

Rate cut on the cards with looming growth concerns

Key Highlights

- **The Industrial Output for the month of September 2019 contracted for a second month in a row at -4.3%.reinforcing growth concerns in the economy. The IIP has been lowest since November 2012.**
- The IIP for the April-September period stood at 1.3% as opposed to 5.2% a year ago.
- The drag down in the output has been on the back of degrowth in manufacturing mining activity and electricity generation. Manufacturing growth stood at -3.9% while electricity generation growth stood at -2.6%. Mining generation has been the biggest degrowth at -8.5%.
- As per the use based classification the capital goods saw a big decline by 20.7% on the back of sustained production cuts by Auto manufacturers in the country.
- Infrastructure goods and consumer durables also saw de growth in the month of September at -6.40% and --9.9%. Intermediary goods was the only positive growth section at 7.0%. Primary goods saw a contraction by 5.1% while the non durables saw marginal negative growth at -0.4%.
- 17 out of the 23 manufacturing industries witnessed growth in the current month compared to 15 in the previous month.
- Manufacturing wood products and wearing apparel has witnessed highest growth at 15.5% and 3.2% respectively. Manufacture of motor vehicles and other transport equipment contracted by 24.8% and 8.9% respectively.
- **Consumer Price Index for the month of October 2019 jumped up to 4.62 as opposed to 3.99 in September'19.**
- Higher food prices have led the inflation to a 16 month high figure in October'19. Inflation in food adn beverages stood at 6.93% in October.
- Key inflationary trends in the food index could be seen in Vegetables (26.10%), Pulses & Products (11.72%) and Meat & Fish (9.75%)
- **Urban inflation rose to 5.11 percent against rural inflation of 4.29%.**
- The IIP figures for the month of September'19 have been dismal and fell to an almost 8 year low growth rate of -4.3%. The data along with the upcoming GDP data will reiterate the growth concerns in the economy which will need to be addressed by the MPC
- The Consumer Price Index on the back of rising food inflation has seen a higher than expected inflationary trend at 4.62 percent.
- The rise in inflation on the back of higher food prices is a temporary phenomenon and will not take much time to settle back while the headline inflation stays near the RBI's comfortable 4% level which will prompt the RBI to go forward with more rate cuts upto 50bps in this fiscal to help remove the growth concerns.

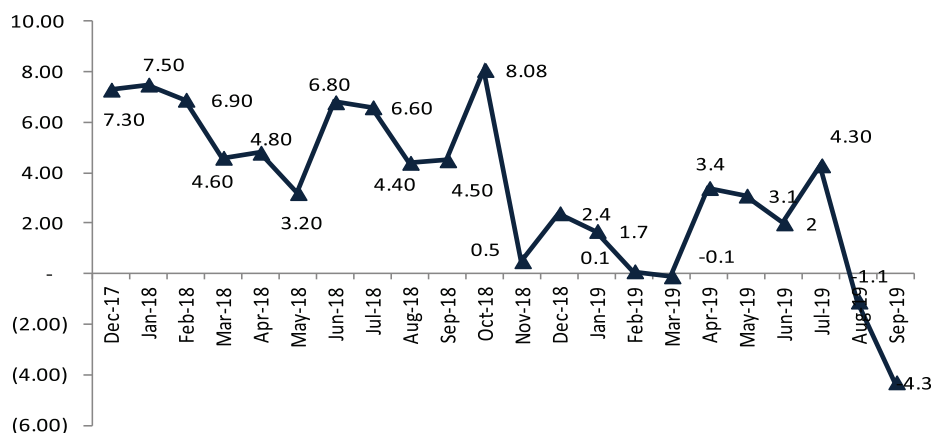
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Index of Industrial Production saw a substantial fall in August'19

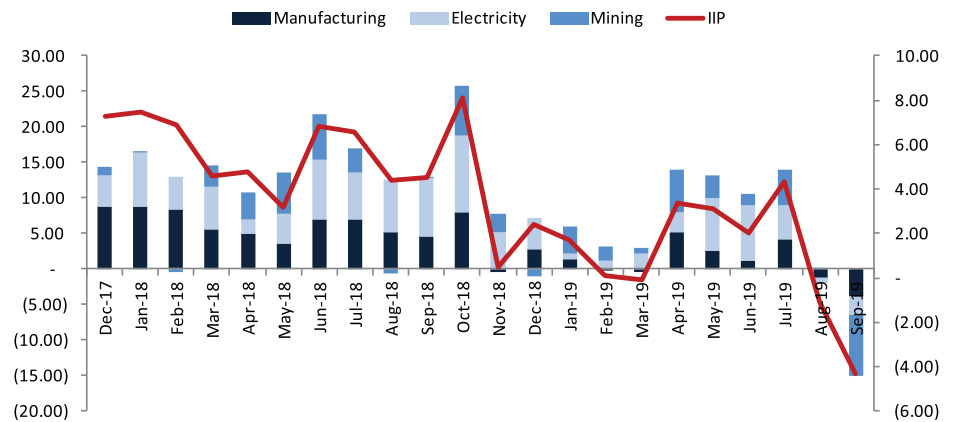
Exhibit: Index of Industrial Production



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Exhibit: Sectoral IIP

When we compare the sectoral IIP the degrowth was mainly led by contraction in mining activity, manufacturing and electricity also contracted



