

## India Watch

## Dec CPI rose to 5.7%, Nov IIP fell to 2.4%

**Dec CPI inflation inched up 5.7%, but core fell further**

CPI inflation in Dec inched up further to 5.69% yoy from 5.55% yoy in Nov. This was lower than our 5.8% estimate and consensus' estimate of 5.9% yoy. Of the 14bp increase in headline, food inflation was the key driver, followed by clothing. Higher vegetable inflation (as widely expected) added 60bp to headline. Non-vegetable food inflation and core CPI inflation fell, offsetting some of that increase (Exhibit 3). Sequentially, CPI fell by 0.32%, still lower than the median m-o-m decline -0.45% typical of Dec. Going forward, even though onion prices are down 21% versus the average price in Dec (Exhibit 5), it is still quite high. Pulses inflation is persistent as well (Exhibit 4). Accordingly, we are tracking Jan CPI inflation at 5.1% currently. On the core CPI front, further softening was visible across multiple measures (Exhibit 2). While headline minus food & fuel softened by 29bp to 3.76% yoy in Dec, core-core CPI (headline minus food, fuel, petrol, diesel and gold) was down 50bp to 3.35% yoy in Dec. FY24TD, headline, food and core CPI inflation have averaged at 5.5%, 6.8% and 4.65% yoy, respectively. We see FY24 CPI inflation averaging at 5.2% yoy, in line with RBI's estimate (Exhibit 1).

**Nov IIP growth fell sharply to 2.4% on fewer working days**

Industrial production growth fell sharply to 2.4% yoy in Nov, down from 11.6% yoy (Exhibit 7) in Oct, coming in lower than our (5%) and consensus' estimate of 3.5% yoy. Given that Diwali this year was in Nov, there were fewer working days, and thus, slower IIP growth was widely expected. Sequentially, IIP fell by 2.4% in Nov against a median -3.7% m-o-m decline typical of Nov. Sector-wise data showed broad-based deceleration, with manufacturing the key laggard (Exhibit 8). 17/23 industries saw negative growth in Nov. On the use-based side, capital goods and consumer goods (both durables and non-durables) saw negative growth in Nov (Exhibit 9). Average IIP growth in Oct-Nov was 7% yoy, still better than the FY24TD average of 6.4% yoy.

**No big inflation surprises to keep RBI MPC on hold**

The [Dec RBI MPC meeting \(see our report\)](#) moved away from hawkishness and persisted with a pause for the fifth straight time while keeping its stance as withdrawal of accommodation. The RBI MPC sees CPI inflation averaging 4.6% yoy between Apr and Dec 2024 (higher than the 4% target), but it chose to stay on hold, possibly indicating that further tightening to bring down inflation is not required. Going forward, as long as the inflation trajectory stays the estimated course, we expect the RBI MPC to stay on hold until 2H2024. The RBI governor was quite clear in his post policy remarks that any immediate easing is not around the corner, as RBI believes that there is still some room to achieve the 4% CPI target.

12 January 2024

GEM Economics  
Asia | India

**Aastha Gudwani**  
India Economist  
BofA India  
+91 22 6632 8648  
[aastha.gudwani@bofa.com](mailto:aastha.gudwani@bofa.com)

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

CPI: Consumer Price Index

IIP: Index of Industrial production

MPC: Monetary Policy Committee

RBI: Reserve Bank of India

TD: To date

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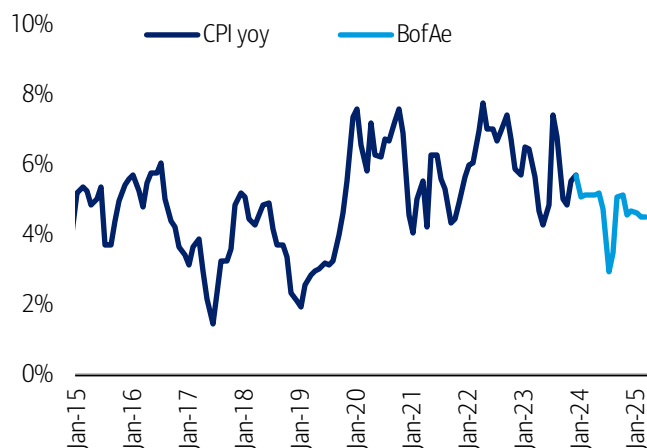
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## Dec CPI rose to 5.7%, Nov IIP fell to 2.4%

