India: March CPI cools to sub-5% on record low core CPI

12th April 2024

March CPI slips below 5% as expected; Feb'24 IIP clocks lower than our estimate

CPI data clocked 4.85% vis-a-vis our estimate of 4.92%. The theme of lagged seasonal correction in food prices especially vegetables continued to persist with CPI ex vegetables slipping to 3.5% (lowest since Nov'19). Meanwhile, IIP picked up in Feb to 5.7% vs 4.1% last month, on a broad-based uptick.

Core CPI clocks fresh record lows

Core CPI dropped to 3.2% (Mar'24: 3.4%) led by easing in transport CPI, with core ex transport CPI staying flat at 3.6%. This implies that core inflation eased on retail fuel price cuts and downward pressure across other sub-components except for personal care driven by recent spike in gold prices. Similar to core CPI, fuel CPI also slipped to fresh record low of (-)3.2%, on account of cut in subsidized LPG cylinder price by ₹ 100/ cylinder (c. 11% m/m).

While easing core and fuel inflation pressures are reassuring, the lag in seasonal correction in food prices is a cause for concern. Food CPI stayed elevated at 7.7%, led by double digit inflation in veggies, pulses, spices and eggs along with inflation persistence seen in cereals (c.10% weight in CPI basket). Interestingly, the index level for vegetables in Mar'24 is highest ever seen during the month of March since 2011. More importantly, in the first fortnight of April, food prices including vegetables are not showing significant signs of moderation thereby defying seasonality. With heatwave concerns rising in Apr-June'24, the food inflation risks need close watch. More importantly, the spike in oil prices back to above USD 90/bbl is likely to drive input costs and spill over into retail inflation given high corporate pricing power, even though direct impact via retail fuel prices may remain capped.

Feb'24 IIP witnesses broad based uptick

IIP inched up to 5.7% y/y, probably on account of leap year effects with higher number of working days in 2024 vs last year. This drove a broad based pickup across sectors. Meanwhile, the wedge in rural and urban demand dynamics was clearly visible from consumer durables IIP clocking double digit growth while non-durables languished further in deflation zone. The other key segment of aggregate demand i.e. capex saw some downward pressure with capital goods IIP growth easing further to just 1.2%. Going forward, we continue to expect IIP growth to stay in single digits, with strong construction led double digit IIP growth in H2-2023 on weak monsoon slowly fading.

MPC likely to cut rates "later rather than sooner"

Going forward, we maintain our call of rate cuts 'later rather than sooner' in FY25. Our view is premised on four factors: i/ Inflation risks especially in food are likely to stay on close watch, ii/ High real rates likely in FY25, iii/ Financial stability concerns are likely to keep the RBI vigilant and iv/Strong growth dynamics reduce the need for policy easing in short term.

On balance, we expect a shallow 50bps rate cut cycle in H2-FY25 likely starting from October.

Fig 1: Headline CPI and sub segments eased in Mar'24; % y/y

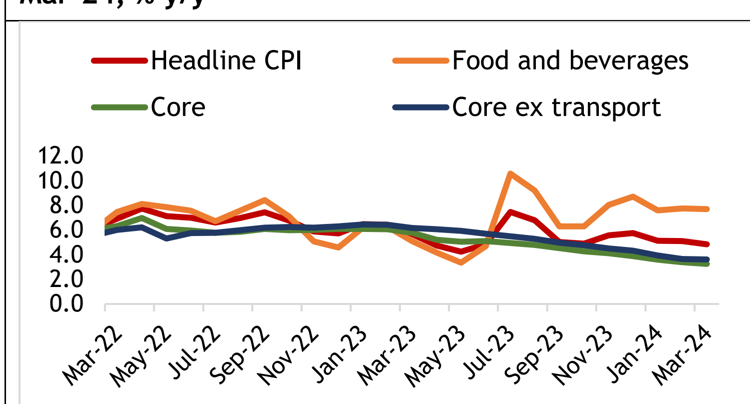


Fig 2: CPI ex veggies at 3.5% while seasonal correction in veggies yet to play out; % y/y

