



## **Lower IIP & CPI warrants rate cut**

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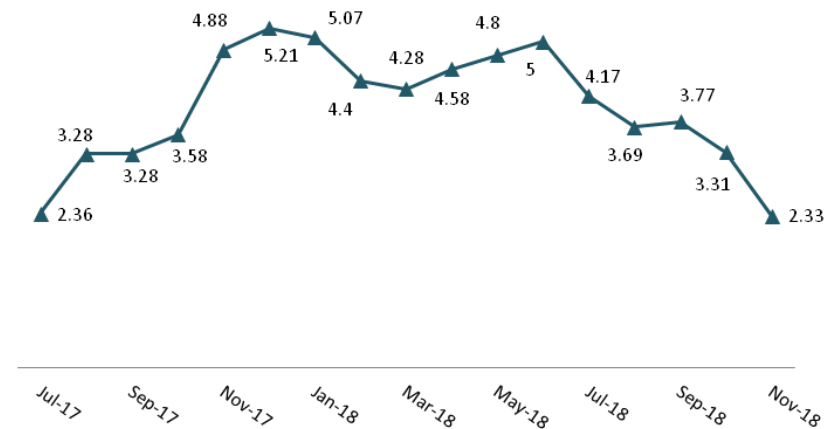
# Is a rate cut on the cards ?

- ❑ Index of Industrial Production slumped to mere 0.5% in the month of November after a high of 8.1 in the preceding month.
- ❑ In the sectoral data the manufacturing growth witnessed a negative growth by 0.4% as compared to 8% growth in October. The contraction can be witnessed on the backdrop of a higher base in November 2017.
- ❑ The mining output and electricity generation grew at 2.7% and 5.1% respectively.
- ❑ **Consumer Price Index on the other hand eased for a 6th straight month to 2.19%** from a high of 5% in June. The CPI in December hit a 18 month low.
- ❑ Food products like vegetables, pulses and sugar and confectionery had positive roles to play to curb inflation. The global oil market also stabilized towards the end of the year and further cooled down inflation. December marked the 5<sup>th</sup> straight month when the CPI was below the RBI's 4% comfortable level.
- ❑ Consumer Price Index tapering downwards coupled with a low IIP should make a good cause for the RBI to lower the interest rates in the February monetary policy.. The slowing rural inflation does not augur well for the farmers as they have been burdened with lower value for their output.
- ❑ The cyclical nature of the index of industrial production is expected to continue and the economy can be poised for lower production rates in the beginning of the year. This can in turn further downgrade the GDP growth estimates of the country for the current fiscal year.

