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Inflation cools, industrial growth bounces back

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In twin relief for India's economy, retail inflation eased more than expected to a 12-month low in December while industrial growth swung to a five-month high in November from a contraction in the preceding month, separate data releases on Monday showed.

The positive data mix raises the odds that the Reserve Bank of India (RBI) may pivot its monetary policy from fighting inflation to supporting growth amid a worsening global economic outlook.

Retail inflation, as measured by the Consumer Price Index (CPI), eased to 5.72% in December from 5.88% in the preceding month, within the RBI's 2-6% target band, as lower vegetable prices eased food inflation.

The Index of Industrial Production (IIP) rebounded to 7.1% growth in November from a 4.2% contraction in October.

The World Bank said on Wednesday that the global economy is "perilously close to falling into recession".

Within Reserve Bank's target rate band

Retail inflation is now within the RBI's target rate band for the second month running. But despite the rebound in November, economists expect the industrial sector to struggle in the face of higher interest rates and an adverse global environment.

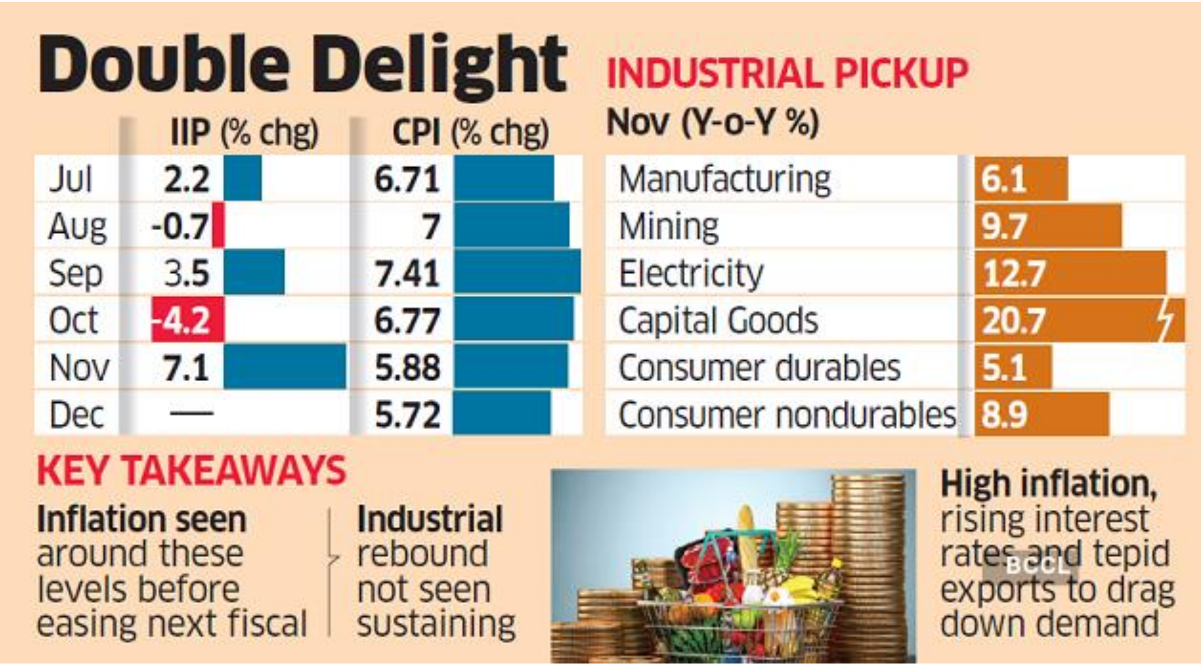
"Taking into account today's lower-than-expected CPI inflation print, and the muted average IIP growth of 1.3% during October-November 2022, we anticipate that the MPC (monetary policy committee) may choose to pause in February 2023," said Aditi Nayar, chief economist, ICRA.

The next monetary policy announcement is on February 8 after the budget for FY24 is presented on February 1. "From the policy perspective, we believe that RBI's move at the February MPC meeting will be a close call with core CPI inflation remaining sticky," said Rajani Sinha, chief economist, Care Ratings.

India Ratings' principal economist Sunil Sinha expects a quarter percentage point rise in the policy rate at the February review.

The RBI raised interest rates by 35 basis points (bps) to 6.25% on December 7 following three successive 50 bps increases to tame inflation. A basis point is 0.01 percentage point.

Industry wants the RBI to pause rate increases. "We are hoping that there will not be any further increase in policy repo rate as this will have impact on demand creation and economic growth in the country," said Saket Dalmia, president, PHDCCI.



Food inflation relief

Inflation in food and beverages was at 4.58% in December, against 5.07% in November. The decline in the index for vegetables deepened to 15.1% in December against an 8.1% fall in the trailing month.

"The softening is largely attributed to the decline in prices of vegetables that helped offset the rise in costs of other products of the food basket such as cereals, milk and meat," said Sinha of Care Ratings.

Fuel and light inflation was 10.67% in December, against 10.62% in November.

Inflation is expected to gradually ease in the coming months but an adverse base effect may push it up in January.

"Although food inflation has declined, the worrying trend is continuous increase of cereals and products inflation, which is trending upwards from May 2022 and in last three months it has remained in double digits," said Sunil Kumar Sinha, principal economist at India Ratings and Research.

The rating agency expects retail inflation to drop to about 5% by the first quarter of FY24.

Manufacturing revival

All three industrial sectors--electricity (12.7%), mining (9.7%), and manufacturing (6.1%)-contributed to the strong recovery in November. Industrial output rose 1% in November last year.

Overall industrial production growth in the April-November period was 5.5% against 17.6% a year ago.

Capital goods output, an indicator of investment, grew 20.7% in November while consumer durables production rose 5.1%, indicating a pickup in urban demand after contracting in October.

The growth got a boost from the base effect. "Growth in consumer goods however comes over negative growth rates last year as does capital goods," said Madan Sabnavis, chief economist at Bank of Baroda. "However, the festival season demand did add to the impetus given by base effect."

Consumer non-durables output firmed up 8.9% after a double-digit decline in October.

Erosion of household income due to high inflation, rising interest rates and tepid global demand are expected to weigh on growth going ahead.

Nayar said the on-year growth of most available high-frequency indicators moderated in December.

"In line with this, we expect the overall IIP growth to moderate to low single digits in December 2022."