

# India CPI Inflation Update

Economic Update | 13th January 2023

## CPI Inflation Falls To 12-Month Low

Event	Actual	Consensus	Previous
CPI Inflation	5.72%	5.9%	5.88%

### Highlights:

- India CPI inflation fell to the lowest since December 2021, remaining within the central bank's target range of 2%-6% for the second straight month. The Consumer Price Index inflation was at 5.72% in December, compared to 5.88% in November.
- Lower food prices, particularly the fall in vegetable prices, helped keep inflation within the tolerance range.
- Core inflation rose to 6.3% in December as compared to 6.26% in November. Core inflation is likely to remain elevated in Q4 FY2023, given the continued pass-through of higher input costs by producers and sustained robust demand for services.
- Inflation in food and beverages was at 4.58% in December against 5.07% in November. Vegetable prices fell by 15.08% compared to a fall of 8.08% over the previous month.
- Although food inflation has declined, the worrying trend is a continuous increase of cereals and products inflation, which is trending upwards from May 2022, and remained in double digits in the last three months.
- Cereal prices rose 13.79% in December compared to 12.96% annually in November. Inflation in meat and fish was at 5.13% as against 3.87% last month.
- Inflation in milk was at 8.51% compared with 8.16% in the previous month. Inflation in oils and fats was at 0.53%, compared to -0.63% in November. Pulses inflation was at 3.89%, compared with 3.15% in the preceding month.
- Clothing and footwear inflation was at 9.58% compared with 9.83% a month ago.
- Fuel and light inflation stood at 10.67% in December against 10.62% in November.
- While it is the fourth consecutive quarter of more than 6% inflation, it has declined from 7.28% in Q1 FY23, to 7.04% in Q2 FY23 to 6.12% in Q3 FY23 and the same is expected to drop to about 5% by Q1 FY24.
- Going forward inflation trajectory is expected to depend on a combination of cereals prices, commodity prices and core inflation. CPI inflation for January 2023 is likely to be around 6%, slightly higher than the levels seen in December 2022, given the stickiness in core inflation and an unsupportive base for food inflation.
- At policy front, there is a possibility of 25 basis points rate hike at the monetary policy committee meeting in February 2023, although the impact of monetary policy is starting to reflect in inflation number.

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**Fig 1: CPI Inflation YoY% and Index Value Trend**



