



## No surprises in CPI/IIP data

### Core CPI crosses 6%, likely to test 7% in June

- **Headline CPI inflation** came in at a four-month high of 4.9% YoY in May-18, broadly in line with our/market estimate of 4.8%/4.9%.
- While food inflation picked up slightly to 3.3% in May from 3% in the previous month, core CPI rose to a 46-month high of 6.2% (in line with our estimate).
- Separately, IIP grew 4.9% in April-18, in line with our forecast but lower than consensus of 5.7%. Growth in the capital goods sector came in at 13%, while that in infra/construction goods and consumer non-durables was also healthy at 7.5% and 7%, respectively.
- Overall, there were no surprises in today's data releases. We expect headline CPI inflation to rise to 5.4% in June-18 (due to an adverse base effect) and core inflation to touch 6.9% – if the RBI focuses on the latter, a rate hike in August (irrespective of the level of *Kharif* MSP hike) can't be ruled out.

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### I. Retail inflation at four-month high in May-18

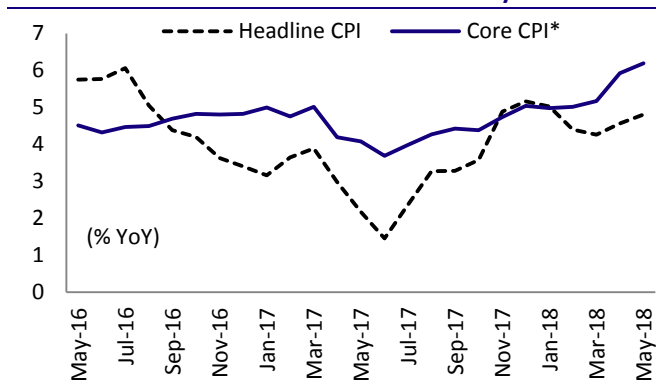
- **CPI inflation rises to 4.9% in May...:** CPI-based retail inflation rose to a four-month high of 4.9% YoY in May-18 from 4.6% in the preceding month (*Exhibit 1*). The number was marginally higher than our estimate of 4.8%, but in line with consensus of 4.9%. CPI inflation has risen from 4.3% in March to 4.6% in April and further to 4.9% in May on account of an adverse base effect; inflation had eased sharply from 3.9% in March-17 to 2.2% in May-17.
- **...as food inflation picks up...:** Food inflation (weight in CPI: 39.1%) inched up to 3.3% in May-18 from 3% in the previous month. The increase was largely on account of a rise in fruits & vegetables inflation to 9.5% YoY in May-18 from 8.3% in the preceding month (*Exhibit 2*). Inflation in cereals, oils & fats, meat & fish and spices also edged higher in the month.
- **...and core inflation continues rising...:** Core inflation (all items excluding 'food & beverages', 'pan, tobacco & intoxicants' and 'fuel & light') rose to 6.2% in May-18 from 5.9% in the preceding month (*Exhibit 3*). This was the highest level of core inflation in 46 months. Core-core inflation (excluding petrol/diesel from core inflation) also inched up to 6.1% from 6% in April-18. Inflation in the fuel & light group rose sharply to 5.8% from 5.2% in the previous month.
- **Inflation in 'core services' at 33-month high:** Further refinement of CPI items shows that inflation in 'core services' rose to a 33-month high of 5.4% in May from 5.2% in the preceding month (*Exhibit 4*). Inflation in this segment has risen by ~180bp over the last five months – from 3.6% in Dec-17 to 5.4% in May-18. The rise has largely been on account of a surge in inflation in services covered under the 'transport and communication' and 'household' groups. Inflation in housing eased by 10bp to 8.4%, while that in goods rose to 4.5% in May-18 from 4.2% in the preceding month.
- **We expect headline CPI inflation to rise to 5.4% in June-18 (due to an adverse base – June 2017: +1.5%) and core inflation to touch 6.9% – if the RBI focuses on the latter, a rate hike in August (irrespective of the level of *kharif* MSP hike) can't be ruled out.**

