Growth-inflation mix continues to improve

CRISIL First Cut l March 2018

CPI slides to 4.4% on lower food and a stable core inflation

Consumer price index (CPI)-based inflation slid to 4.4% in February from 5.1% in January, marking the second consecutive month of decline. Food inflation fell nearly 150 basis points (bps) on-month, while core inflation was flat. Inflation in housing – the category that had rapidly been pushing up core inflation for the last 7-8 months – was stable at a high 8.3% for the month.

In this fiscal to date, CPI inflation averaged at 3.5%, a sharp slide from 4.6% for the same period in fiscal 2017. Most of the fall in inflation is on account of lower food and core inflation.

For next fiscal, CRISIL expects CPI inflation to perk up but stay benign and within the Monetary Policy Committee's (MPC) projected trajectory. The MPC expects inflation to rise in the first half but moderate significantly in the second. Given this, **CRISIL expects the repo rate to remain unchanged over the next six months unless significant upside risks to the MPC's inflation forecast materialise.**

We expect CPI inflation to average ~4.6% next fiscal. The pick-up will be due to rising consumption demand, impact of house rent allowance revisions on housing inflation, and higher global crude oil prices. Food inflation is likely to stay relatively soft given the expectation of a normal monsoon.

So far, inflation has stayed within the projected trajectory despite rise in the prices of oil, fruits & vegetables, and higher housing inflation. But inflation could mount if risks materialise. For example, higher minimum support prices (MSP) and increase in coverage of procured crops because of higher MSPs could influence food inflation. Secondly, firmer input costs can push manufacturers to raise prices in a scenario of stronger demand. On the downside, items of mass consumption could see softer prices if the latest downward revision in Goods and Services Tax rates on some items is passed on to consumers. The interplay among factors will therefore determine the pressures on inflation.

Data snapshot

- Food inflation fell to 3.2% in February from 4.7% in January. The fall was led by a sharp decline in inflation in milk and products (3.8% from 4.2%), vegetables (17.6% from 27%), cereals (2.1% from 2.4%), meat and fish (3.3% from 4.3%), and continuing deflation in pulses (at -17.3% from -20.2%). Inflation in vegetables, though high, has come down from its peak of 29% in December and is a welcome relief.
- Fuel inflation, calculated by adding petrol, diesel, fuel and light components, eased to 5.9% from 6.4% in January. In fuel and light, inflation fell sharply to 6.8% from 7.7%, while inflation in petrol and diesel rose to 2.8% from 1.7%. In February, prices for the Indian crude oil basket rose 15.8% on-year, while rupee fell putting pressure on imported fuel inflation. Within the fuel and light category, lower inflation was seen in firewood and chips and liquefied petroleum gas (LPG).
- Core inflation (CPI excluding food, fuel and light, petrol and diesel) stayed broadly unchanged at around 5.1% for the third consecutive month. Housing inflation, which had been rising since July, also stood unchanged from the previous month, at 8.3%. But, excluding the impact of housing, the rest of the core index also showed no change for the third month in a row. In a few sectors such as personal care and effects, education, recreation and amusement and household goods and services, inflation declined.

Strong start for IIP in 2018

The Index of Industrial Production (IIP) continued its momentum printing at 7.5% on-year in January 2018 compared with 7.1% growth in December 2017. The third straight month of strong growth was supported by the manufacturing and electricity sectors. The strengthening of the manufacturing sector for the second month in a row signals that industry is bouncing back from GST-related glitches and could be on track to reap the benefits of domestic and global growth recovery.

- Industrial activity improved for the third consecutive month in January. IIP growth stood at 7.5% on-year in January compared with 7.1% growth in December. Manufacturing sector (the largest contributor to IIP, having 77.6% weight) was once again the key contributor to this growth. It grew 8.7% in December, versus 8.5% in November. Electricity growth was also impressive at 7.6% (4.4%). Mining was up a bare 0.1% in January (1.2%).
- Within manufacturing, 16 out of 23 industry groups showed positive growth on an annual basis. Sectors which displayed high positive growth were, 'other transport equipment', growing by 33.1%, followed by 'furniture', which was up 27.8%, and 'motor vehicles, trailers and semi-trailers', which clocked a growth rate of 26.6%. Sectors that displayed high negative growth were, 'tobacco products' (-46.5%), followed by 'other manufacturing' (-32.4%) and 'printing and reproduction of recorded media' (-13.2%). From the end-use perspective, growth in the industrial and investment-oriented manufacturing sectors, at 4.0%, outpaced the consumer-oriented sectors (accounting for 37% of the manufacturing sector IIP) growth, which came in at 2.9%.
- According to the use-based classification, *infrastructure and construction goods* displayed strong buoyancy, growing by a healthy 6.8%. *Capital goods* grew by a strong 14.6%, aided by the low base of last year, indicating a pick-up in private investment activity. The consumer goods put up an impressive performance during the month with the durables growing by 8.0% (low base of last effect), and non-durables by 10.5%.

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Ltd.
dharmakirti.joshi@crisil.com

Dipti Deshpande
Senior Economist, CRISIL Ltd.
dipti.deshpande@crisil.com

Krupa Parambalathu
Junior Economist, CRISIL Ltd.
krupa.parambalathu@crisil.com

Media Contacts

Saman Khan
Media Relations
CRISIL Limited
D: +91 22 3342 3895
M: +91 95940 60612
B: +91 22 3342 3000
saman.khan@crisil.com

Khushboo Bhadani
Media Relations
CRISIL Limited
D: +91 22 3342 1812
M: +91 72081 85374
B: +91 22 3342 3000
khushboo.bhadani@crisil.com

Hiral Jani Vasani
Media Relations
CRISIL Limited
D: +91 22 3342 5916
M: +91 982003 9681
B: +91 22 3342 3000
hiral.vasani@crisil.com

About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited

CRISIL
An S&P Global Company