

India Watch

Jan CPI softened to 5.1%, Dec IIP rose by 3.8%

Jan CPI inflation softened to 5.1%, core fell further

CPI inflation in Jan softened to 5.1% yoy from 5.69% yoy in Dec (Exhibit 1). This was in line with our estimate but a shade higher than consensus' forecast of 5% yoy. Of the 59bp moderation in headline, 50bp was on account of food disinflation, where lower inflation in cereals made for 35% of the overall softening (Exhibit 3). Sequentially CPI fell by 0.11%, in line with median m-o-m of -0.10% typical of Jan. Core CPI continued to fall further, coming in at 3.53% yoy (down 23bp vs Dec). Our preferred core-core CPI inflation also moderated by 29bp, coming in at 3.07% yoy in Jan (Exhibit 2). Early data for Feb so far, shows higher inflation in both cereals and vegetables (Exhibit 4). Accordingly, we are tracking Feb'24 CPI at 5.4% yoy. Exhibit 6 shows that sizable part of overall disinflation was led by goods, which moderated to 5.6% yoy in Jan from 6.1% yoy in Dec. Services CPI inflation was lower by 10bp to 3.3% yoy in Jan.

Dec IIP growth improved to 3.8% yoy, beating expectation

Industrial production growth improved to 3.8% yoy in Dec from 2.4% yoy in Nov (Exhibit 7), beating our (2%) and consensus' estimates of 2.5% yoy. Not just in yoy terms, sequentially too, the index rose by 7.4%, much better than the 6.2% m-o-m typical of Dec. Sector-wise data showed that both mining and electricity saw slower growth in Dec vs Nov, shaving off 60bp from headline (Exhibit 8). Despite that, sharp improvement in manufacturing IIP growth more than offset the fall in former. 19/23 industries within manufacturing sector saw higher growth rate in Dec vs Nov. On the use-based side, barring primary goods all other sub-categories saw improved in Dec vs Nov (Exhibit 9), with consumer goods taking the lead (durables followed by non-durables). Apr-Dec FY24 IIP growth has averaged at 6.2% yoy, up from 5.5% yoy seen in FY23.

No big inflation surprises to keep RBI MPC on hold still

In the [Feb RBI MPC meeting](#), three things stood out to us, 1) 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. 2) RBI could be overestimating real GDP growth (at 7% yoy, BofAe 5.8% yoy); incoming data may warrant a downward revision in due course. 3) Liquidity conditions are endogenous to the system and would ease out autonomously, RBI is in no rush to ease liquidity through policy measures but would actively manage it in order to bring overnight rate closer to policy repo rate.

The governor offered clarity on what the current stance means as he remarked "our policy stance is in terms of interest rate which is the principal tool of monetary policy in the current framework. Our stance should be seen in the context of incomplete transmission and inflation ruling above the target of 4% and our efforts to bring it back to the target on a durable basis." Basis this and the CPI and IIP numbers, we believe that the RBI MPC is in no rush to change stance and/or cut rates. Barring any big surprise, we see monetary easing only in 2HFY25.

12 February 2024

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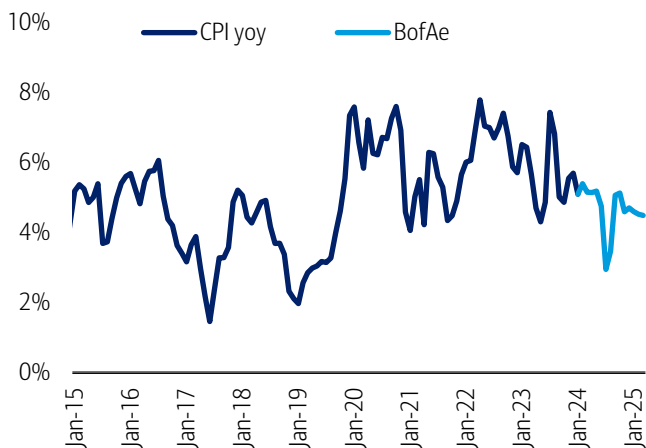
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Exhibit 1: Headline CPI yoy: Path ahead (in % yoy)

