

India: Industrial output decelerates and inflation surprises positively

- **India's Industrial Production decelerated sharply to 1.4% YoY in November from 4% YoY in October. Broad-based slowdown was visible. Durables (auto) and capital goods sector a drag**
- **CPI inflation lower than estimate at 5.6% YoY. Core inflation moderated led by dip in transport and communication, recreation and health and pan, tobacco and intoxicant**
- **Food inflation did inch up on a low base largely as a result of movement seen in vegetable prices. Apart from cereals, milk and eggs, most food inflation components eased**

Industrial production growth moderates

Industrial output moderated sharply in November: Industrial output increased by 1.4% YoY from 4% YoY (revised upwards) in October. The dip in output was led by manufacturing output which reported an increase of only 0.9% YoY in November from 3.1% YoY in October. Mining output also increased by only 5% YoY in November from 11.5% in the previous month. Electricity output increased by 2.1% YoY in November vs. an increase of 3.1% YoY in October. **The dip in industrial activity is quite broad-based. Consumer durables output remained in the contractionary territory in November, printing at -5.6% YoY from -3.6% in October.** Capital goods output contracted by -3.7% YoY in November from a contraction of -1.5% YoY in October. Primary goods output decelerated to 3.5% YoY in November from 9% YoY in October. **Even infrastructure and construction goods output decelerated to 3.8% YoY in November from 6.6% YoY in October.** Consumer non-durables production also moderated slightly in November (0.8% YoY) compared with an increase of 0.9% YoY in the previous month. From a 2-digit classification perspective, auto sector and machinery and equipment and electrical equipment have shown large contraction.

CPI Inflation inched up led by unfavourable base

CPI lower than estimate: Headline CPI inched up to 5.6% YoY in December (5.9% our estimate) compared with 4.9% YoY in November. The miss is largely a factor of core inflation. Food inflation climbed up to 4.0% (vs. 1.9% last month), primarily driven by base effect. Notably, food inflation had declined from 9.5% YoY in November 2020 to 3.4% in December 2020. During December 2021, vegetable prices declined sequentially by -5.4% MoM (vs. increase of 7.5% in November 2021). On a YoY basis, vegetable prices fell by -3.0%. Oil and fats inflation inched down to 24.3% YoY vs. 29.7% last month. Pulses inflation too moderated to 2.4% YoY (vs. 3.2% YoY last month). On the other hand, cereals saw an uptick at 2.6% YoY (vs. 1.5% last month).

Core inflation eased: Core inflation (excluding food and fuel) eased marginally to 6.01% YoY vs. 6.08% last month led by dip in transportation and communication inflation to 9.7% YoY vs. 10.0% YoY in November 2021. Sequentially, the index saw a modest increase of 0.5% MoM (vs. decline of -0.6% MoM last month). We anticipated a larger increase on the back of hike in telecom tariffs which are up by only 8.4% YoY from an increase of 3.5% in November 2021. At the same time, price rise in petrol and diesel has inched down to 18.3% YoY and 14.8% YoY respectively from 23.7% and 22.4% respectively in November 2021. Even health, recreation, and amusement inflation softened to 7.1% YoY and 7.4% YoY respectively from 7.3% and 7.6% respectively in November 2021. Housing index reported a stable increase of 3.6% YoY. On the other hand, clothing and footwear index firmed up to 8.3% YoY (7.9% in November). Personal care and effects too inched up to 3.7% YoY from 3.3% YoY in November 2021. So was the case with household goods and services, which increased to 6.8% YoY from 6.4% YoY in November 2021.

Outlook more favourable than earlier: With today's inflation print, headline CPI for Q3FY22 has averaged 5.0% YoY, slightly lower than RBI's projection of 5.1%. Going ahead, we see CPI inflation inching upwards on the back of base effect and pass-through of higher input prices to consumers. WPI inflation has averaged 9.6% in last 12 months vs. a 3-year average of 4.1%. January 2022 has also seen international oil prices inching above USD 80/barrel. Even so, today's downward surprise implies inflation trajectory is likely to be lower than earlier trajectory of 5.9% in Q4 unless there is an upward revision to telecom index or oil and commodity prices continue to see upward momentum. For the latter, government may have to take supply side measures in the form of reduction in indirect taxes.

CPI: inched up led by higher base

	(% YoY)	Weight	Nov-21	Dec-21
Headline		100.00	4.91	5.59
Food and Beverage		45.86	2.60	4.47
of which:				
<i>Cereals</i>		9.67	1.51	2.62
<i>Vegetables</i>		6.04	-13.58	-2.99
<i>Protein</i>		13.00	3.87	3.71
of which:				
<i>Pulses</i>		2.38	3.18	2.43
Fuel and light		6.84	13.35	10.95
Core		47.30	6.08	6.01
of which:				
<i>Pan, tobacco & intoxicants</i>		2.38	4.05	3.22
<i>Housing</i>		10.07	3.66	3.61
<i>Clothing & Footwear</i>		6.53	7.94	8.30
<i>Services</i>		28.32	6.75	6.65

Source: CEIC, ICICI Bank Research

IIP: Growth decelerated sharply in November

Industrial Production Index; 2011-12=100 (% YoY)	Nov-20	Oct-21	Nov-21	Nov-21 growth over Nov-19	Apr-Nov 2020	Apr-Nov 2021
IIP (100%)	-1.6	4.0	1.4	-0.2	-15.3	17.5
Mining (14.37%)	-5.4	11.5	5.0	-0.7	-12.1	18.2
Manufacturing (77.63%)	-1.6	3.1	0.9	-0.8	-17.2	18.5
Electricity (7.99%)	3.5	3.1	2.1	5.7	-4.6	10.3
Use-based classification						
Primary goods (34.05%)	-1.8	9.0	3.5	1.6	-11.3	13.2
Capital goods (8.22%)	-7.5	-1.5	-3.7	-10.9	-31.1	29.0
Intermediate goods (17.22%)	-1.8	3.8	2.5	0.6	-16.8	23.7
Infrastructure & construction goods (12.34%)	2.1	6.6	3.8	5.9	-17.2	27.5
Consumer durables (12.84%)	-3.2	-3.6	-5.6	-8.6	-28.2	23.9
Consumer non-durables (15.3%)	-0.7	0.9	0.8	0.1	-5.3	6.4

Source: CEIC, ICICI Bank Research

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