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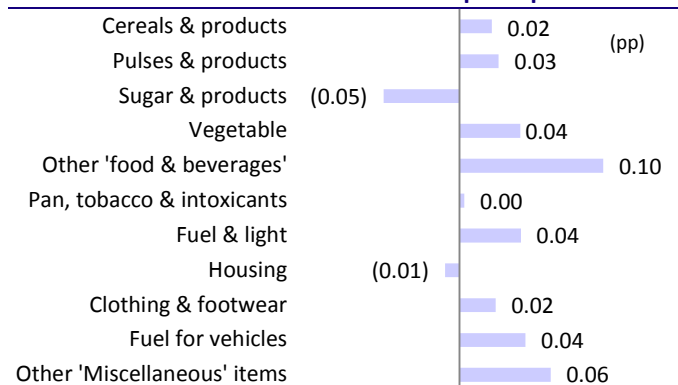
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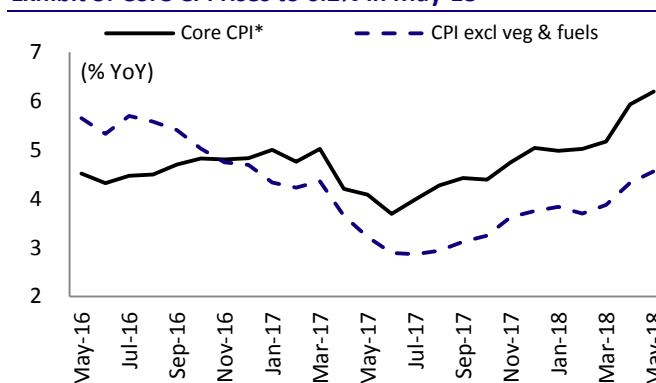
**Exhibit 1: Retail inflation rises to 4.9% in May 2018...**

\* Excluding food &amp; beverages, pan, tobacco &amp; intoxicants and fuel &amp; light

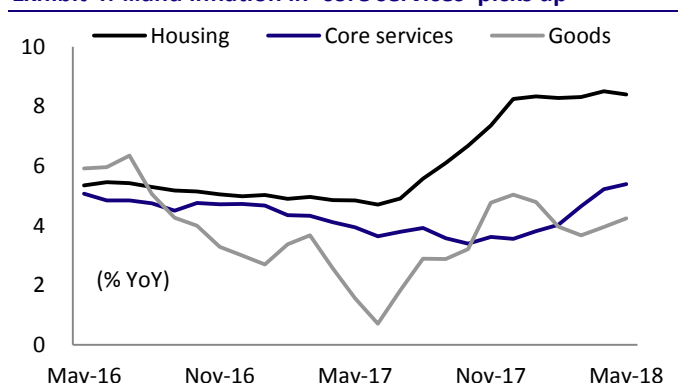
Source: Central Statistics Office (CSO), MOSL

**Exhibit 2: ...on account of a broad-based pick-up**

Source: CSO, MOSL

**Exhibit 3: Core CPI rises to 6.2% in May-18**

Source: CSO, MOSL

**Exhibit 4: ...and inflation in 'core services' picks up**

Source: CSO, MOSL

**Exhibit 5: CPI and key components (% YoY)**

% YoY	FY16	FY17	FY18	May-17	Mar-18	Apr-18	May-18
<b>Overall CPI</b>	<b>4.9</b>	<b>4.5</b>	<b>3.6</b>	<b>2.2</b>	<b>4.3</b>	<b>4.6</b>	<b>4.9</b>
<b>Food &amp; beverages</b>	<b>5.1</b>	<b>4.4</b>	<b>2.2</b>	<b>(0.2)</b>	<b>3.0</b>	<b>3.0</b>	<b>3.3</b>
Cereal & products	1.8	4.2	3.5	4.8	2.2	2.6	2.8
Pulses & products	31.9	9.3	(21.0)	(19.5)	(13.4)	(12.3)	(11.6)
Meat & fish	6.3	5.6	3.2	1.8	3.3	3.6	3.5
Milk & products	5.2	4.1	4.1	4.6	3.6	3.2	3.2
Fruits & vegetables	1.4	(0.1)	5.5	(8.8)	9.6	8.3	9.5
<b>Pan, tobacco &amp; intoxicants</b>	<b>9.3</b>	<b>9.5</b>	<b>6.9</b>	<b>6.2</b>	<b>7.7</b>	<b>7.9</b>	<b>8.0</b>
<b>Fuel &amp; light</b>	<b>5.3</b>	<b>5.8</b>	<b>6.2</b>	<b>5.5</b>	<b>5.7</b>	<b>5.2</b>	<b>5.8</b>
<b>Housing</b>	<b>4.9</b>	<b>5.2</b>	<b>6.5</b>	<b>4.8</b>	<b>8.3</b>	<b>8.5</b>	<b>8.4</b>
<b>Clothing &amp; footwear</b>	<b>5.8</b>	<b>5.0</b>	<b>4.7</b>	<b>4.4</b>	<b>4.9</b>	<b>5.1</b>	<b>5.5</b>
<b>Miscellaneous</b>	<b>3.7</b>	<b>4.5</b>	<b>3.8</b>	<b>3.8</b>	<b>4.2</b>	<b>5.0</b>	<b>5.3</b>
Transport & communication	0.4	3.0	2.7	3.5	2.9	4.5	5.3
<b>Core CPI*</b>	<b>4.3</b>	<b>4.7</b>	<b>4.5</b>	<b>4.1</b>	<b>5.2</b>	<b>5.9</b>	<b>6.2</b>
<b>Core CPI excl. petrol, diesel etc.</b>	<b>5.1</b>	<b>4.9</b>	<b>4.7</b>	<b>4.0</b>	<b>5.4</b>	<b>6.0</b>	<b>6.1</b>

