs a median m-o-m of 0.4% typical of Jan. Sector-wise data shows that despite improved growth rate seen in both mining and electricity generation, slower growth in manufacturing dragged down headline (Exhibit 8). 8/23 industries in the manufacturing segment saw slower yoy growth in Jan vs Dec. On the use-based side, the narrative was mixed. While primary goods, construction goods and consumer non-durables saw growth rate slowing in Jan Vs Dec, for capital goods, infrastructure goods and consumer durables, reverse was true (Exhibit 9). Jan IIP data though slowed in yoy terms (in line with expectations), the sequential outperformance reinforces [improved activity momentum seen in some other high frequency indicators](#).

**See RBI MPC continue to hold until 4% CPI target locked**

In the [Feb RBI MPC meeting](#), it became clear that, the stance would change to neutral from current withdrawal of accommodation once transmission of the hiking cycle (250bp) is complete and 4% CPI target is achieved. As RBI MPC sees 2QFY25 CPI inflation average at 4%, we expect the change in stance in June followed by a policy rate cut in 2HFY25 (total of 50bp cut in FY25). Since the Feb meeting, liquidity conditions have started to ease, with government spending picking up, aiding the move to bring overnight rate closer to policy repo rate. Minutes of the Feb policy meeting indicated that most members are in wait & watch mode, barring one. Generalization of elevated food inflation, distance from 4% CPI target & incomplete transmission of hikes are key concerns to monitor.

13 March 2024

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[See Team Page for List of Analysts](#)**Glossary**

RBI: Reserve Bank of India  
MPC: Monetary Policy Committee  
CPI: Consumer Price Index  
IIP: Index of Industrial production  
GDP: Gross Domestic Product

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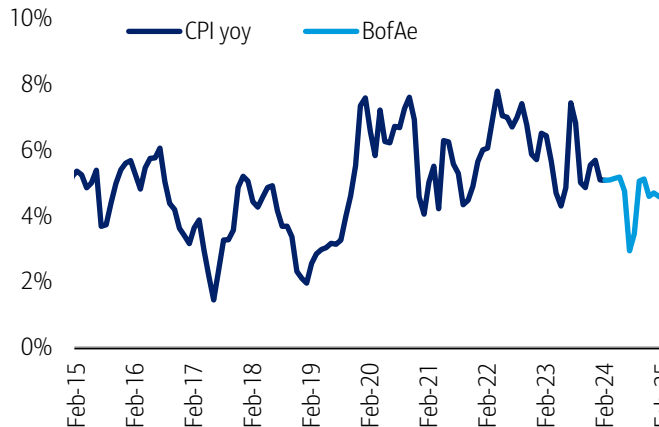
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Timestamp: 12 March 2024 05:00PM EDT

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## Exhibit 1: Headline CPI yoy: Path ahead (in % yoy)

Feb CPI inflation was unchanged at 5.1% yoy, see FY24 CPI inflation average at 5.4% yoy

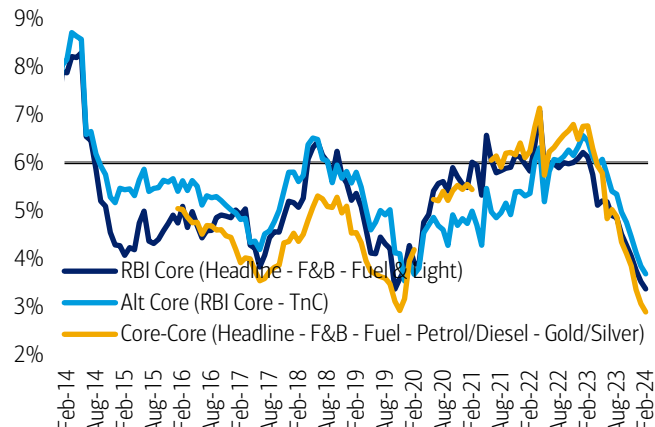


Source: MOSPI

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## Exhibit 2: Core CPI yoy: Multiple measures (in %)

All measures of core softened in Feb vs Jan. Headline minus food & fuel moderated by 15bp to 3.37% & core-core fell by 17bp to 2.89% yoy



Source: MOSPI

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## Exhibit 3: CPI inflation: component wise performance

While vegetables and poultry added sizably to headline, fruits, condiments and miscellaneous help offset that increase

