

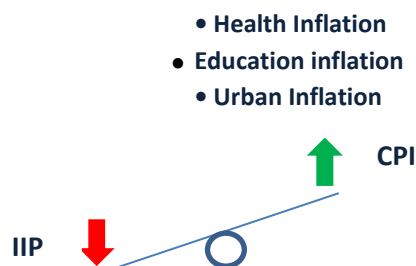
CPI rises while IIP sinks

Key Highlights -

- ❑ The slowdown in the Industrial output is quite evident with the IIP growing at just 0.1 per cent for the month of February. The growth was below our estimates
- ❑ The stagnation in the industrial production is due to drop in the manufacturing and electricity activity. Manufacturing witnessed a degrowth of 0.30% as compared to 8.35% a year ago, Electricity stood at 1.20% as compared to 4.53% in Feb 2018 whereas Mining growth grew from -0.36% to 2.00% YoY.
- ❑ The month of January also witnessed a sharp drop in production of capital goods as the use based classification data suggests, The drop in the production is on the back of higher inventory levels of automobiles which has caused them to slow down the production rates.
- ❑ Capital and Intermediary goods witnessed a YoY decline in growth to the tune of 8.80% and 4.90% respectively. Infrastructure goods for have seen slowdown in the growth rate to 2.40% in February from 10.10% in December 2018. Primary goods, consumer durables and consumer non-durables have witnessed marginal growth at 1.20%, 1.20% and 4.30% respectively.
- ❑ Only 10 out of the 23 products witnessed growth in the manufacturing segment.
- ❑ **Consumer Price Index for the month of March shot up to 2.86% in line with our estimates**
- ❑ The rise in the food prices has helped the CPI to inch up higher. The food price index rose from 135.1 in January to 135.9.
- ❑ The education and health inflation have remained key factors in the rising inflation.
- ❑ **Urban inflation stood at 4.10 percent against rural inflation of mere 1.80 per cent.**

Views -

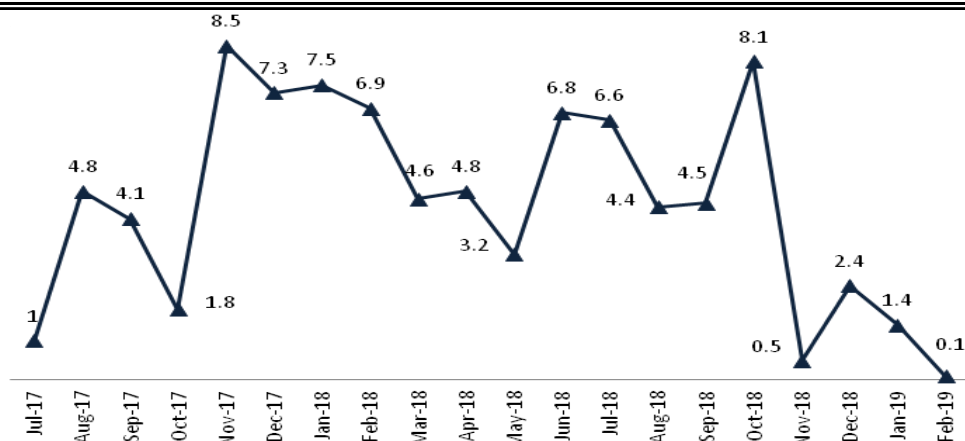
- ❑ With an adverse base the IIP may see a probable degrowth in the month of March
- ❑ Consumer Price Index inching upwards shows a rise in the food inflation which was long due. We believe the inflation for the next 6 months will stay below the RBI's 4% levels.
- ❑ With the CPI moving up and a lot of political and economical factors to be factored in the RBI may have a break in the monetary policy in June. Further cuts may not be factored out in the month of August.



- Low manufacturing activity
- Fall in production of capital goods
- Low electricity growth

Exhibit: Index of Industrial Production

Index of Industrial Production
dropped to just 0.1%



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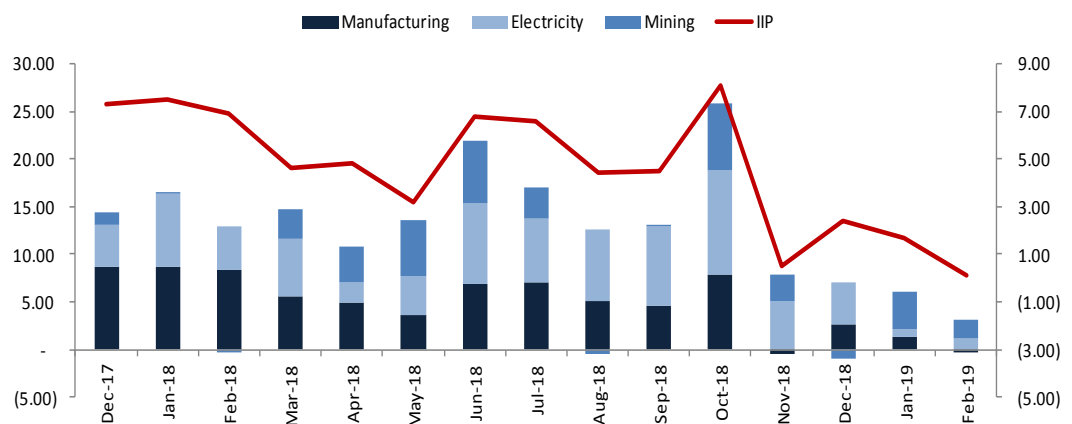
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Exhibit: Sectoral IIP