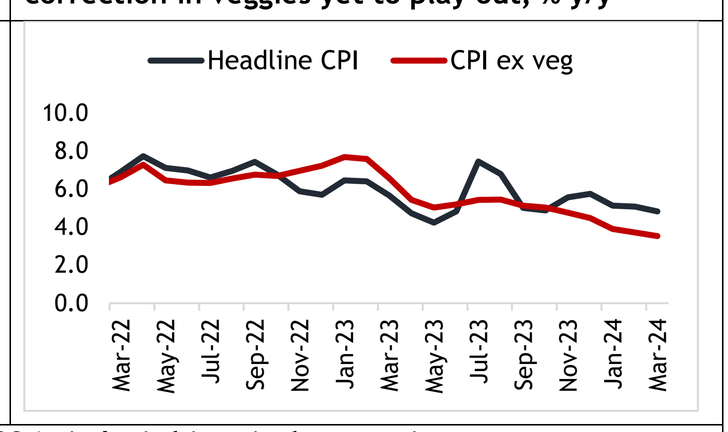
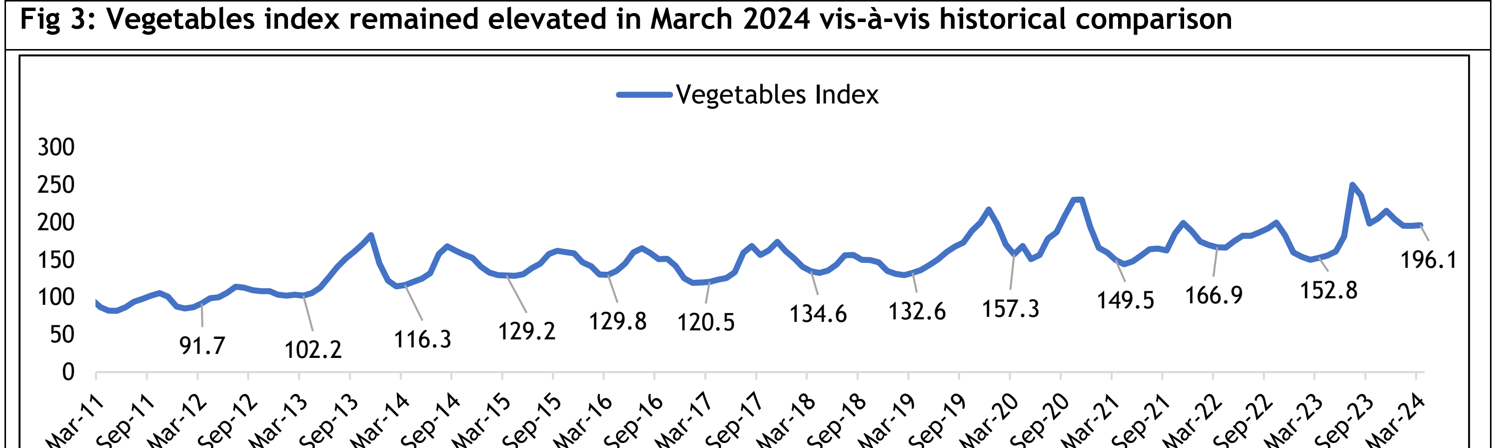


Fig 3: Vegetables index remained elevated in March 2024 vis-à-vis historical comparison



Sources: CEIC, UBI research

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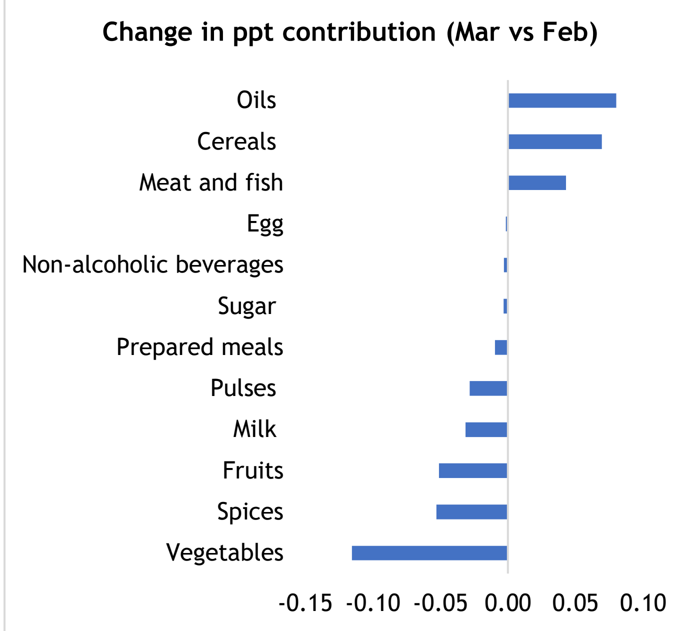
Fig 4: Vegetables helped in easing food inflation while oils, cereals etc offset the impact	Fig 5: Lower commodity prices explain c.70% of cooling in core CPI