Key items	Weight	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
<b>CPI</b>	<b>100.0</b>	-1.1%	0.7%	0.5%	-0.3%	-0.1%	0.2%	5.02%	4.87%	5.55%	5.69%	5.10%	5.09%
Food and Beverage	45.9	-1.8%	1.0%	0.9%	-0.7%	-0.6%	0.1%	6.3%	6.3%	8.0%	8.7%	7.6%	7.76%
Cereals & products	9.7	1.2%	0.8%	0.9%	0.8%	0.8%	0.5%	10.9%	10.7%	10.3%	9.9%	7.8%	7.60%
Meat & fish	3.6	1.7%	0.0%	-1.7%	-1.3%	0.9%	2.3%	4.1%	3.3%	2.2%	1.1%	1.2%	5.21%
Eggs	0.4	2.4%	3.4%	2.8%	3.3%	3.5%	-1.2%	6.5%	9.3%	5.9%	4.4%	5.6%	10.69%
Milk & products	6.6	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	7.0%	6.4%	5.7%	5.1%	4.6%	3.86%
Oils and fats	3.6	-0.4%	-0.8%	-0.3%	-0.1%	-0.7%	-0.6%	-14.0%	-13.7%	-15.1%	-15.0%	-15.0%	-13.97%
Fruits	2.9	-1.1%	0.7%	-0.4%	-1.6%	-2.0%	-0.3%	7.3%	9.3%	11.0%	11.1%	8.7%	4.83%
Vegetables	6.0	-15.7%	3.5%	5.0%	-5.3%	-4.2%	-0.1%	3.4%	2.8%	17.7%	27.6%	27.0%	30.25%
Pulses & products	2.4	4.1%	2.6%	1.6%	0.5%	-0.9%	-0.8%	16.3%	18.8%	20.3%	20.7%	19.5%	18.90%
Sugar	1.4	1.4%	1.1%	1.2%	0.4%	-0.3%	-0.5%	4.6%	5.5%	6.6%	7.2%	7.5%	7.48%
Condiments & spices	2.5	1.8%	1.0%	0.4%	-0.3%	-1.3%	-1.9%	23.1%	22.7%	21.5%	19.7%	16.4%	13.51%
Non-alcoholic bev	1.3	0.2%	0.3%	0.3%	0.1%	0.2%	-0.1%	3.5%	3.5%	3.6%	3.3%	3.3%	2.97%
Prepared meals	5.6	0.3%	0.3%	0.2%	0.3%	0.4%	0.3%	5.0%	4.7%	4.2%	4.1%	4.0%	3.69%
Pan, Tobacco and Intoxicants	2.4	0.2%	0.2%	0.2%	0.0%	0.1%	0.2%	3.9%	3.9%	3.8%	3.6%	3.3%	3.12%
Clothing & footwear	6.5	0.2%	0.4%	0.2%	0.2%	0.2%	0.2%	4.6%	4.3%	3.9%	3.6%	3.4%	3.14%
Clothing	5.6	0.2%	0.4%	0.3%	0.2%	0.2%	0.1%	4.6%	4.5%	4.0%	3.8%	3.4%	3.18%
Footwear	1.0	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	4.1%	3.6%	3.3%	3.1%	2.9%	2.64%
Housing	10.1	-0.1%	0.9%	0.1%	-0.6%	0.4%	0.5%	4.0%	3.8%	3.6%	3.6%	3.2%	2.88%
Fuel & Light	6.8	-3.9%	0.3%	0.1%	0.2%	0.4%	-0.1%	-0.1%	-0.4%	-0.8%	-1.0%	-0.6%	-0.77%
Miscellaneous	28.3	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	4.8%	4.5%	4.4%	4.1%	3.8%	3.57%
Household requisites	3.8	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	4.3%	3.9%	3.5%	3.4%	3.1%	2.82%
Medical Care	5.9	0.3%	0.5%	0.3%	0.3%	0.4%	0.3%	5.9%	5.9%	5.5%	5.1%	4.8%	4.53%
Transport & Comm	8.6	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	2.3%	2.0%	2.1%	2.0%	2.0%	1.83%
Rec & Amusement	1.7	0.2%	0.2%	0.1%	0.2%	0.2%	0.1%	3.4%	3.3%	3.1%	3.1%	2.9%	2.71%
Education	4.5	0.3%	0.0%	0.1%	0.1%	0.2%	0.1%	5.3%	5.1%	5.0%	4.8%	4.9%	4.81%
Personal care	3.9	0.2%	0.1%	0.9%	0.7%	0.3%	0.1%	8.5%	7.8%	7.8%	7.3%	5.9%	5.23%