Contribution to IIP

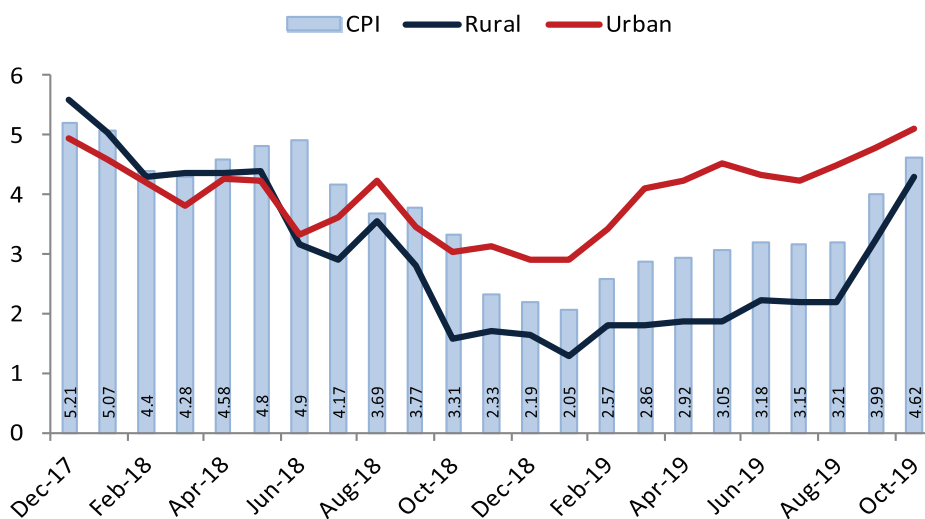
High Positive Contributors	Weights(%)	Contribution to IIP
MS Slabs	0.84	1.6045
Fragrance & Oil Essentials	0.2	0.4059
HR Coils	1.35	0.3602
Electric heaters	0.25	0.2624
API & Formulations	0.45	0.2142

High Negative Contributors	Weights(%)	Contribution to IIP
Mining	14.37	-0.8927
Bars & Rods of alloy and stainless steel	0.57	-0.6339
Auto Components	2.59	-0.4689
Commercial Vehicles	0.94	-0.4547
Two wheelers	1.36	-0.3525

Use Based (YoY % growth)	Sep-18	Jul-19	Aug-19	Sep-19
Primary goods	2.6	3.5	1.1	-5.1
Capital goods	6.9	-7.1	-21.0	-20.7
Intermediary goods	1.5	13.9	7.0	7.0
Infrastructure goods	9.5	2.1	-4.5	-6.4
Consumer durables goods	5.4	-2.7	-9.1	-9.9
Consumer non-durables goods	6.4	8.3	4.1	-0.4

Exhibit: Consumer Price Index

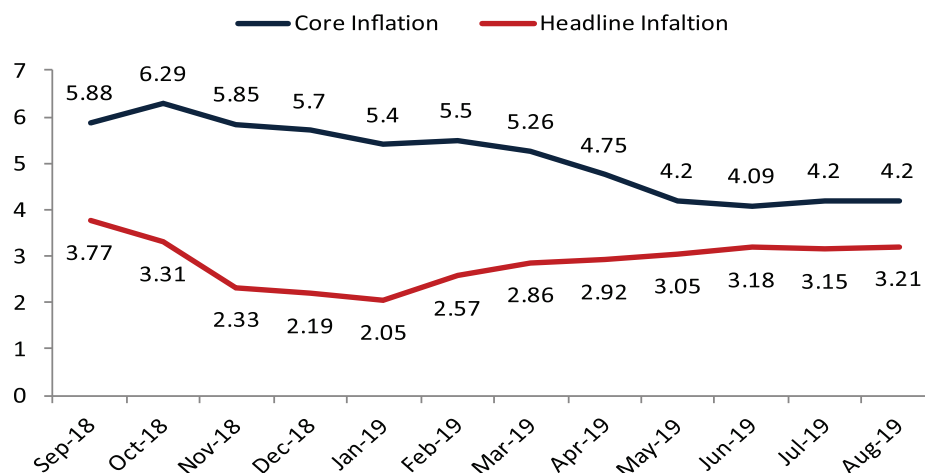
CPI for the month of September rose to 4.62%.



Impactful contributors

Description	Oct-18	Sep-19	Oct-19	Inflation rate
Vegetables	149	173	188	26.1%
Pulses & Products	119	132	133	11.7%
Sugar & Confectionery	113	113	114	1.3%
Pan,tobacco & intoxicants	161	167	167	3.9%
Clothing & footwear	146	148	148	1.6%
Housing	146	152	153	4.6%
Fuel & Light	144	139	141	-2.0%
Health	142	149	145	2.5%
Education	147	155	155	6.1%

Exhibit: Core & Headline Inflation



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