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

Dec CPI inflation inched up to 5.7% yoy, FY24TD averaged at 5.5% yoy

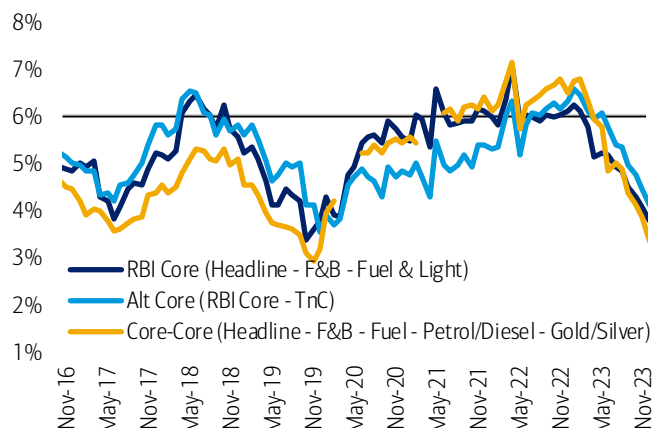


Source: MOSPI

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

All measures of core softened in Dec vs Nov; headline minus food & fuel moderated by 29bp to 3.76%, and core-core fell by 50bp to 3.35% yoy



Source: MOSPI

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### Exhibit 3: CPI inflation: component-wise performance

Dec CPI rose less than expected as further increase in vegetable prices was partly offset by further softening of core CPI; non-vegetable food items also added to the lower-than-expected headline inflation outcome, such as cereals, milk and condiments