Source: MOSPI

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**Exhibit 4: Tracking Mar CPI at 5.1% yoy with vegetable inflation still elevated**

Vegetable prices have not corrected meaningfully. Overall stickiness in food inflation is an important concern to watch

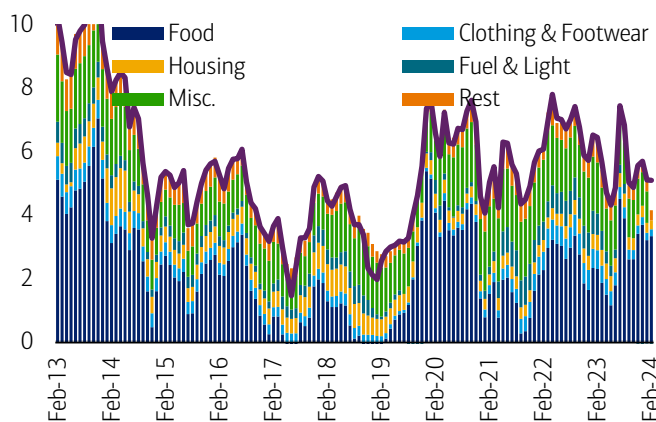
Retail food price inflation (yoy)	Wt. in CPI	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24 (Until 11th)
Cereals	7.1	12.5	8.0	5.8	5.9	4.6	8.1	8.4	8.9	8.1	8.5	10.0	9.9	8.5	12.5	13.3
Rice	4.4	8.5	8.1	8.5	9.5	8.9	9.1	10.2	11.0	10.0	10.8	12.8	13.5	13.5	13.6	12.8
Wheat	2.6	18.7	7.5	1.2	-0.2	-2.3	6.3	5.6	5.7	5.2	5.0	5.7	4.5	1.0	10.6	14.1
Atta	0.1	21.3	11.6	6.9	6.3	2.4	8.8	7.6	6.3	4.7	4.7	5.4	5.0	2.5	10.1	12.4
Pulses inflation	2.0	2.9	2.9	4.3	6.5	8.4	10.6	12.6	12.0	15.5	17.6	20.4	21.6	19.7	19.3	17.9
Gram dal	0.3	-2.6	-2.5	-2.1	0.1	0.8	1.2	1.8	3.7	9.1	10.7	13.1	15.4	13.8	14.4	14.0
Tur/Arhar dal	0.8	8.7	9.5	11.0	14.4	18.9	23.0	27.1	24.6	30.3	34.1	37.5	38.3	34.8	32.7	29.9
Urad dal	0.3	0.9	0.8	2.5	4.0	5.2	7.1	7.7	6.7	7.4	8.2	12.4	14.5	14.1	15.2	14.9
Moong dal	0.3	2.2	2.2	3.4	5.3	6.1	7.2	8.1	9.0	10.0	10.9	12.1	13.2	11.5	11.3	10.4
Masoor dal	0.3	-3.5	-5.3	-3.6	-3.2	-4.6	-4.5	-4.9	-5.0	-3.2	-3.0	-1.3	-0.9	-0.4	0.8	0.2
Oilseeds inflation	3.0	-4.6	-7.2	-15.0	-17.4	-20.6	-14.8	-13.9	-12.6	-11.1	-12.3	-13.4	-12.1	-11.6	-9.8	-7.3
Groundnut oil	0.3	3.9	8.2	3.5	1.6	1.6	1.7	2.2	2.0	2.4	1.0	1.5	2.2	1.5	0.2	-0.3