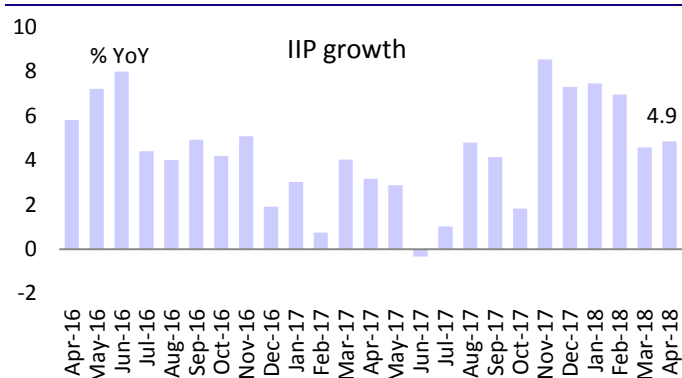
# Excluding food &amp; beverages, pan, tobacco &amp; intoxicants and fuel &amp; light

Source: CSO, MOSL

## II. IIP rises 4.9 % in April

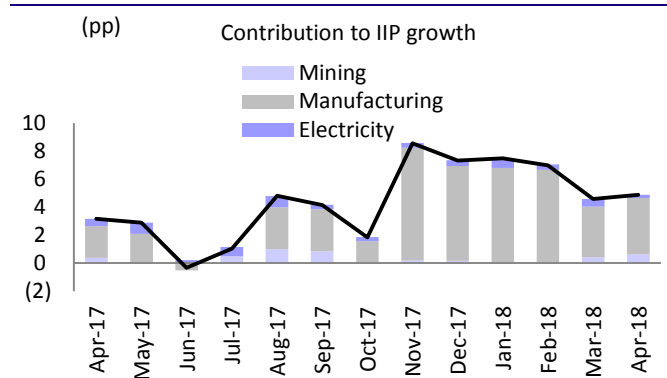
- **IIP rises by 4.9% in April-18...** The Index of Industrial Production (IIP) rose by 4.9% in April-18 (*Exhibit 1*), exactly in line with our estimate but below consensus of +5.7%. Growth improved slightly from 4.4% in March-18, but was well below the 7%+ levels seen between Nov-17 and Feb-18.
- **...led by pick-up in manufacturing and mining:** Growth in manufacturing output picked up slightly to 5.2% YoY in April-18 from 4.7% in the preceding month, but was much lower than average growth of 7.2% during the last six months. As many as 16 out of the 23 industries within the manufacturing group witnessed a YoY increase in their output in April-18, with six industries witnessing double-digit growth. Only ~13% of the manufacturing sector (by weight) witnessed a YoY contraction in output, as against ~40% in the preceding month (*Exhibit 8*). Growth in mining activity improved to a seven-month high of 5.1% in April-18 from 3.1% in the previous month, while that in electricity generation slumped to 2.1% in the month.
- **Capital goods output surges 13.1% in April-18:** As per use-based classification, capital goods production rose by a sharp 13% YoY in April-18 after declining by 5.7% in the preceding month. This was aided by a favourable base effect; capital goods output had slumped 4.8% in April-17 (March-17: +9.4%). Capital goods output has risen in double-digits in four of the last five months. Growth in output of consumer durables inched up to 4.3% in April 2018 from 4.1% in the previous month. Growth in output of infra/construction goods and consumer non-durables was healthy at 7.5% and 7%, respectively, in April-18.
- **Favorable base to aid IIP growth in 1HFY19:** IIP growth had decelerated slightly to 4.4% in FY18 from 4.6% in FY17. We expect growth to improve to ~ 5.5% in 1HFY19 on account of a favourable base; growth had averaged just 2.6% in 1HFY18. For FY19, we expect growth to improve only slightly to 4.6%.

