

Mixed Signals on the CPI & IIP front for the MPC

Key Highlights

- The Industrial Output for the month of August 2019 contracted by 1.1% reinforcing growth concerns in the economy. The IIP has been lowest since November 2012.
- The IIP for the April-August period stood at 2.4% as opposed to 5.3% a year ago.
- The drag down in the output has been on the back of degrowth in manufacturing and electricity generation. Manufacturing growth stood at -1.2% while electricity generation growth stood at -0.9%. Mining generation has been the sole mere positive contributor at 0.1%.
- As per the use based classification the capital goods saw a big decline by 21% due to production cuts by the big automobile manufacturers in the country.
- Infrastructure goods and consumer durables also saw de growth in the month of August at -4.50% and -9.10%. Intermediary and consumer non durables saw positive uptrend in the growth at 7% and 4.10%. primary goods inched up by 1.1%.
- 15 out of the 23 manufacturing industries witnessed growth in the current month compared to 13 in the previous month.
- Manufacturing wood products and wearing apparel has witnessed highest growth at 11.3% and 10.3% respectively. Manufacture of motor vehicles and other transport equipment contracted by 23.1% and 13.6% respectively.
- Consumer Price Index for the month of September 2019 climbed up to 3.99 as opposed to 3.15 in July'19.
- The large upscale in the inflation can be attributed to higher food prices. Food and beverages saw a 4.7% growth as compared to 2.96% in the previous month.
- The food inflation rose with positive uptick movements from Meat&Fish, Vegetables and pulses at 10.29%, 15.40% and 8.40% respectively.
- Urban inflation rose to 4.78 percent against rural inflation of mere 3.24%.
- The IIP figures for the month of August'19 has been dismal and fell to a 7 year low growth rate of -1.1%. This will definitely be a slowdown signal for the MPC as they mentioned growth orientation approach
- The Consumer Price Index surprised with an upward swing with food inflation pressure causing the CPI to reach 3.99%
- The RBI's further monetary policy decisions will not be easy as they have mixed signals from inflation and growth point of view. An immediate rate cut in the December policy should be out of the books for the RBI to navigate through the further inflationary risks but we factor in another rate cut of 25 bps by the end of this fiscal.

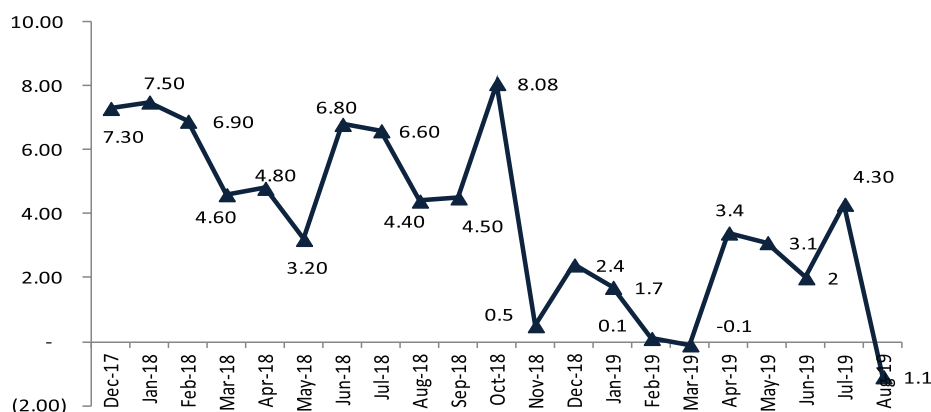
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Exhibit: Index of Industrial Production

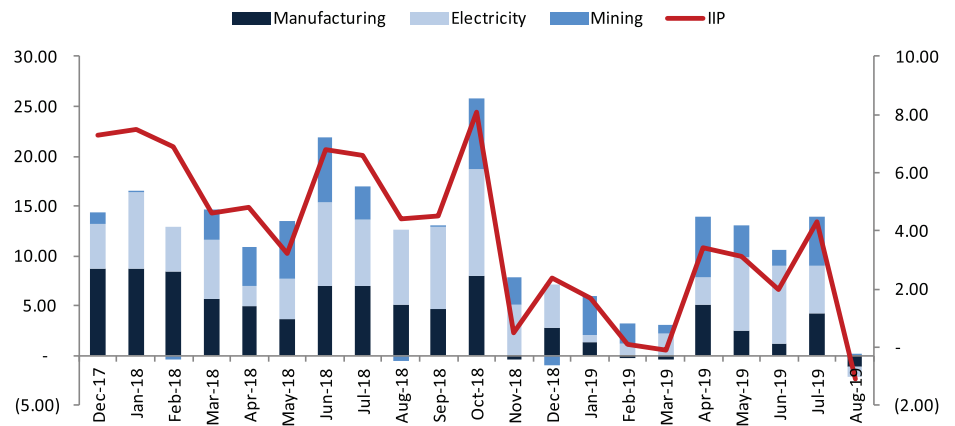
Index of Industrial Production saw a substantial fall in August'19



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Exhibit: Sectoral IIP

When we compare the sectoral IIP the degrowth was led by manufacturing and electricity generation.



