

### Low growth rates with a controlled CPI call for another rate cut

#### Key Highlights -

- **The Industrial Output for the month of May 2019 tapered down a bit to 3.1% as compared to 3.4% in April 2019.**
- The improvement in the electricity growth at 7.4 percent has propelled the IIP to gain significantly in the month. Mining and Manufacturing activity showed decent growth rates at 3.2 and 2.5 per cent respectively.
- As per the use based classification the capital goods growth came in at a mere 0.8% on the back of continuous production cuts by top automobile manufacturers in the country.
- Primary and intermediate goods too witnessed 2.5% and 0.6% growth rates whereas the construction goods growth picked up at 5.5%. Consumer durables witnessed negative 0.1% growth while consumer non- durables achieved the highest growth rate at 7.7%
- Only 12 out of the 23 manufacturing industries witnessed growth in the current month.
- Manufacturing of paper products have witnessed 2 consecutive months of higher negative growth rates. -12.2% in May. Positive manufacturing contributors include food products and wood products witnessing 15.9 and 9.4 per cent growth respectively.
- **Consumer Price Index for the month of June 2019 inched up to 3.18 in June 2019.**
- The rise in the food prices has helped the CPI to crawl up. The food inflation was at 2.17 per cent in June as opposed to 1.83 per cent in May 2019.
- Also the inflation has been largely suppressed with still deflationary trends in fruits at 4.18 The fall in global crude prices also subdued the fuel and light inflation at just 2.32%.
- **Urban inflation soared to 4.33 percent against rural inflation of mere 2.21 %.** while the food inflation has shown drastic difference in the urban and rural trends at 5.56 and 0.43 per cent.
- The IIP for the next two months is poised to be under the 4% level with the effects of rate cut showing up in rise in spending in consumer durables and non durables.
- Consumer Price Index inching upwards shows a rise in the food inflation which was clearly incoming with the delayed and below normal monsoon in most parts of the country. The trajectory for the next couple of months seems to be below 4% with rise in food inflation but moderation in the headline inflation.
- With the inflation under control and below normal industrial growth the RBI has a strong case to cut repo rates in the August policy given an accomodative stance they have.

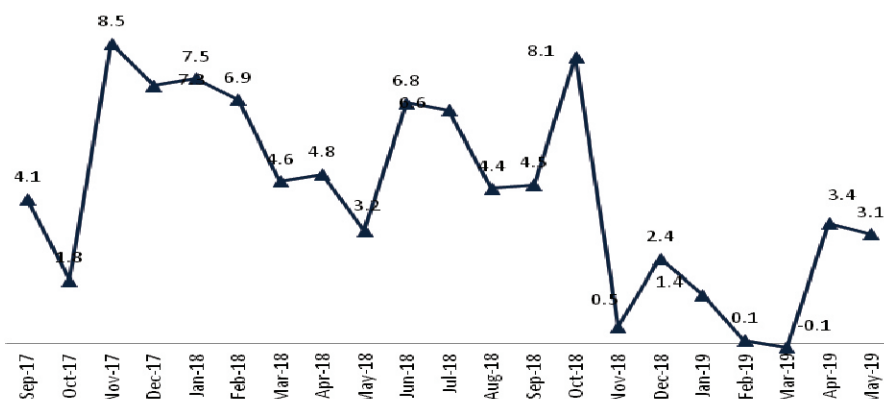
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#### Exhibit: Index of Industrial Production

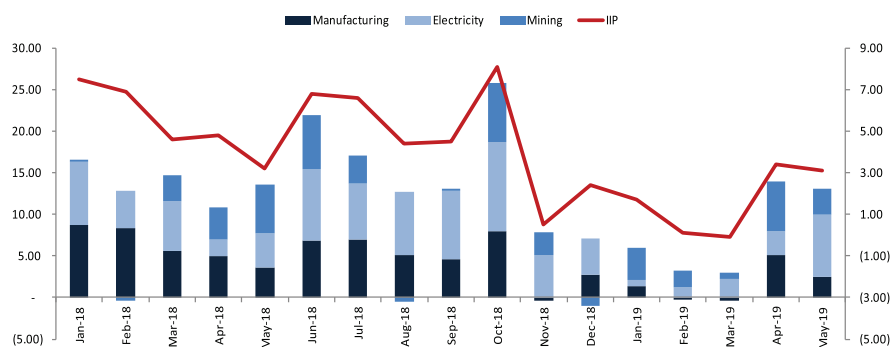
Index of Industrial Production saw a slight fall in growth.



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## Exhibit: Sectoral IIP

When we compare the sectoral IIP the growth was led by mining and electricity generation.