When we compare the sectoral IIP the decline was predominantly on the backdrop of poor manufacturing performance



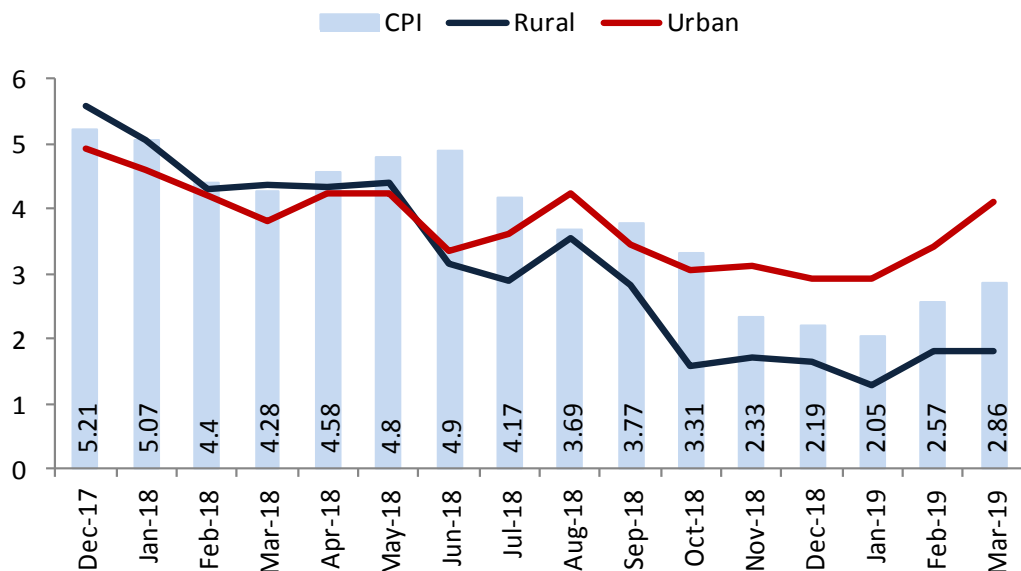
Contribution to IIP

High Positive Contributors	Weights(%)	Contribution to IIP
Mining	14.37	0.2482
Sunflower oil	0.07	0.4778
Analgesic API & formulations	0.45	0.247
Cement	2.16	0.19
Products of steel	0.79	0.1593
High Negative Contributors		
Copper bars, rods	0.64	-0.262
Industry valves	0.53	-0.348
Printing machinery	0.46	-0.2658
Bars & rods of alloy	0.64	-0.262
Air filter	0.19	-0.1962

Use Based(YoY % growth)	Feb-18	Dec-18	Jan-19	Feb-19
Primary goods	3.7	-1.2	1.4	1.2
Capital goods	16.6	5.9	-3.2	-8.8
Intermediary goods	3.4	-1.5	-3.0	-4.9
Infrastructure goods	13.0	10.1	7.9	2.4
Consumer durables goods	7.5	2.9	1.8	1.2
Consumer non-durables goods	7.4	5.3	3.8	4.3

Exhibit Consumer Price Index

CPI for the month of March rose to 2.86 from 2.57 in February

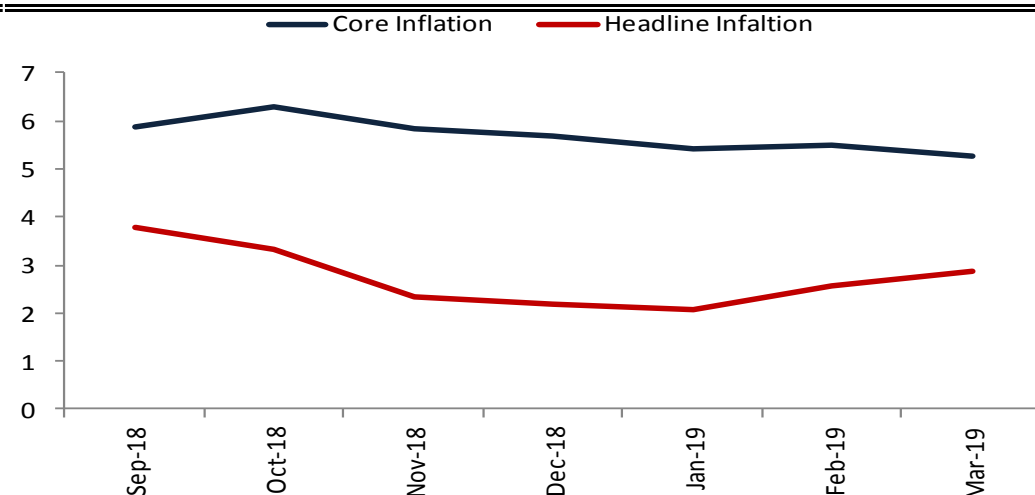


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Description	Mar-18	Feb-19	Mar-19	Inflation rate
Vegetables	135	130	133	-1.5%
Pulses & Products	125	121	122	-2.2%
Sugar & Confectionery	116	109	109	-6.1%
Pan,tobacco & intoxicants	156	163	164	4.6%
Clothing & footwear	143	147	147	2.6%
Housing	142	149	149	4.9%
Fuel & Light	137	138	140	2.4%
Health	134	146	146	8.9%
Education	140	150	150	7.6%

The RBI in their recent monetary policy have also downgraded the inflation projection going forward. After the recent cut in the repo rate in the April monetary policy the RBI has stated that the interest rates will be a factor of the headline inflation going forward. In our base case scenario we assume no change in the repo rates in the June monetary policy.

Exhibit Core & Headline Inflation



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