

Data prints maintain status quo

Both Jan IIP and Feb CPI prints were nearly flat vs last month at 3.8% y/y and 5.09% respectively. **CPI estimate was in line with our estimate of 5.11%** and more importantly, core inflation dropped to record lows of 3.3%. Meanwhile, the IIP release provided downward surprise vs our estimate of 4.5%.

Core CPI slips to record lows

Core CPI saw a broad-based drop to 3.3% (record lows) and core ex transport also dropped to 3.6% (3-year lows). Meanwhile, delay in seasonal correction in food prices kept headline inflation flat vs Jan'24. Vegetables were the key driver of uptick in food CPI to 8.7% (Jan'24: 8.3%) even as cereals inflation stayed sticky at 7.6%. The next reading is tracking below 5% and we see FY25 CPI also cool in line with MPC's forecast of 4.5%. Yet, in our view, the MPC is likely to stay watchful of inflation risks (monsoon, commodity prices which explains c.70% of easing in core CPI in FYTD24 among others).

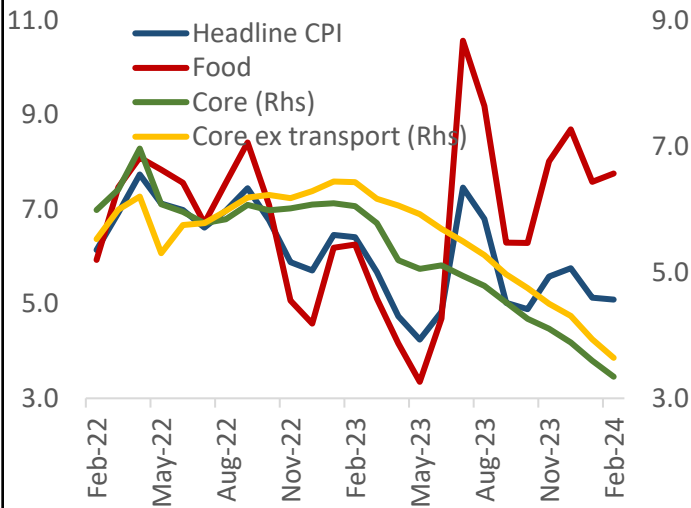
IIP stayed in mid-single digits

Manufacturing was the key source of downward surprise in IIP. Meanwhile, mining sustained strong momentum and electricity outperformed vis-à-vis seasonal trends. We were concerned by the slip in consumer non-durables to negative zone showing weakness in rural demand recovery. In fact, double digit growth in consumer durables signaled the wedge in urban and rural demand dynamics. Also, growth stays sluggish in capital goods IIP which needs close watch as well. Going forward, we see IIP sustain in single digits, with strong construction led growth uptick on weak monsoon slowly fading.

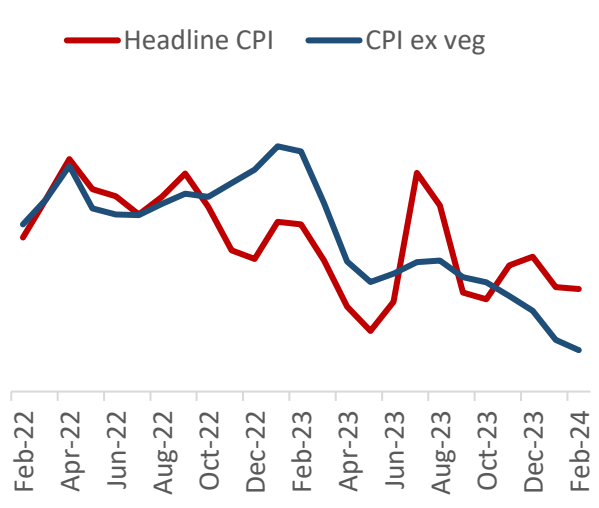
MPC likely to cut rates "later" rather than "sooner"

As highlighted above, the MPC is likely to stay cautious due to inflation risks in the near term. Also, the RBI is likely to refrain from any premature policy easing (rates + liquidity) as it stays vigilant regarding any credit excesses in the financial system. That said, we do expect a shallow 50bps rate cutting cycle in FY25 in H2-FY25.