## Index of Industrial Production

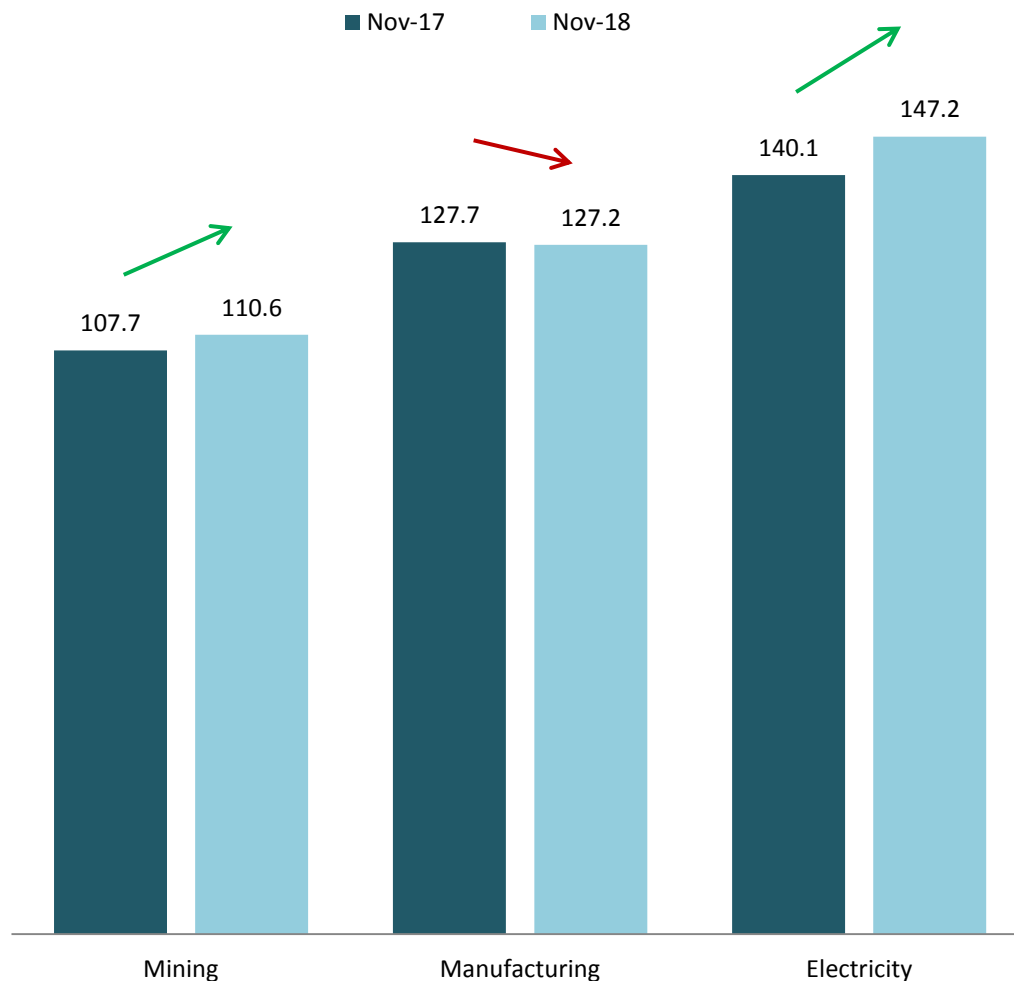


## Consumer Price Index



## Manufacturing drags IIP

- ❖ The manufacturing growth contracted by 0.4% in the month of November.
- ❖ 13 out of 23 segments in manufacturing witnessed degrowth in the month of November due to the slow manufacturing movement post the holiday season.
- ❖ The manufacturing of motor-vehicles, trailers and semi trailers also showed degrowth due to the already large inventory they are carrying along with them.



## 17 month low IIP growth

### Contribution to IIP

<b>High Positive Contributors</b>	<b>Weights(%)</b>	<b>Contribution to IIP</b>
<i>Electricity</i>	<b>7.99</b>	<b>0.4512</b>
<i>Diesel</i>	<b>5.71</b>	<b>0.3906</b>
<i>Sunflower oil</i>	<b>0.07</b>	<b>0.3848</b>
<i>Mining</i>	<b>14.37</b>	<b>0.3313</b>
<i>Cement</i>	<b>2.16</b>	<b>0.1943</b>
<b>High Negative Contributors</b>		
<i>Copper bars, rods &amp; wire rods</i>	<b>0.64</b>	<b>-0.2496</b>
<i>Pig Iron</i>	<b>0.4</b>	<b>-0.2198</b>
<i>Steroids and hormonal prepara</i>	<b>0.72</b>	<b>-0.2159</b>
<i>Steel frameworks</i>	<b>0.65</b>	<b>-0.1279</b>
<i>Bodies of trucks</i>	<b>0.26</b>	<b>-0.1167</b>

- ❖ The IIP growth fell to a 17 month low in November
- ❖ When comparing the use based goods the growth rate in primary goods and construction goods showed a 3.2% and 5.0% growth respectively
- ❖ All the other 4 segments, capital goods, intermediate goods, consumer durables and consumer non-durables witnessed degrowth to the tune of -3.4%, -4.5%, -0.9% and -0.6% respectively.

## 18 month low CPI

### Impactful contributors

<i>Description</i>	<i>Dec-17</i>	<i>Dec-18</i>	<i>Inflation rate</i>
<i>Vegetables</i>	162	136	(16)
<i>Pulses &amp; Products</i>	129	120	(7)
<i>Sugar &amp; Confectionery</i>	122	110	(9)
<i>Pan,tobacco &amp; intoxicants</i>	154	163	6
<i>Clothing &amp; footwear</i>	142	147	4
<i>Housing</i>	139	147	5
<i>Fuel &amp; Light</i>	137	143	5
<i>Health</i>	133	145	9
<i>Education</i>	139	150	8

- ❖ The fall in the consumer price index has been still driven by the food prices.
- ❖ Fuel & Light have also come as key contributors towards softening of inflation after the global cool down.
- ❖ The WPI inflation also contracted to an 8 month low figure of 3.80 in December.

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