Jan CPI inflation softened to 5.1% yoy, in line with estimate

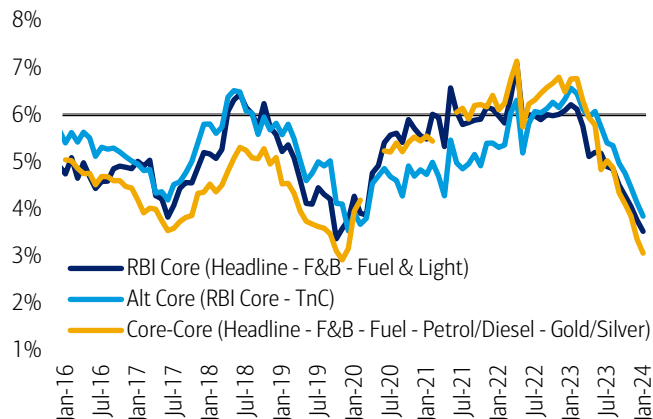


Source: MOSPI

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

All measures of core softened in Jan vs Dec. Headline minus food & fuel moderated by 23bp to 3.53% & core-core fell by 29bp to 3.07% yoy



Source: MOSPI

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Exhibit 3: CPI inflation: component wise performance

Of the 59bp moderation in headline CPI, 50bp was driven by lower food inflation. Cereals disinflation shaved off 20bp from headline

Key items	Weight	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
CPI	100.0	-0.1%	-1.1%	0.7%	0.5%	-0.3%	-0.1%	6.83%	5.02%	4.87%	5.55%	5.69%	5.10%
Food and Beverage	45.9	-0.5%	-1.8%	1.0%	0.9%	-0.7%	-0.6%	9.2%	6.3%	6.3%	8.0%	8.7%	7.6%
Cereals & products	9.7	1.4%	1.2%	0.8%	0.9%	0.8%	0.8%	11.9%	10.9%	10.7%	10.3%	9.9%	7.8%
Meat & fish	3.6	-1.7%	1.7%	0.0%	-1.7%	-1.3%	0.9%	3.7%	4.1%	3.3%	2.2%	1.1%	1.2%
Eggs	0.4	-3.0%	2.4%	3.4%	2.8%	3.3%	3.5%	4.3%	6.5%	9.3%	5.9%	4.4%	5.6%
Milk & products	6.6	0.4%	0.2%	0.2%	0.2%	0.1%	0.2%	7.8%	7.0%	6.4%	5.7%	5.1%	4.6%
Oils and fats	3.6	0.0%	-0.4%	-0.8%	-0.3%	-0.1%	-0.7%	-15.3%	-14.0%	-13.7%	-15.1%	-15.0%	-15.0%
Fruits	2.9	0.1%	-1.1%	0.7%	-0.4%	-1.6%	-2.0%	4.0%	7.3%	9.3%	11.0%	11.1%	8.7%
Vegetables	6.0	-5.9%	-15.7%	3.5%	5.0%	-5.3%	-4.2%	26.1%	3.4%	2.8%	17.7%	27.6%	27.0%
Pulses & products	2.4	1.5%	4.1%	2.6%	1.6%	0.5%	-0.9%	13.0%	16.3%	18.8%	20.3%	20.7%	19.5%
Sugar	1.4	0.8%	1.4%	1.1%	1.2%	0.4%	-0.3%	3.8%	4.6%	5.5%	6.6%	7.2%	7.5%
Condiments & spices	2.5	3.2%	1.8%	1.0%	0.4%	-0.3%	-1.3%	23.2%	23.1%	22.7%	21.5%	19.7%	16.4%
Non-alcoholic bev	1.3	0.3%	0.2%	0.3%	0.3%	0.1%	0.2%	3.7%	3.5%	3.5%	3.6%	3.3%	3.3%
Prepared meals	5.6	0.5%	0.3%	0.3%	0.2%	0.3%	0.4%	5.3%	5.0%	4.7%	4.2%	4.1%	4.0%
Pan, Tobacco and Intoxicants	2.4	0.4%	0.2%	0.2%	0.2%	0.0%	0.1%	4.1%	3.9%	3.9%	3.8%	3.6%	3.3%
Clothing & footwear	6.5	0.2%	0.2%	0.4%	0.2%	0.2%	0.2%	5.2%	4.6%	4.3%	3.9%	3.6%	3.4%
Clothing	5.6	0.3%	0.2%	0.4%	0.3%	0.2%	0.2%	5.2%	4.6%	4.5%	4.0%	3.8%	3.4%
Footwear	1.0	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	4.8%	4.1%	3.6%	3.3%	3.1%	2.9%
Housing	10.1	0.6%	-0.1%	0.9%	0.1%	-0.6%	0.4%	4.4%	4.0%	3.8%	3.6%	3.6%	3.2%
Fuel & Light	6.8	0.2%	-3.9%	0.3%	0.1%	0.2%	0.4%	4.3%	-0.1%	-0.4%	-0.8%	-1.0%	-0.6%
Miscellaneous	28.3	0.3%	0.2%	0.2%	0.3%	0.2%	0.2%	4.9%	4.8%	4.5%	4.4%	4.1%	3.8%
Household requisites	3.8	0.3%	0.1%	0.2%	0.2%	0.3%	0.2%	4.8%	4.3%	3.9%	3.5%	3.4%	3.1%
Medical Care	5.9	0.4%	0.3%	0.5%	0.3%	0.3%	0.4%	6.2%	5.9%	5.9%	5.5%	5.1%	4.8%
Transport & Comm	8.6	0.2%	0.1%	0.1%	0.2%	0.1%	0.1%	2.5%	2.3%	2.0%	2.1%	2.0%	2.0%
Rec & Amusement	1.7	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	3.6%	3.4%	3.3%	3.1%	3.1%	2.9%
Education	4.5	0.4%	0.3%	0.0%	0.1%	0.1%	0.2%	5.5%	5.3%	5.1%	5.0%	4.8%	4.9%
Personal care	3.9	0.2%	0.2%	0.1%	0.9%	0.7%	0.3%	8.1%	8.5%	7.8%	7.8%	7.3%	5.9%