Key items	Weight	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
<b>CPI</b>	<b>100.0</b>	2.9%	-0.1%	-1.1%	0.7%	0.5%	-0.3%	7.4%	6.83%	5.02%	4.87%	5.55%	5.69%
<b>Food and Beverage</b>	<b>45.9</b>	5.7%	-0.5%	-1.8%	1.0%	0.9%	-0.7%	10.6%	9.2%	6.3%	6.3%	8.0%	8.7%
Cereals & products	9.7	1.2%	1.4%	1.2%	0.8%	0.9%	0.8%	13.0%	11.9%	10.9%	10.7%	10.3%	9.9%
Meat & fish	3.6	-2.2%	-1.7%	1.7%	0.0%	-1.7%	-1.2%	2.3%	3.7%	4.1%	3.3%	2.2%	1.1%
Eggs	0.4	-0.5%	-3.0%	2.4%	3.4%	2.8%	3.3%	3.8%	4.3%	6.5%	9.3%	5.9%	4.4%
Milk & products	6.6	0.3%	0.4%	0.2%	0.2%	0.2%	0.1%	8.3%	7.8%	7.0%	6.4%	5.7%	5.1%
Oils and fats	3.6	-0.9%	0.0%	-0.4%	-0.8%	-0.3%	-0.1%	-16.8%	-15.3%	-14.0%	-13.7%	-15.1%	-15.0%
Fruits	2.9	4.4%	0.1%	-1.1%	0.7%	-0.4%	-1.6%	3.1%	4.0%	7.3%	9.3%	11.0%	11.1%
Vegetables	6.0	38.2%	-5.9%	-15.7%	3.5%	5.0%	-5.3%	37.4%	26.1%	3.4%	2.8%	17.7%	27.6%
Pulses & products	2.4	2.5%	1.5%	4.1%	2.6%	1.6%	0.5%	13.3%	13.0%	16.3%	18.8%	20.3%	20.7%
Sugar	1.4	0.8%	0.8%	1.4%	1.1%	1.2%	0.3%	3.8%	3.8%	4.6%	5.5%	6.6%	7.1%
Condiments & spices	2.5	3.6%	3.2%	1.8%	1.0%	0.4%	-0.3%	21.7%	23.2%	23.1%	22.7%	21.5%	19.7%
Non-alcoholic bev	1.3	0.3%	0.3%	0.2%	0.3%	0.3%	0.1%	3.6%	3.7%	3.5%	3.5%	3.6%	3.3%
Prepared meals	5.6	0.3%	0.5%	0.3%	0.3%	0.2%	0.3%	5.5%	5.3%	5.0%	4.7%	4.2%	4.1%
<b>Pan, Tobacco and Intoxicants</b>	<b>2.4</b>	0.3%	0.4%	0.2%	0.2%	0.2%	0.0%	3.9%	4.1%	3.9%	3.9%	3.8%	3.6%
<b>Clothing &amp; footwear</b>	<b>6.5</b>	0.3%	0.2%	0.2%	0.4%	0.2%	0.2%	5.6%	5.2%	4.6%	4.3%	3.9%	3.6%
Clothing	5.6	0.2%	0.3%	0.2%	0.4%	0.3%	0.2%	5.7%	5.2%	4.6%	4.5%	4.0%	3.8%
Footwear	1.0	0.3%	0.2%	0.2%	0.1%	0.2%	0.2%	5.5%	4.8%	4.1%	3.6%	3.3%	3.1%
<b>Housing</b>	<b>10.1</b>	0.5%	0.6%	-0.1%	0.9%	0.1%	-0.6%	4.5%	4.4%	4.0%	3.8%	3.6%	3.6%
<b>Fuel &amp; Light</b>	<b>6.8</b>	1.8%	0.2%	-3.9%	0.3%	0.1%	0.2%	3.7%	4.3%	-0.1%	-0.4%	-0.8%	-1.0%
<b>Miscellaneous</b>	<b>28.3</b>	0.4%	0.3%	0.2%	0.2%	0.3%	0.2%	5.0%	4.9%	4.8%	4.5%	4.4%	4.1%
Household requisites	3.8	0.2%	0.3%	0.1%	0.2%	0.2%	0.3%	5.2%	4.8%	4.3%	3.9%	3.5%	3.4%
Medical Care	5.9	0.4%	0.4%	0.3%	0.5%	0.3%	0.3%	6.2%	6.2%	5.9%	5.9%	5.5%	5.1%
Transport & Comm	8.6	0.3%	0.2%	0.1%	0.1%	0.2%	0.1%	2.5%	2.5%	2.3%	2.0%	2.1%	2.0%
Rec & Amusement	1.7	0.4%	0.2%	0.2%	0.2%	0.1%	0.2%	3.7%	3.6%	3.4%	3.3%	3.1%	3.1%
Education	4.5	1.0%	0.4%	0.3%	0.0%	0.1%	0.0%	5.5%	5.5%	5.3%	5.1%	5.0%	4.8%
Personal care	3.9	0.1%	0.2%	0.2%	0.1%	0.9%	0.7%	8.9%	8.1%	8.5%	7.8%	7.8%	7.3%

Source: MOSPI

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**Exhibit 4: Tracking Jan CPI at 5.1% yoy as onion prices have softened versus Dec**

Even as vegetable inflation is expected to half, it is still at high levels; pulses inflation pressure is likely to persist