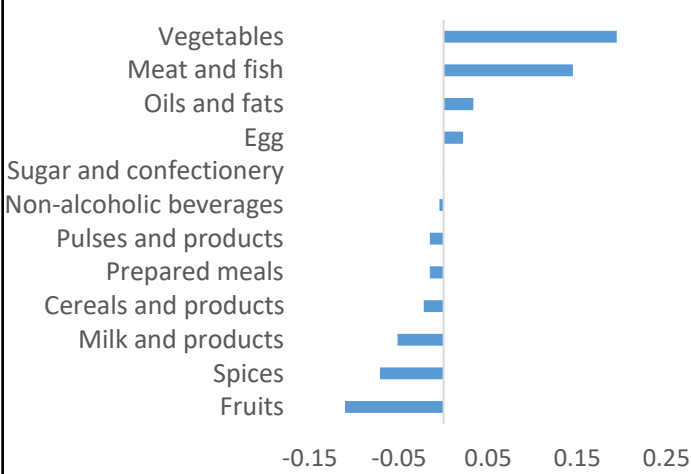
Feb CPI stays flat as expected; Core CPI cools to record lows; % y/y



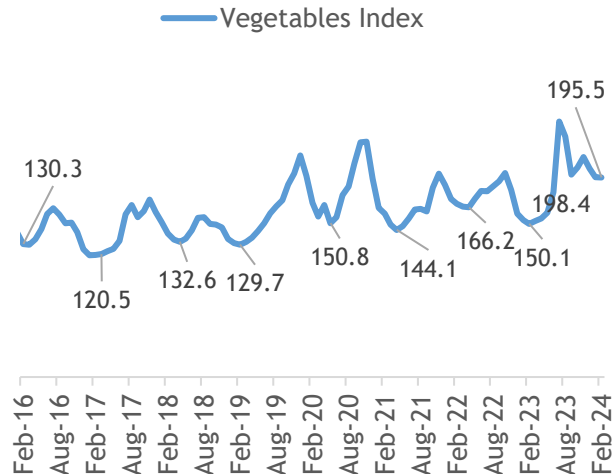
CPI ex veggies also slipped to record lows; % y/y



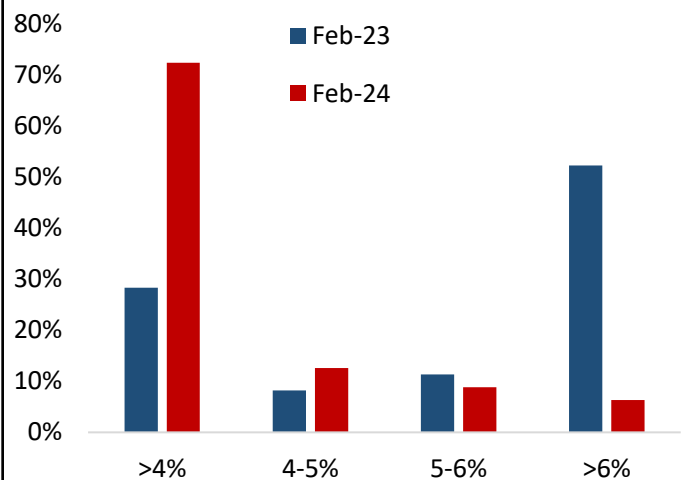
Vegetables led the uptick in food inflation; change in ppt contribution (Feb vs Jan)



Delay in seasonal correction in vegetables CPI keeping inflation elevated



C.70% of core CPI sub-segments are at sub-4%; share of core CPI sub-segment by level