Source: MOSPI

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Exhibit 4: Tracking Feb CPI at 5.4% yoy with vegetable and cereals inflation rising further

Even as vegetable and pulses inflation softened in Jan vs Dec, it remains fairly concerning

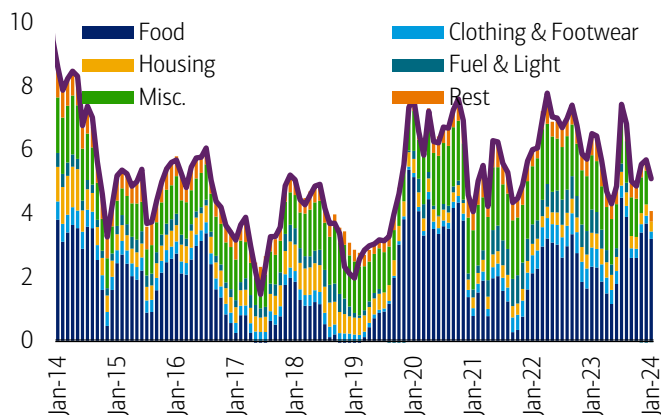
Retail food price inflation (yoy)	Wt. in CPI	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24 (Until 11th)
Cereals	7.1	9.9	12.5	8.0	5.8	5.9	4.6	8.1	8.4	8.9	8.1	8.5	10.0	9.9	8.5	12.3
Rice	4.4	6.9	8.5	8.1	8.5	9.5	8.9	9.1	10.2	11.0	10.0	10.8	12.8	13.5	13.5	13.3
Wheat	2.6	14.6	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
Atta	0.1	19.6	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
Pulses inflation	2.0	3.0	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	19.1
Gram dal	0.3	-4.0	-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	13.9
Tur/Arhar dal	0.8	8.9	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	32.6
Urad dal	0.3	0.7	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	14.9
Moong dal	0.3	1.3	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	11.1
Masoor dal	0.3	-1.8	-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
Oilseeds inflation	3.0	-3.3	-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	-9.7
Groundnut oil	0.3	4.2	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	0.3
Mustard oil	1.3	-9.3	-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	-9.4
Vanaspati	0.1	-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	-8.2
Soya oil	0.4	1.5	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
Sunflower	0.8	1.6	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	-12.0
Palm oil	0.0	-10.1	-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
Vegetables inflation	2.2	-20.7	-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	26.9
Potato	1.0	8.0	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	8.8
Onion	0.6	-24.8	-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	38.6
Tomato	0.6	-47.3	-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	43.4
Sugar	1.1	-0.1	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
Gur	0.1	-1.3	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	9.0
Milk	6.4	10.4	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	4.3
Tea loose	1.0	-3.9	-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	2.3
Salt pack	1.4	14.9	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	2.9
Total/ Weighted Avg.	24.3	3.1	5.8	3.4	2.3	1.8	-1.0	1.7	9.9	9.9	4.5	2.7	7.9	9.2	6.5	8.2

Source: DCA

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Exhibit 5: % point contribution to headline CPI

Fuel & light and misc saw higher contribution to headline in Jan vs dec, other categories saw tapering contribution