**Exhibit 6: IIP rises by 4.9% in April 2018...**



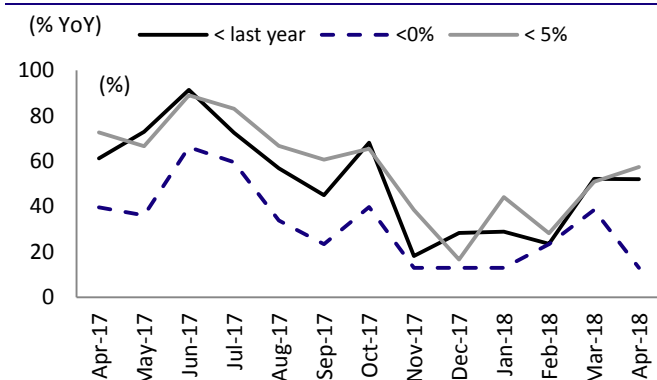
Source: CSO, MOSL

**Exhibit 7: ...on account of healthy growth in manufacturing**



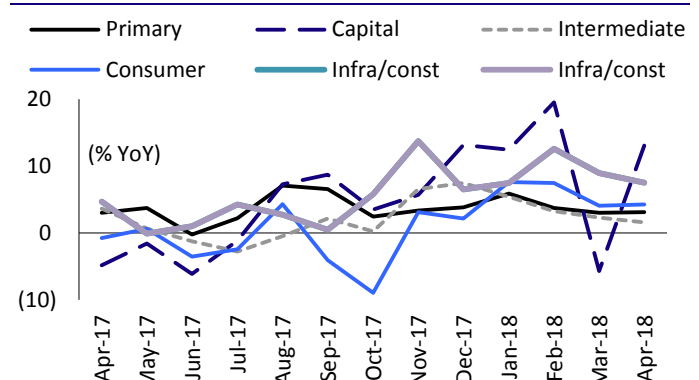
Source: CSO, MOSL

**Exhibit 8: Fall in share of manufacturing sector that reported a decline in output in April-18**



Source: CSO, MOSL

**Exhibit 9: As per use-based classification of IIP, capital goods output rose by 13% in April-18**



Source: CSO, MOSL

**Exhibit 10: Key components of IIP**

% Y-o-Y	Weight	FY16	FY17	FY18	Apr-17	Feb-18	Mar-18	Apr-18
<b>Industry-based classification</b>								
Mining	14.373	4.3	5.3	2.3	3.0	(0.4)	3.1	5.1
Manufacturing	77.632	2.9	4.3	4.6	2.9	8.5	4.7	5.2
Electricity	7.994	5.7	5.8	5.3	5.4	4.5	5.9	2.1
IIP	100.0	3.3	4.6	4.4	3.2	7.0	4.6	4.9
<b>Use-based classification</b>								
Primary goods	34.05	5.0	4.9	3.7	3.0	3.7	3.0	3.1
Capital Goods	8.22	3.0	3.2	3.9	(4.8)	19.5	(5.7)	13.0
Intermediate Goods	17.22	1.5	3.3	2.2	3.6	3.2	2.3	1.6
Infrastructure/Construction	12.34	2.8	3.9	5.6	4.7	12.6	8.9	7.5
Consumer Goods	28.17	2.9	5.7	6.0	4.3	7.4	8.9	5.8
Durable Goods	12.84	3.3	3.0	0.7	(0.7)	7.5	4.1	4.3
Non-Durable Goods	15.33	2.6	8.0	10.4	8.8	7.3	12.7	7.0

Source: CSO, MOSL

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