

Growth Revival & Heightened Inflation calls for a Pause in February MPC meet

Key Highlights

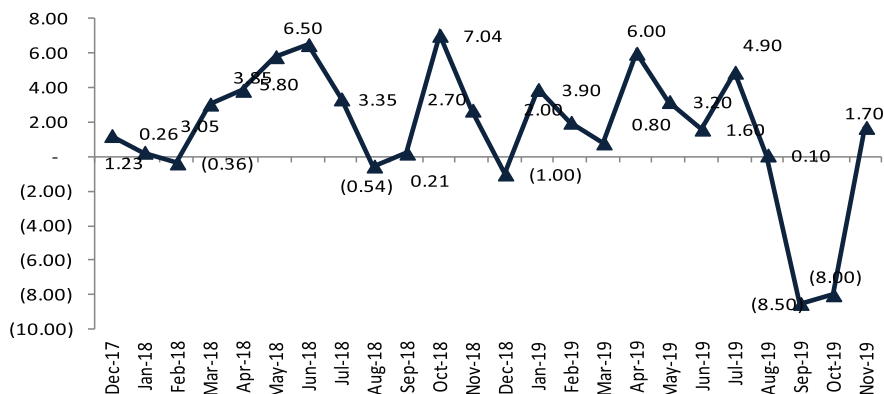
- In November 2019 a reversal in the trend for the Index of Industrial production could be seen as it grew positively after 3 months of contraction. The growth during the month was at 1.8% aided by a lower base effect.
- The IIP for the April-November period stood at 0.6% as opposed to 5.0% in the previous year.
- The Index of Industrial Production was saw a positive jump on the back of a slight base effect, the growth was mainly aided by manufacturing (2.7%) and mining activity (1.7%).
- A weak investment market and subdued consumer demand has lead to contraction in capital goods and infrastructure goods by 8.6% and 3.5%.
- Primary goods and consumer durables also saw negative growth rate by 0.3% and 1.5%. Intermediate goods and consumer non-durables saw positive growth in the month of November'19 at 17.1% and 2.0% respectively.
- 10 out of 23 manufacturing industries witnessed contraction. Manufacturing of wood and basic metals saw highest growth rate at 23.2% and 12.9% respectively. The highest contraction could be seen in manufacturing of motor vehicles & trailers at 12.6% on the back of sustained production cuts.
- **Consumer Price Index for the month of November 2019 zoomed up to 7.35% as opposed to 5.54% a month ago.**
- Food inflation has been the key driver of the hightened CPI in December. The inflation in food and beverages was up by 12.16%
- Key inflationary trends in the food index could be seen in Vegetables (60.55%), Pulses & Products (15.44%) and Meat & Fish (9.57%)
- **Urban & Rural Inflation are on a path of convergence after years of high urban and subdued rural inflation Urban inflation rose to 7.46 percent against rural inflation of 7.26%.**
- The IIP figures for the month of November has been better, in line with our expectations. Revival of growth in a few lead indicators is they key going ahead and we expect the growth revival to take place on the back of a lower base impact.
- The Consumer Price Index pained by the food index though higher on account of food prices, should pan down a notch on the back of revival in onion supply and rabi harvest in January.
- The higher inflationary trend has discouraged RBI from cutting down on interest rates. These factor combined will urge the RBI to maintain a status quo in the month of February. Interim Budget on 1st February will be closely monitored for any fiscal deviations.