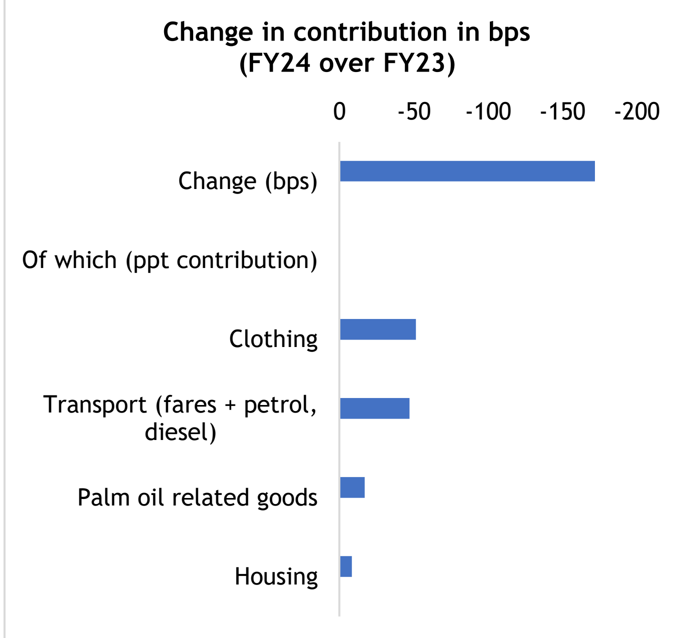
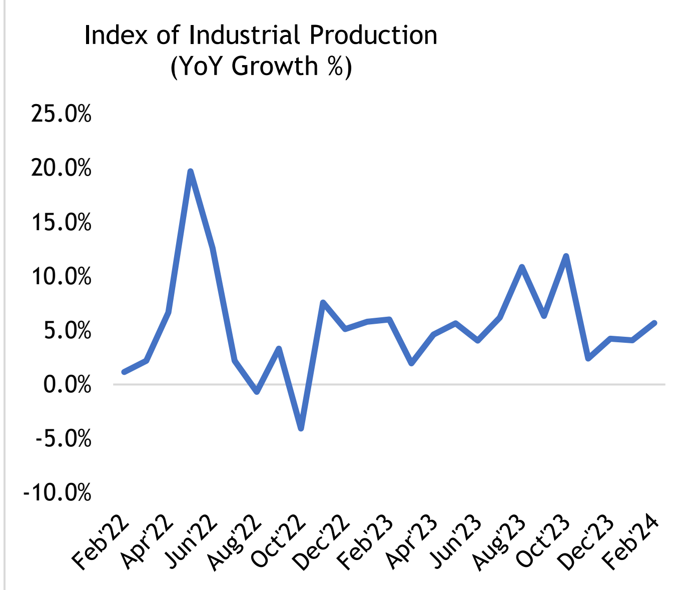


Fig 6: IIP picked up in Feb'24	Fig 7: Broad based growth uptick in Feb'24 IIP



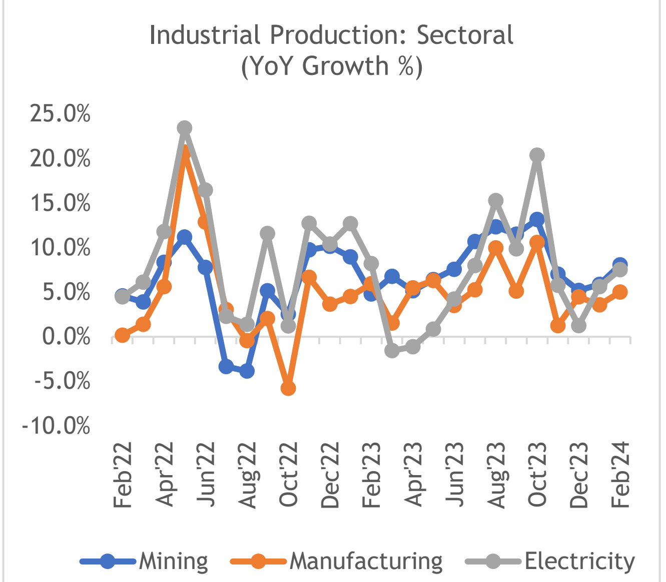


Fig 8: Wedge in consumer durables, non-durables persist; capital goods lags

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Dec'23	Jan'24	Feb'24
Mining	14.4	5.2%	5.9%	8.0%
Manufacturing	77.6	4.5%	3.6%	5.0%
Electricity	8.0	1.2%	5.6%	7.5%
Industrial Production: Use-based				
Primary goods	34.0	4.8%	2.9%	5.9%
Capital goods	8.2	3.6%	3.4%	1.2%
Intermediate goods	17.2	3.9%	5.3%	9.5%
Infrastructure / Construction Goods	12.3	5.1%	5.5%	8.5%
Consumer durables	12.8	5.3%	11.9%	12.3%
Consumer non-durables	15.3	2.4%	-0.2%	-3.8%

Sources: CEIC, UBI research

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