Mustard oil	1.3	-11.4	-15.5	-17.2	-17.7	-20.2	-13.9	-13.1	-12.4	-11.1	-11.8	-12.9	-12.2	-11.7	-9.5	-6.6
Vanaspati	0.1	-0.5	-5.7	-13.3	-16.9	-20.1	-20.3	-17.0	-15.1	-13.9	-14.0	-12.5	-9.0	-9.6	-8.1	-7.1
Soyaoil	0.4	1.2	-3.7	-13.6	-17.0	-20.5	-17.6	-15.3	-13.8	-13.0	-15.3	-17.4	-15.5	-14.7	-13.1	-11.1
Sunflower	0.8	1.0	0.5	-17.9	-22.7	-27.6	-19.1	-18.8	-16.8	-14.3	-16.0	-17.3	-15.4	-14.4	-12.2	-9.1
Palm oil	0.0	-12.4	-19.0	-26.1	-29.0	-31.0	-24.9	-20.9	-18.1	-11.2	-10.7	-10.4	-9.8	-7.8	-8.5	-7.5
Vegetables inflation	2.2	-7.2	-16.3	-10.4	-10.3	-26.5	-20.6	51.0	46.8	-0.5	-12.3	31.3	41.8	21.8	25.5	29.7
Potato	1.0	10.8	-2.6	-8.8	-7.2	-13.6	-17.7	-12.3	-12.9	-12.4	-19.3	-10.4	-1.8	1.5	9.5	19.0
Onion	0.6	-21.4	-32.6	-18.6	-5.2	-6.7	-7.0	4.0	14.5	29.8	20.4	97.9	91.1	41.0	36.5	41.8
Tomato	0.6	-9.3	-4.8	2.0	-21.8	-53.5	-34.7	218.9	193.7	-11.5	-36.6	16.4	55.5	30.3	38.8	30.6
Sugar	1.1	1.5	1.6	1.7	2.6	1.9	2.5	3.0	1.9	2.2	3.0	4.5	7.1	6.4	6.7	6.2
Gur	0.1	0.1	-0.2	1.0	2.3	1.9	3.9	4.6	4.0	2.9	2.0	4.9	9.6	8.3	9.1	7.9
Milk	6.4	11.1	11.9	11.9	10.2	10.2	9.7	10.3	10.2	7.3	5.5	4.8	5.6	4.6	4.4	3.9
Tea loose	1.0	-4.0	-3.9	-3.9	-1.9	-2.6	-3.0	-2.1	-0.7	-1.8	-1.2	-0.6	1.3	1.7	2.5	1.8
Salt pack	1.4	15.0	16.5	13.7	14.2	12.1	11.8	10.7	10.3	4.5	3.0	3.9	5.2	4.8	2.8	3.2
<b>Total/ Weighted Avg.</b>	<b>24.3</b>	<b>5.8</b>	<b>3.4</b>	<b>2.3</b>	<b>1.8</b>	<b>-1.0</b>	<b>1.7</b>	<b>9.9</b>	<b>9.9</b>	<b>4.5</b>	<b>2.7</b>	<b>7.9</b>	<b>9.2</b>	<b>6.5</b>	<b>8.2</b>	<b>8.8</b>

