

Fall in inflation removes RBI's rate cut obstacle

Key Highlights

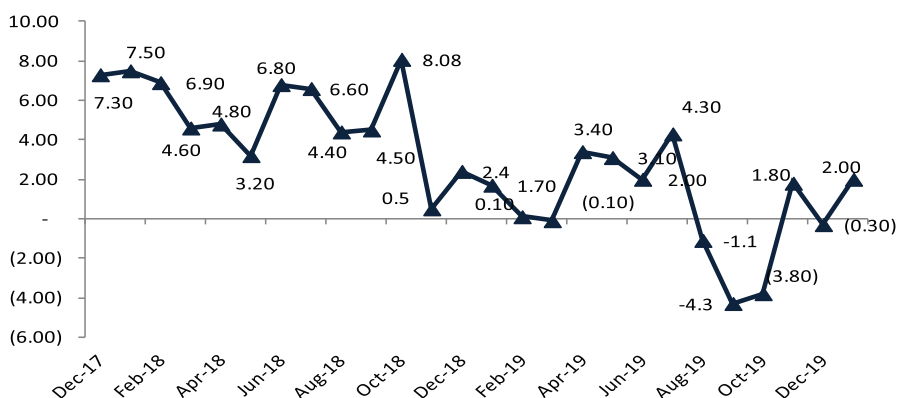
- **A slight uptick in the January IIP figure was witnessed with better production activities highlighted by the manufacturing PMI. The Index of Industrial Production stood at 2.00%**
- The IIP for the April-January period stood at 0.5% as opposed to 2.0% in the same period previous year.
- An increase in manufacturing activity can be credited behind the increase in IIP for the month of January.
- Positives in Primary Goods and Intermediate Goods at 1.8% and 15.8% signal an increase in the capex activity.
- According to the use-based classification, contraction in Capital Goods & Infrastructure goods continued in the month of January at -4.3% and -2.2%. Consumer durables and consumer non-durables also saw negative growth rate at -4.0% and -0.3%.
- 11 out of 23 manufacturing industries witnessed contraction. Manufacturing of tobacco products and basic metals saw highest growth rate at 22.8% and 14.1% respectively. The highest contraction could be seen in manufacturing of computer & electronic products at 11.6%.
- **Consumer Price Index for the month of February 2020 eased at 6.58% as opposed to 7.59% a month ago.**
- The Inflation has eased owing to a fall in food inflation after soaring high vegetable prices a couple of months ago.
- Key inflationary trends in the food index could be seen in Vegetables (31.61%), Pulses & Products (16.61%) and Meat & Fish (10.20%) which are bound to fall in the coming months.
- The IIP figures for the month of January rose back to the positive territory after a few months of contraction. For the month of February PMI Manufacturing & Services were above 54 and signal some good signs, Going forward we might witness the IIP going back to negative zone on the back of worldwide demand slowdown on the back of Covid-19.
- The Consumer Price Index pained by the food index though higher on account of food prices, and telecom & communication charge in the month of December and January. We expect the inflation to take a back seat and hover near RBI's comfortable level in the coming months with crude witnessing sharp fall and moderation in vegetable prices.
- The higher inflationary trend has discouraged RBI from cutting down on interest rates. With the inflation easing down and worldwide central banks cutting down rates to disallow negative economic impact of Covid-19, RBI should follow suit with a space for upto 50bps cut.