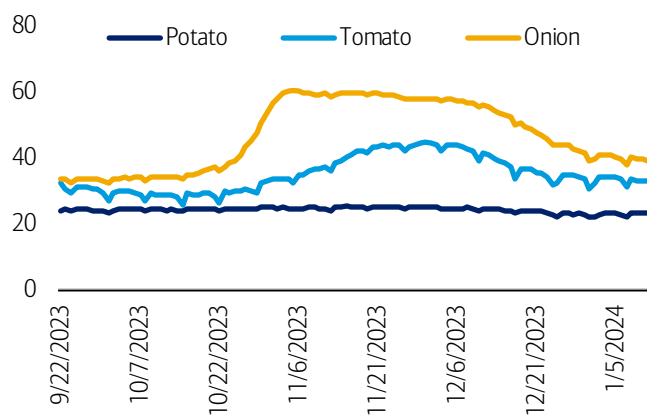
Retail food price inflation (yoy)	Wt. in CPI	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24 (until 10th)
Cereals	7.1	10.7	9.9	12.5	8.0	5.8	5.9	4.6	8.1	8.4	8.9	8.1	8.5	10.0	9.9	8.2
Rice	4.4	8.6	6.9	8.5	8.1	8.5	9.5	8.9	9.1	10.2	11.0	10.0	10.8	12.8	13.5	13.1
Wheat	2.6	14.0	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	0.9
Atta	0.1	19.1	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	2.4
Pulses inflation	2.0	3.2	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	20.1
Gram dal	0.3	-3.0	-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	13.9
Tur/Arhar dal	0.8	8.5	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	35.7
Urad dal	0.3	1.2	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	14.0
Moong dal	0.3	1.2	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	11.4
Masoor dal	0.3	-1.0	-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
Oilseeds inflation	3.0	-2.3	-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	-11.3
Groundnut oil	0.3	4.8	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	1.8
Mustard oil	1.3	-8.5	-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	-11.4
Vanaspati	0.1	4.4	-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	-9.4
Soyaoil	0.4	2.3	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	-14.4
Sunflower	0.8	2.8	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	-14.3
Palm oil	0.0	-10.5	-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	-7.6
Vegetables inflation	2.2	-19.1	-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	26.0
Potato	1.0	8.9	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	3.0
Onion	0.6	-19.7	-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	48.6
Tomato	0.6	-44.9	-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	34.2
Sugar	1.1	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
Gur	0.1	1.9	-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	8.1
Milk	6.4	10.5	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	4.4
Tea loose	1.0	-0.6	-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
Salt pack	1.4	18.3	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	4.5
<b>Total/ Weighted Avg</b>	<b>24.3</b>	<b>3.5</b>	<b>3.1</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>6.8</b>

Source: DCA

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**Exhibit 5: Daily retail prices of key vegetables (in Rs/kg)**

Onion prices have moderated from Dec peak, down 21% since then

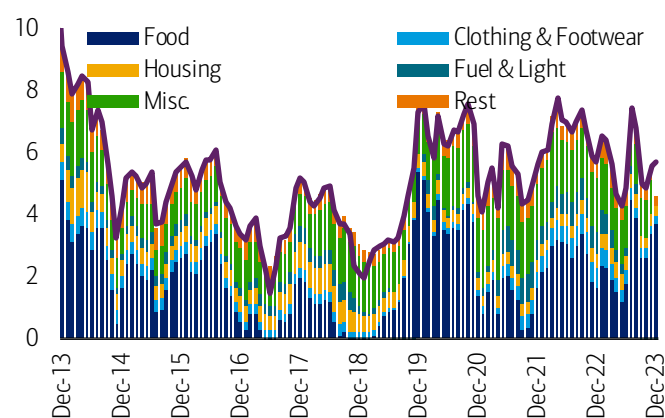


Source: CEIC. Kg = kilogram

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**Exhibit 6: % point contribution to headline CPI**

Food & housing added to headline, while other sub-components offset the increase in headline

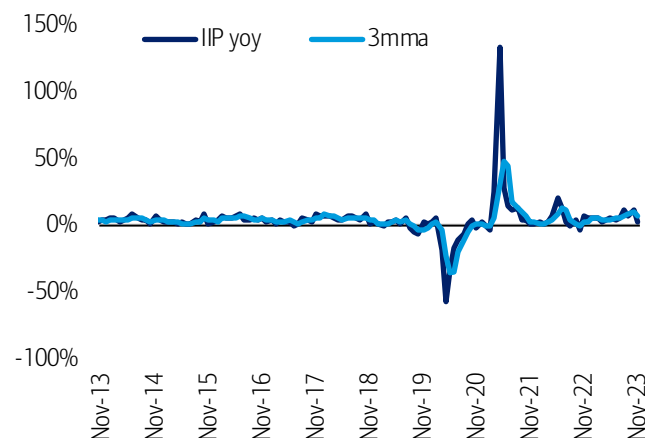


Source: MOSPI, CEIC

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

Nov IIP growth fell sharply to 2.4% yoy, down from 11.6% yoy in Oct



Source: MOSPI

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

Deceleration was broad-based, with manufacturing the key laggard

	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	9.2	5.9	7.9	6.4
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