Contribution to IIP

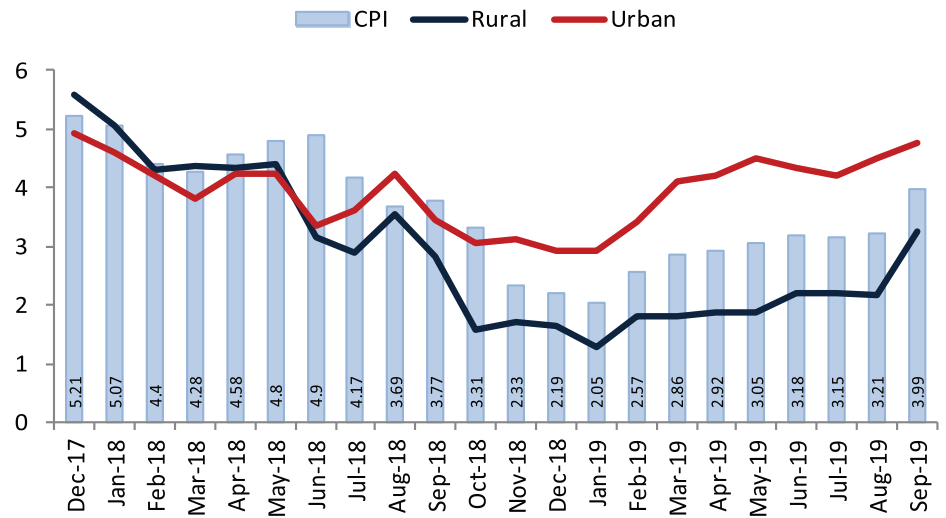
High Positive Contributors	Weights(%)	Contribution to IIP
MS Slabs	0.84	1.5789
Digestive Enzymes	0.22	0.4731
HR Coils	1.35	0.4404
API & Formulations	0.45	0.4367
Sunflower oil	0.07	0.2858

High Negative Contributors	Weights(%)	Contribution to IIP
Bars & Rods of Alloy	0.57	-0.6068
Auto Components	2.59	-0.4469
Commercial Vehicles	0.94	-0.3874
Two wheelers	1.36	-0.3164
Steel Structural	0.79	-0.2856

Use Based (YoY % growth)	Aug-18	Jun-19	Jul-19	Aug-19
Primary goods	2.5	0.5	3.5	1.1
Capital goods	10.3	-6.5	-7.1	-21.0
Intermediary goods	2.9	12.4	13.9	7.0
Infrastructure goods	8.0	-1.8	2.1	-4.5
Consumer durables goods	5.5	-5.5	-2.7	-9.1
Consumer non-durables goods	6.5	7.8	8.3	4.1

Exhibit: Consumer Price Index

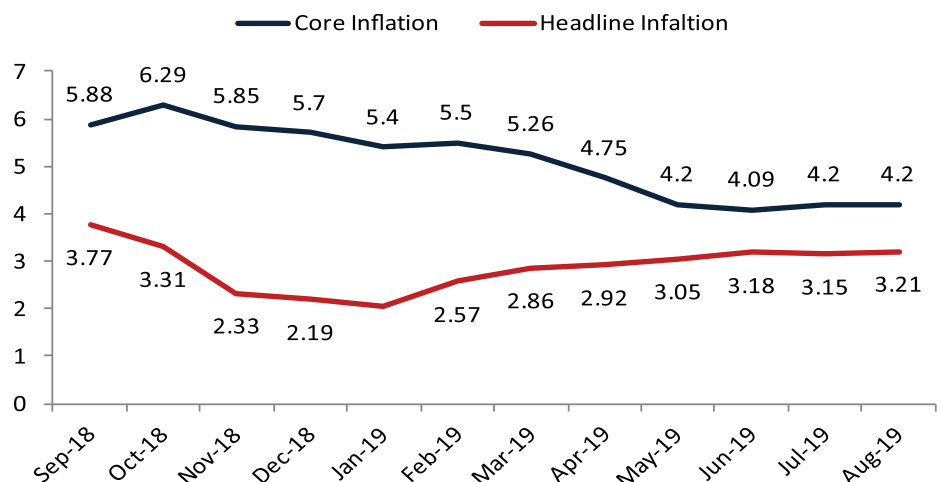
CPI for the month of September rose to 3.99%.



Impactful contributors

Description	Sep-18	Aug-19	Sep-19	Inflation rate
Vegetables	150	167	173	15.4%
Pulses & Products	121	131	132	8.4%
Sugar & Confectionery	114	112	113	-0.4%
Pan,tobacco & intoxicants	159	166	167	4.6%
Clothing & footwear	147	148	148	1.0%
Housing	145	152	152	4.7%
Fuel & Light	142	139	139	-2.2%
Health	138	149	149	7.7%
Education	146	155	155	6.2%

Exhibit: Core & Headline Inflation



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