Source: DCA

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**Exhibit 5: % point contribution to headline CPI**

While contribution from food rose, that from fuel & light and misc fell

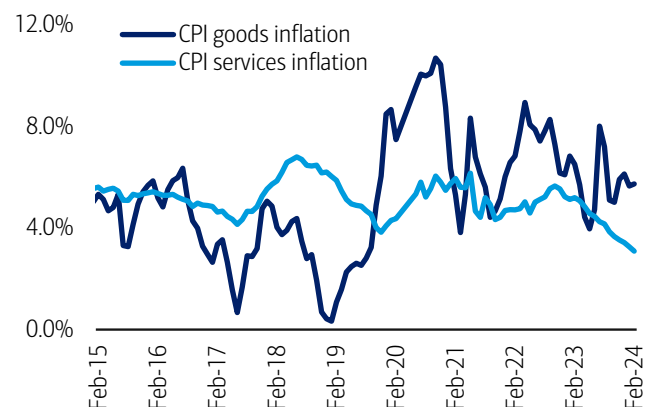


Source: MOSPI, CEIC

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**Exhibit 6: CPI goods and services inflation (yoy, monthly)**

Services CPI inflation softened further to 5.1% yoy in Feb, goods CPI inflation was unchanged at 5.7% yoy

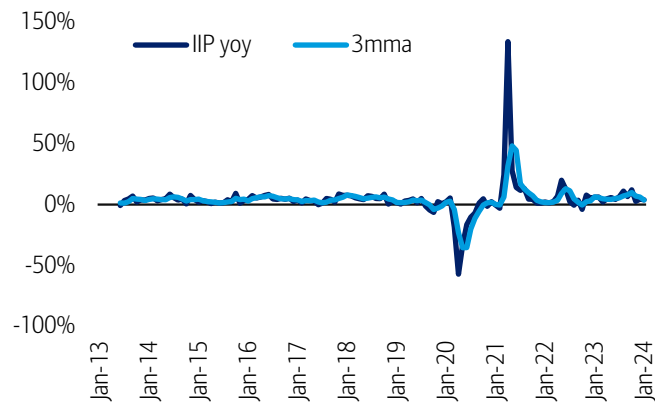


Source: CEIC

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**Exhibit 7: Industrial production growth, monthly**

IIP growth slowed to 3.8% yoy in Jan from an upward revised 4.2% yoy in Dec. Sequentially, the index rose by 0.6% vs a median m-o-m of 0.4%



Source: MOSPI

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**Exhibit 8: Sector-wise IIP growth (in % yoy)**

Even as mining and electricity generation saw higher growth in Jan vs Dec, slower growth in manufacturing dragged down headline

	Mining	Manufacturing	Electricity	IIP
Weights	14.4	77.6	8	100
FY20	1.5	-1.2	1.1	-0.6
FY21	-8.1	-9.2	0.1	-8.2
FY22	20.9	38.1	12.2	29.3
FY23	5.7	5	9.2	5.5
Jun-23	7.8	12.9	16.4	12.6
Jul-23	-3.3	3.1	2.3	2.2
Aug-23	-3.9	-0.5	1.4	-0.7
Sep-23	5.2	2.2	11.6	3.5
Oct-23	2.5	-5.9	1.2	-4.2
Nov-23	9.7	6.1	12.7	7.1
Dec-23	10.1	3.6	10.4	5.1
Jan-23	9	4.5	12.7	5.8
Feb-23	4.8	5.9	8.2	6
Mar-23	6.8	1.5	-1.6	1.9
FY24TD	8.5	5.5	7.0	6.0
Apr-23	5.1	5.5	-1.1	4.6
May-23	6.4	6.3	0.9	5.7
Jun-23	7.6	3.5	4.2	4.0
Jul-23	10.7	5.3	8.0	6.2
Aug-23	12.3	10.0	15.3	10.9
Sep-23	11.5	5.1	9.9	6.4
Oct-23	13.1	10.6	20.4	11.9
Nov-23	7.0	1.2	5.8	2.4
Dec-23	5.2	4.5	1.2	4.2
Jan-24	5.9	3.2	5.6	3.8

Source: MOSPI

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**Exhibit 9: Use based classification (in % yoy)**

While primary goods, construction goods and consumer non-durables saw slower growth rate in Jan vs Dec, capital goods, infrastructure goods & consumer durables saw improved rate of growth

	IIP yoy	Primary goods	Capital goods	Intermediate goods	Infra/construction goods	Consumer durable	Consumer non-durable
Wts	100	34	8.2	17.2	12.3	12.8	15.3
FY20	-0.6	0.8	-13.4	9.7	-3.4	-8.6	0.2
FY21	-8.2	-7	-16.7	-9.7	-8.1	-12.2	-1.7
FY22	18	10.5	98.6	28.3	62.1	157.7	7.1
FY23	5.5	7.6	14.3	4.1	8.5	3.3	0.7
FY24TD	6.0	6.6	7.0	4.8	10.2	2.2	5.0
Apr-23	4.6	1.9	4.4	1.7	13.4	-2.3	11.4
May-23	5.7	3.6	8.1	3.4	13.0	1.5	8.9
Jun-23	4.0	5.3	2.9	5.2	13.3	-6.8	0.5
Jul-23	6.2	7.7	5.1	3.2	12.6	-3.6	8.3
Aug-23	10.9	12.4	13.1	7.4	15.7	6.0	9.9
Sep-23	6.4	8.0	8.4	6.1	10.1	1.0	2.7
Oct-23	11.9	11.4	21.7	9.5	12.6	15.9	9.3
Nov-23	2.4	8.5	-1.1	3.1	1.7	-5.5	-3.3
Dec-23	4.2	4.8	3.6	3.9	5.1	5.3	2.4
Jan-24	3.8	2.9	4.1	4.8	4.6	10.9	-0.3

Source: MOSPI

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