Source: MOSPI

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

Capital goods &amp; consumer goods saw de-growth; other components saw slower growth

	IIP yoy	Primary goods	Capital goods	Intermediate goods	Infra/construction goods	Consumer durable	Consumer non-durable
Weights	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	6.4	7.3	7.8	5.0	11.2	0.8	5.9
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

Source: MOSPI

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

Capital goods &amp; consumer goods saw de-growth; other components saw slower growth

IIP yoy	Primary goods	Capital goods	Intermediate goods	Infra/construction goods	Consumer durable	Consumer non-durable
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# Research Analysts

## Asia Economics

### China, Hong Kong, Taiwan

#### Helen Qiao

China & Asia Economist  
Merrill Lynch (Hong Kong)  
+852 3508 3961  
[helen.qiao@bofa.com](mailto:helen.qiao@bofa.com)

#### Miao Ouyang

China & Asia Economist  
Merrill Lynch (Hong Kong)  
[miao.ouyang@bofa.com](mailto:miao.ouyang@bofa.com)

#### Benson Wu

China & Korea Economist  
Merrill Lynch (Hong Kong)  
[benson.wu@bofa.com](mailto:benson.wu@bofa.com)

#### Xiaoqing Pi

China Economist  
Merrill Lynch (Hong Kong)  
[xiaoqing.pi@bofa.com](mailto:xiaoqing.pi@bofa.com)

## North Asia

### Ting Him Ho, CFA

Asia Economist  
Merrill Lynch (Hong Kong)  
+852 3508 8744  
[tinghim.ho@bofa.com](mailto:tinghim.ho@bofa.com)

## India

### Aastha Gudwani

India Economist  
BofAS India  
[aastha.gudwani@bofa.com](mailto:aastha.gudwani@bofa.com)

## The Philippines

### Jojo Gonzales ^^

Research Analyst  
Philippine Equity Partners  
[jojo.gonzales@pep.com.ph](mailto:jojo.gonzales@pep.com.ph)

## Thailand

### Pipat Luengnaruemitchai

Emerging Asia Economist  
Kiatnakin Phatra Securities  
[pipat.luen@kkpfg.com](mailto:pipat.luen@kkpfg.com)

## Australia

### Micaela Fuchila

Economist  
Merrill Lynch (Australia)  
[micaela.fuchila@bofa.com](mailto:micaela.fuchila@bofa.com)

## Indonesia, Malaysia, Singapore

### Kai Wei Ang

Asia & ASEAN Economist  
Merrill Lynch (Singapore)  
[kaiwei.ang@bofa.com](mailto:kaiwei.ang@bofa.com)

## Japan

### Izumi Devalier

Japan and Asia Economist  
BofAS Japan  
[izumi.devalier@bofa.com](mailto:izumi.devalier@bofa.com)

### Takayasu Kudo

Japan and Asia Economist  
BofAS Japan  
[takayasu.kudo@bofa.com](mailto:takayasu.kudo@bofa.com)

## Global FX and Rates Strategy

### Claudio Piron

Emerging Asia FI/FX Strategist  
Merrill Lynch (Singapore)  
[claudio.piron@bofa.com](mailto:claudio.piron@bofa.com)

### Adarsh Sinha

FX Strategist  
Merrill Lynch (Hong Kong)  
[adarsh.sinha@bofa.com](mailto:adarsh.sinha@bofa.com)

### Abhay Gupta

Emerging Asia FI/FX Strategist  
Merrill Lynch (Singapore)  
[abhay.gupta2@bofa.com](mailto:abhay.gupta2@bofa.com)

### Chun Him Cheung, CFA

Emerging Asia FI/FX Strategist  
Merrill Lynch (Hong Kong)  
[chunhim.cheung@bofa.com](mailto:chunhim.cheung@bofa.com)

### Janice Xue

Emerging Asia FI/FX Strategist  
Merrill Lynch (Hong Kong)  
[janice.xue@bofa.com](mailto:janice.xue@bofa.com)

## Equity and Credit Strategy

### Nigel Tupper >>

Quant Strategist  
Merrill Lynch (Australia)  
[nigel.tupper@bofa.com](mailto:nigel.tupper@bofa.com)

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