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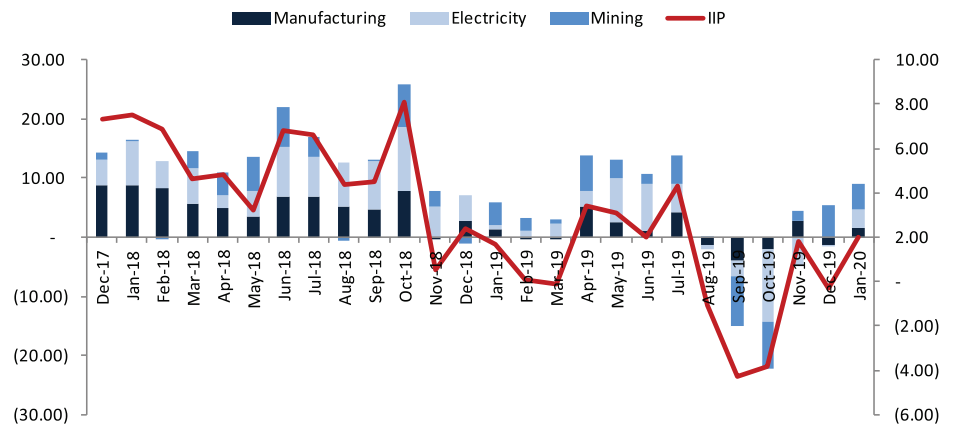
Exhibit: Index of Industrial Production



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Exhibit: Sectoral IIP

When we compare the sectoral IIP all the three sectors saw positive movement



Contribution to IIP

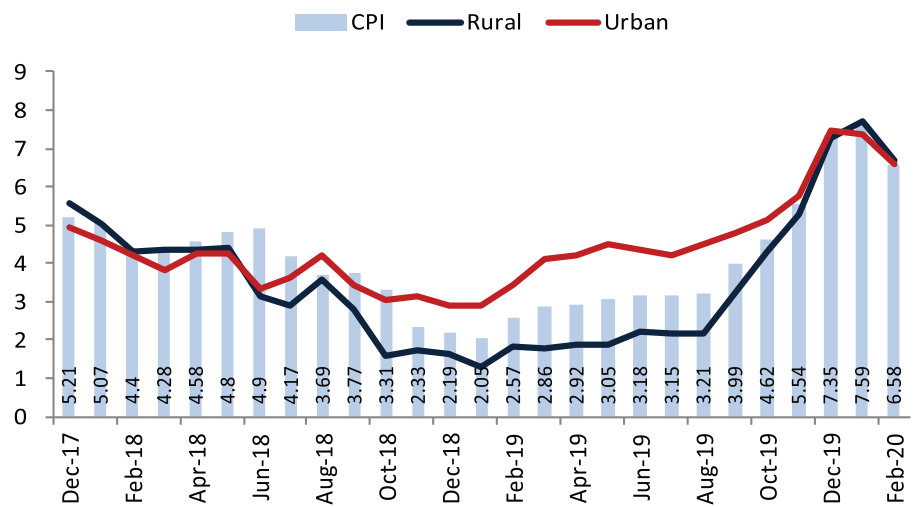
High Positive Contributors	Weights(%)	Contribution to IIP
MS Slabs	0.84	1.9715
Mining	14.37	0.5561
HR Coils	1.35	0.5258
Separators	0.16	0.4342
Electricity	7.99	0.2796

High Negative Contributors	Weights(%)	Contribution to IIP
bars & rods	0.57	-0.5286
Steel Structural	0.79	-0.4100
Sugar	0.76	-0.2881
Digestive Enzymes	0.22	-0.2074
Two-Wheelers	1.36	-0.1684

Use Based (YoY % growth)	Jan-19	Nov-19	Dec-19	Jan-20
Primary goods	1.4	-0.3	2.2	1.8
Capital goods	-3.6	-8.6	-18.2	-4.3
Intermediary goods	-2.8	17.1	12.5	15.8
Infrastructure goods	6.4	-3.5	-2.6	-2.2
Consumer durables goods	2.5	-1.5	-6.7	-4.0
Consumer non-durables goods	3.8	2.0	-3.7	-0.3

Exhibit Consumer Price Index

CPI for the month of February eased to 6.58.



Impactful contributors

Description	Feb-19	Dec-19	Jan-20	Inflation rate
Vegetables	130	197	171	31.6%
Pulses & Products	120	140	141	17.6%
Sugar & Confectionery	109	114	114	4.2%
Pan,tobacco & intoxicants	163	169	170	4.1%
Clothing & footwear	147	149	150	2.0%
Housing	149	154	155	4.2%
Fuel & Light	138	145	147	6.4%
Health	146	151	152	4.2%
Education	150	156	156	3.9%

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