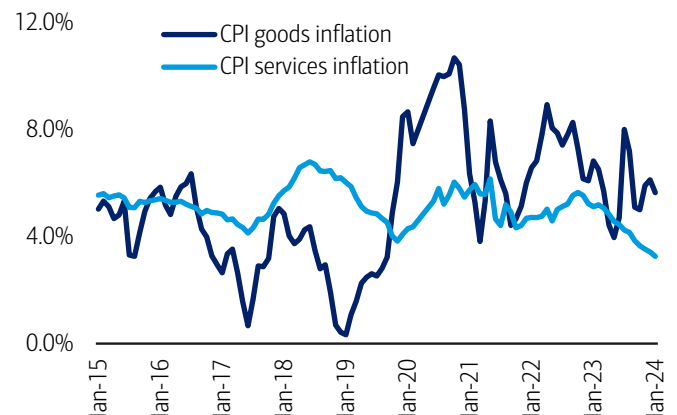


Source: MOSPI, CEIC

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

While CPI goods inflation slowed to 5.6% yoy in Jan from 6.1% yoy in Dec, CPI services inflation was lower by 10bp to 3.3% yoy

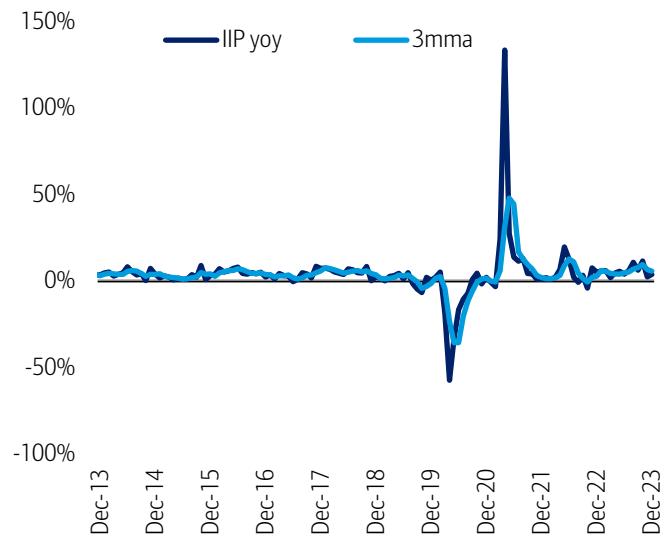


Source: CEIC

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Exhibit 7: Industrial production growth, monthly

IIP growth improved to 3.8% yoy in Dec from 2.4% in Nov, sequentially too the index fared better than median performance



Source: MOSPI

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

Even as mining & electricity generation saw slower growth in Dec vs Nov, improvement in manufacturing growth rate more than offset that

	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	8.8	5.7	7.2	6.2
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	9.3	15.3	10.3
Sep-23	11.5	4.9	9.9	6.2
Oct-23	13.1	10.2	20.4	11.6
Nov-23	6.8	1.2	5.8	2.4
Dec-23	5.1	3.9	1.2	3.8

Source: MOSPI

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Exhibit 9: Use based classification (in % yoy)

Barring primary goods, all other sub-categories saw improved growth rates in Dec

	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
Jun-22	12.6	13.8	28.6	10.5	9.4	25.2	2.9
Jul-22	2.2	2.5	5.1	3.7	4.8	2.3	-2.9
Aug-22	-0.7	1.7	4.3	1.3	3	-4.4	-9
Sep-22	3.5	9.5	11.4	1.7	8.2	-5.5	-5.7
Oct-22	-4.2	2.1	-2.9	-2.3	1.7	-18.1	-13
Nov-22	7.1	4.8	20.7	3.5	14.3	5	10
Dec-22	5.1	8.5	7.8	1.5	11	-11.2	7.9
Jan-22	5.8	9.8	10.5	1.4	11.3	-8.2	6.5
Feb-22	6	7	11	1	9	-4.1	12.5
Mar-22	1.9	3.3	10	1.8	7.2	-8	-1.9
FY24TD	6.2	7.0	7.3	4.8	10.6	1.2	5.5
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	10.3	12.4	13.1	6.8	13.5	5.8	9.6
Sep-23	6.2	8.0	8.4	6.1	8.9	1.1	3.0
Oct-23	11.7	11.4	21.3	9.4	11.3	15.9	8.7
Nov-23	2.4	8.4	-1.1	3.5	1.5	-5.4	-3.6
Dec-23	3.8	4.6	3.2	3.4	4.1	4.8	2.1

Source: MOSPI

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