Research Analyst

Deepak Kumar
deepak.kumar@narnolia.com

Dhwanik Shah
Dhwanik.Shah@narnolia.com

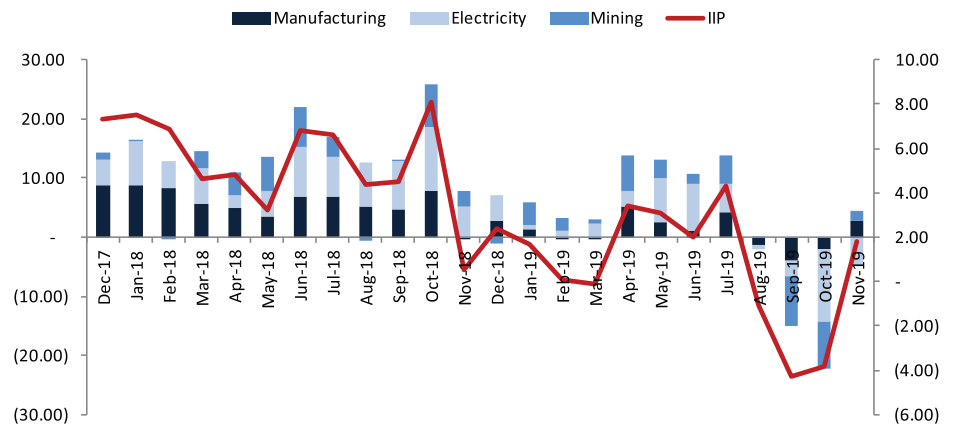
Exhibit: Index of Industrial Production



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Exhibit: Sectoral IIP

When we compare the sectoral IIP the growth was aided by manufacturing activity



Contribution to IIP

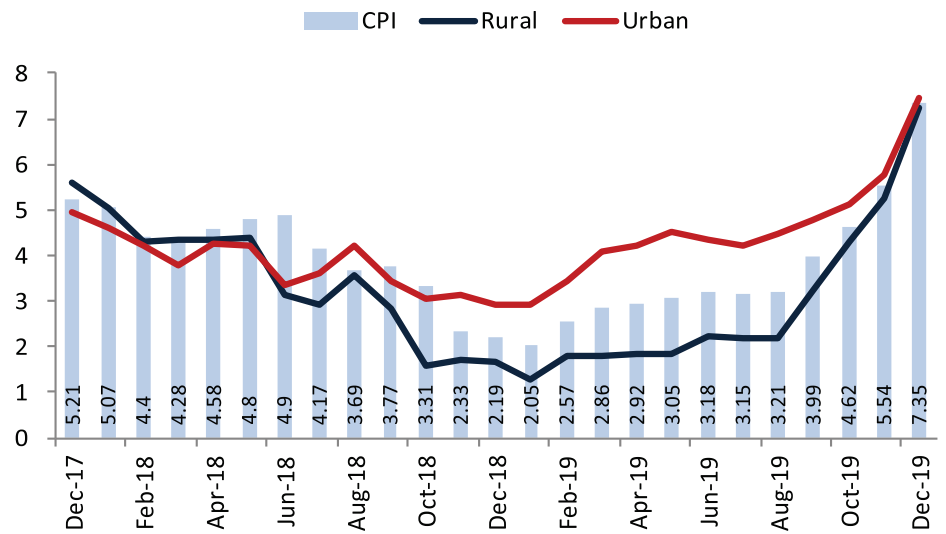
High Positive Contributors	Weights(%)	Contribution to IIP
MS Slabs	0.84	1.8322
HR Coils	1.35	0.3177
Electric Heaters	0.25	0.2916
Fragrance & Oil Essentials	0.2	0.2794
Pipes & Tubes of Steel	0.34	0.2589

High Negative Contributors	Weights(%)	Contribution to IIP
bars & rods	0.57	-0.6654
Sugar	0.76	-0.4756
Electricity	7.99	-0.4691
Steel Structural	0.79	-0.3281
Auto components	2.59	-0.2857

Use Based (YoY % growth)	Nov-18	Sep-19	Oct-19	Nov-19
Primary goods	3.2	-5.1	-6.0	-0.3
Capital goods	-4.1	-20.7	-21.9	-8.6
Intermediary goods	-4.1	7.0	22.2	17.1
Infrastructure goods	4.8	-6.4	-9.2	-3.5
Consumer durables goods	-3.0	-9.9	-18.0	-1.5
Consumer non-durables goods	-0.3	-0.4	-1.1	2.0

Exhibit: Consumer Price Index

CPI for the month of December rose to 7.35%.



Impactful contributors

Description	Dec-18	Nov-19	Dec-19	Inflation rate
Vegetables	135	200	217	60.5%
Pulses & Products	120	136	138	15.4%
Sugar & Confectionery	110	114	114	3.4%
Pan,tobacco & intoxicants	163	168	169	3.4%
Clothing & footwear	147	149	153	4.1%
Housing	147	154	153	4.3%
Fuel & Light	143	142	144	0.7%
Health	145	150	150	3.8%
Education	150	156	156	3.7%

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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