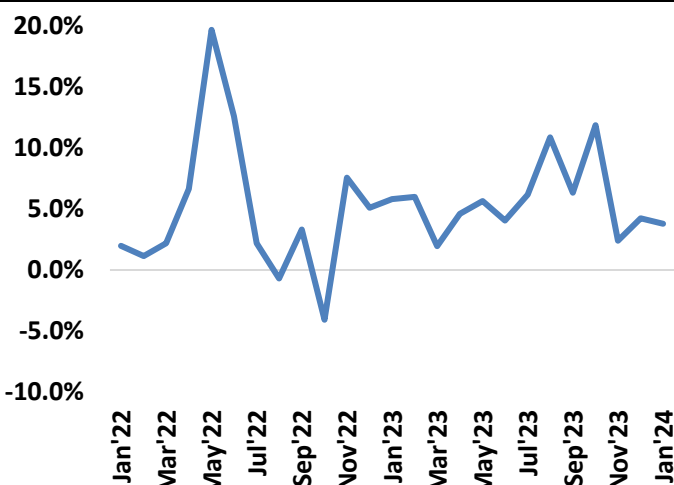


Lower commodity prices explain c.70% of cooling in core CPI

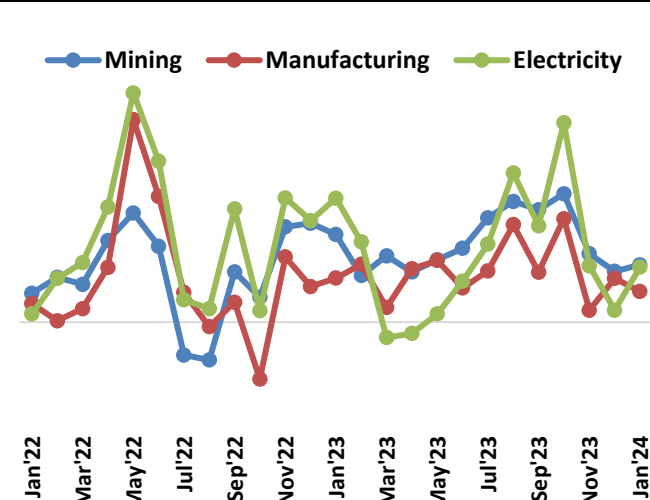
	FY23	FYTD24
Core CPI, % y/y	6.1	4.4
Change (bps)	-170	
Of which (ppt contribution)		
Clothing	-51	
Transport (fares + petrol, diesel)	-47	
Palm oil related goods	-16	

IIP was steady in Jan'24

% y/y



Manufacturing IIP eased while electricity saw a sharp uptick; % y/y



2-digit industry trends show manufacturing slowdown led by pharma, chemicals, refined products and food

Sub-sector	Weight	YoY Growth %		
		Nov'23	Dec'23	Jan'24
Food Products	5.3	-3.9%	1.2%	-0.6%
Coke & Refined Petroleum Products	11.8	14.2%	6.9%	-2.2%
Chemicals & Chemical Products	7.9	-4.0%	-0.2%	-1.5%
Pharma, Medicinal Chemical & Botanical Products	5.0	-2.4%	3.0%	0.0%
Other Non-Metallic Mineral Products	4.1	-3.0%	1.4%	4.1%
Basic Metals	12.8	7.2%	7.3%	5.8%
Machinery & Equipment N.E.C.	4.8	-1.0%	-0.1%	3.5%
Motor Vehicles, Trailers & Semi-Trailers	4.9	9.2%	9.2%	18.0%

Manufacturing eased along with consumer non-durables IIP slipped while electricity, durables and capital goods saw an uptick

Sector	Weight	YoY Growth %		
		Nov'23	Dec'23	Jan'24
Mining	14.4	7.0%	5.1%	5.9%
Manufacturing	77.6	1.2%	3.9%	3.2%
Electricity	8.0	5.8%	1.2%	5.6%
Industrial Production: Use-based				
Primary goods	34.0	8.5%	4.6%	2.9%
Capital goods	8.2	-1.1%	3.2%	4.1%
Intermediate goods	17.2	3.1%	3.4%	4.8%
Infrastructure / Construction Goods	12.3	1.7%	4.1%	4.6%
Consumer durables	12.8	-5.5%	4.8%	10.9%
Consumer non-durables	15.3	-3.3%	2.1%	-0.3%

Thank you!

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