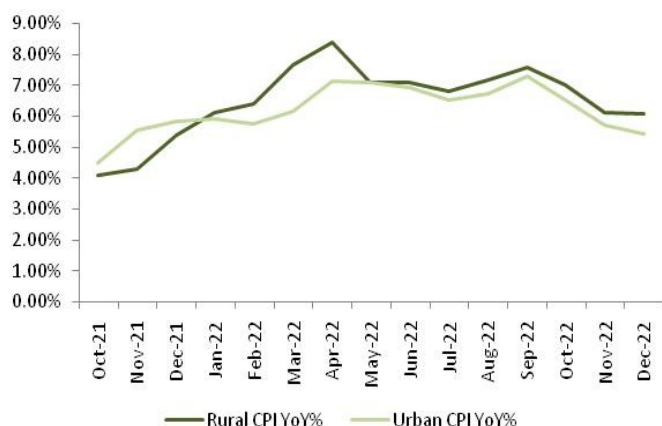
Soure: Mospi, SMIFS Research

**Fig 2: Interest Rate Trend**



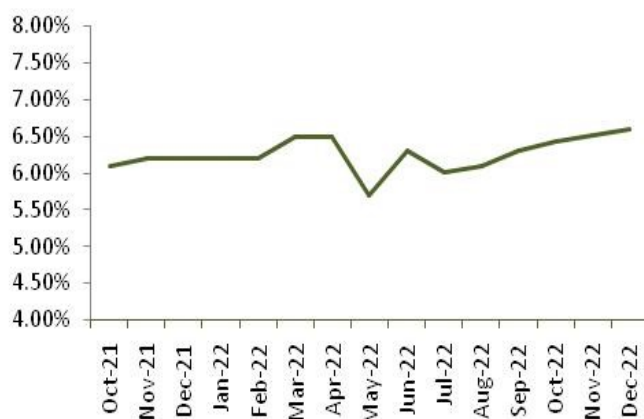
Soure: RBI, SMIFS Research

**Fig 3: CPI Rural and Urban Inflation YoY%**



Soure: Mospi, SMIFS Research

**Fig 4: CPI Core Inflation YoY%**



Soure: Mospi, SMIFS Research

**Tab 1: CPI Inflation Table**

	Weights	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22
		YoY%				
Overall CPI	100	5.72	5.88	6.77	7.41	7
Food & Beverages	45.86	4.6	5.07	7.0	8.41	7.5
Cereal & Products	9.67	13.79	12.96	12.08	11.5	9.6
Pulses & Products	2.38	3.9	3.15	2.8	3.05	2.5
Meat & Fish	3.61	5.13	3.87	3.08	2.55	1
Milk & Products	6.61	8.5	8.16	7.7	7.13	6.4
Pan, Tobacco	2.38	2.55	2.02	1.87	1.9	1.7
Fuel & Lights	6.84	11.0	10.62	9.9	10.39	10.8
Housing	10.07	4.47	4.57	4.58	4.57	4.1
Clothing& Footwear	6.53	9.2	9.83	10.2	10.17	9.9
Miscellaneous	28.32	6.17	6.07	5.9	6.06	6
Transport & Communication	8.6	4.9	5.3	4.6	5.39	5.2

Soure: Mospi, SMIFS Research

# India's Industrial Production Update

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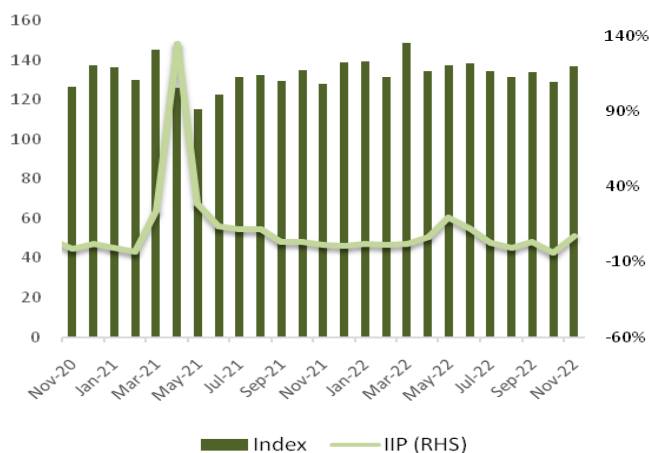
## Industrial Output Expands To Five-Month High

Event	Actual	Consensus	Previous
India IIP	7.1%	2.6%	-4.0%

### Highlights:

- India's factory output saw a sharp rebound in November to rise to a five-month high after having contracted the previous month. The Index of Industrial Production expanded 7.1% in November. The index had contracted 4% in October.
- Output recovery was visible partly on account of a low base, but also on rebound in sequential activity levels, primarily in manufacturing. The industrial output rose by 6% on a MoM basis in November 2022.
- Manufacturing output expanded 6.1%, after a contraction of 5.6% over the previous month. Mining output rose 9.7% compared to a rise of 2.5% in October. Electricity generation rose 12.7% compared to a growth of 1.2% in October.
- Industrial output, as classified by the end use of goods showed, Primary goods output rose 4.7% compared to a rise of 2% in October. Capital goods output grew 20.7% compared to a contraction of 2.3% in the previous month. Intermediate goods output rose 3%, compared to a fall of 2.8% in the preceding month. Infrastructure and construction goods output rose 12.8%, compared to a rise of 1% in October 2022. Consumer durables output rose by 5.1% after declining 15.3% in October. Consumer non-durables output rose by 8.9%, compared to a decline of 13.4% in October.
- For April-November FY23, India's industrial output growth stood at 5.5% compared with 7.1% in the first eight months of FY22.
- While the November IIP print was much stronger than expected, the overall IIP growth is likely to moderate to low single digits in December 2022. The YoY growth of most available high frequency indicators has moderated in December 2022 relative to November 2022, partly reflecting an unfavorable base related to the post-festive season rebound seen in December 2021.

Fig 5: IIP Trend YoY% and Index Level



Source: Mospi, SMIFS Research

Tab 2: IIP Table

		Weights	YOY	
			Nov-22	Apr-Nov FY23
Sectoral	Mining & quarrying	14.37	9.7	4.7
	Manufacturing	77.63	6.1	5
	Electricity	7.99	12.7	9.8
Use-Based	Primary goods	34.05	4.7	7.7
	Capital goods	8.22	20.7	14.9
	Intermediate goods	17.22	3.0	5
	Infrastructure/construction	12.34	12.8	7.4
	Consumer durables	12.84	5.1	5.7
	Consumer non- durables	15.32	8.9	-2.5
Overall IIP		100	7.1	5.5

Source: Mospi, SMIFS Research

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