## Contribution to IIP

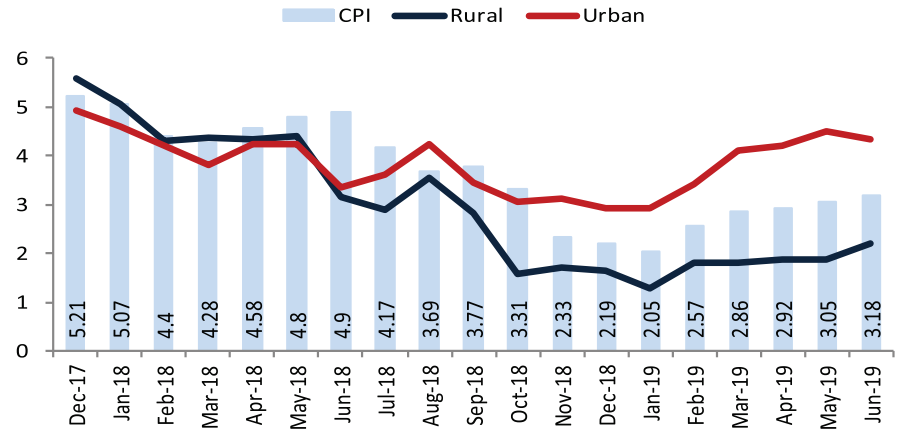
HIGH POSITIVE CONTRIBUTORS	WEIGHTS(%)	CONTRIBUTION TO IIP
Electricity	7.99	0.75
Sunflower oil	0.07	0.51
Digestive Enzymes	0.22	0.48
Separators including centrifuge	0.16	0.4
Mining	14.37	0.37

HIGH NEGATIVE CONTRIBUTORS	WEIGHTS(%)	CONTRIBUTION TO IIP
Diesel	5.71	-0.19
Printed circuit boards	0.22	-0.16
Printing Machinery	0.46	-0.16
Two-wheelers	1.36	-0.12
Cotton Woven Fabric	0.72	-0.1

USE BASED(YOY % GROWTH)	MAY-18	MAR-19	APR-19	MAY-19
Primary goods	5.7	2.5	5.2	2.5
Capital goods	6.4	-8.7	2.5	0.8
Intermediary goods	0.1	-2.5	1.0	0.6
Infrastructure goods	7.6	6.4	1.7	5.5
Consumer durables goods	6.7	-5.1	2.4	-0.1
Consumer non-durables goods	-1.6	0.3	5.2	7.7

## Exhibit: Consumer Price Index

CPI for the month of June rose to 3.18%.

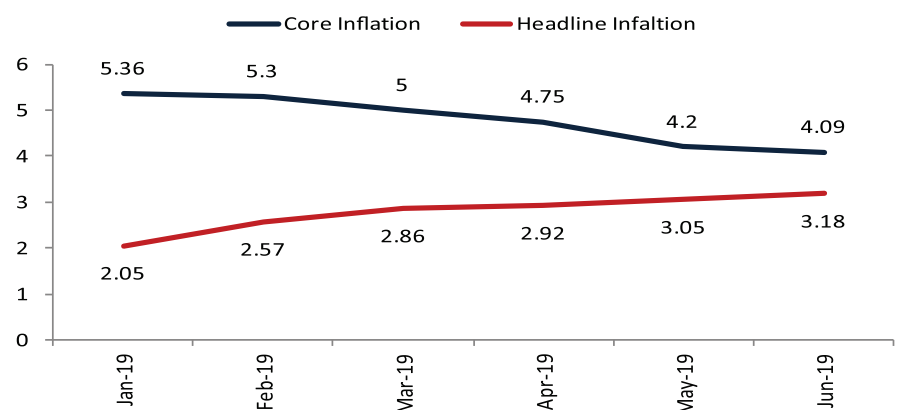


## Impactful contributors

DESCRIPTION	JUN-18	MAY-19	JUN-19	INFLATION RATE
Vegetables	144	143	150	4.7%
Pulses & Products	121	125	128	5.7%
Sugar & Confectionery	111	110	111	-0.1%
Pan,tobacco & intoxicants	158	164	165	4.1%
Clothing & footwear	145	147	147	1.5%
Housing	143	150	149	4.8%
Fuel & Light	138	140	141	2.3%
Health	136	147	139	1.7%
Education	143	152	152	6.4%

The recent downside risks to the the RBI's inflation projection include irregular monsoon and global trade tensions. The cooling core inflation bodes well for the economy as it will help to adjust the rising the food inflation in the country.

## Exhibit: Core & Headline Inflation



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