India economy update: May 2024

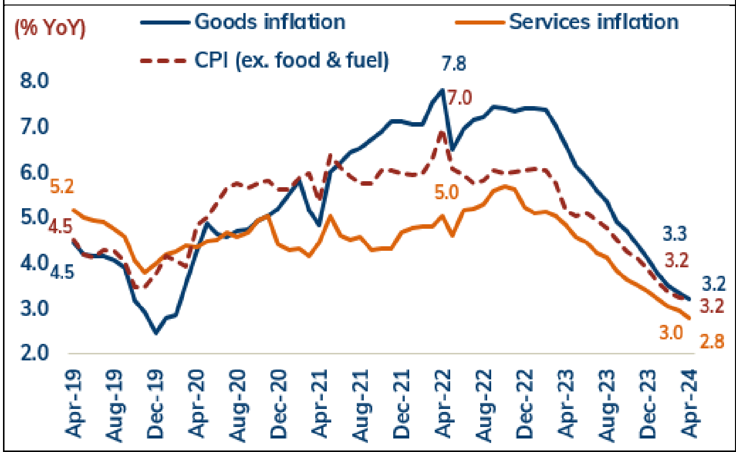
Industrial production: Manufacturing output grows at 5-month high

- Industrial production grew 4.9% YoY in March 2024 on a low base (1.9% YoY in March 2023). Sequentially, IIP growth came in at a 12-month high of 8.2%. Average IIP growth during FY24 stood at 5.8%, a tad higher than 5.2% growth recorded in FY23.
- Manufacturing and electricity sectors' growth rate came in at 5-month high of 5.2% YoY and 8.6% YoY respectively. Mining sector, on the other hand, recorded tepid growth of just 1.2%. Within manufacturing, pharma, transport equipment and furniture recorded higher growth however refined petroleum, chemical and textiles registered muted growth.
- Consumption driven sectors (durables as well as non-durables) recorded good growth, albeit on a low base. Along with record 2W sales and higher FMCG growth bodes well for rural consumption.
- Outlook for industrial activity is positive on the back of higher PMI, rising exports and rural consumption along with sustain investment activity.

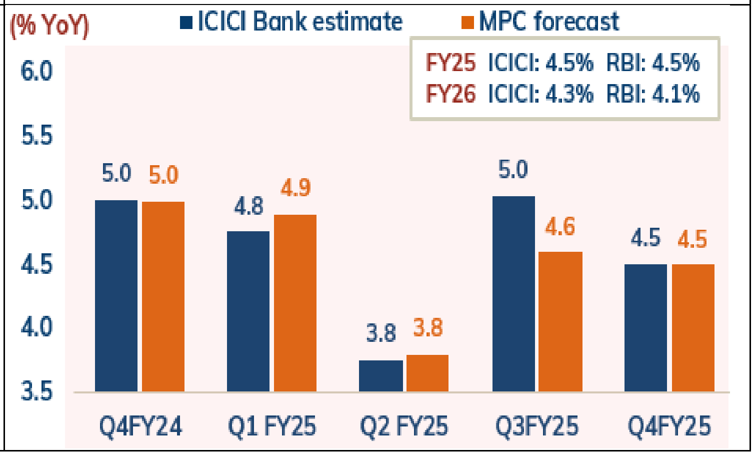
Retail inflation: Food inflation inches up, core remains steady

- CPI inflation softened a tad to 4.83% YoY vs. 4.85% in March. Food inflation inched up to 7.9% YoY, while core inflation remained steady at 3.2% YoY.
- Food inflation inched up, led by vegetables, pulses, cereals, and meat and fish. Outlook on food is contingent on timely and widespread rainfall this year which we expect to be normal.
- Core inflation was steady at 3.2% with personal care and effects witnessing an acceleration led by gold. Other segments of core are still muted and should increase gradually given rising global commodity prices. Services inflation should be been well contained.
- We expect CPI inflation to average 4.5% for the year and in March 2025. This should take real rates to 2% and thus calls for easing (50bps) from RBI which is contingent on global monetary cycle and monsoon along with movement of commodity prices.
- While the inflation print this month may have softened, the underlying momentum is increasing with both food and core inflation witnessing a higher sequential uptick this month as against the trend visible in last few months. Infact, the % share of categories witnessing a higher inflation (>=6%) has increased to 23% in April (vs. 21% in March). While core goods inflation continues to remain muted, it should see an increase on account of rising global commodities and metal prices. Going ahead, the outlook on food inflation is mainly dependent on the timely onset and distribution of the rainfall. As of now, we are seeing inflation easing to 4.5% in FY25 (RBI: 4.5%).

Goods and services inflation continue to ease



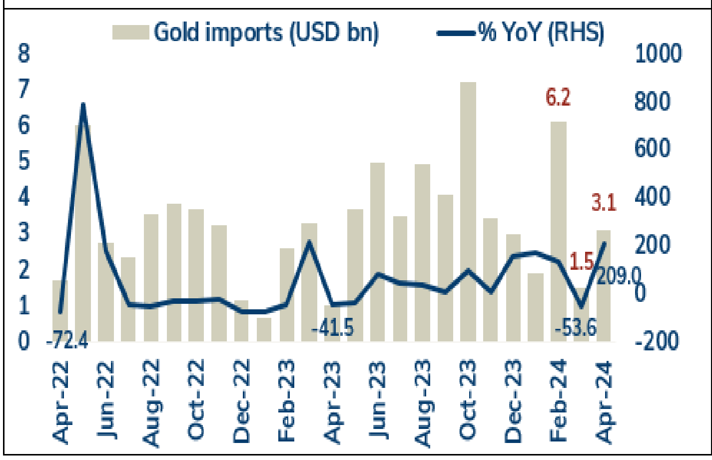
CPI seen at 4.5% in FY25 (RBI: 4.5%)



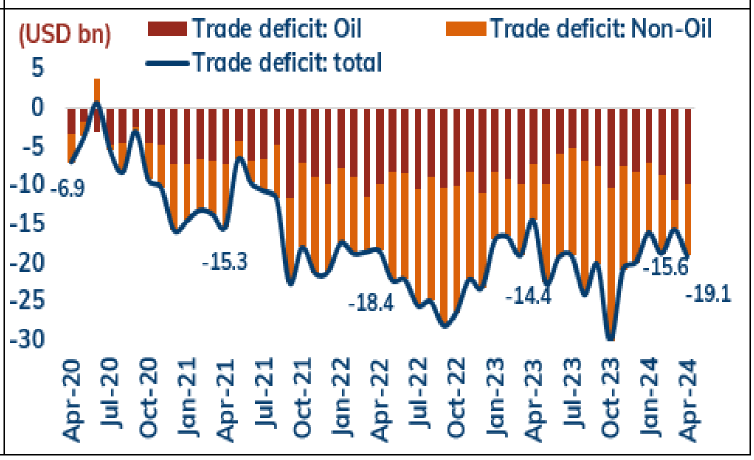
India trade: Trade deficit widens with higher oil and gold imports

- Merchandise exports rose by 1.1% YoY at USD 35bn in April, led by higher oil exports (+3.1% YoY) even as non-oil exports were flat (+0.6% YoY). Services exports also witnessed a sharp increase (+14.7% YoY) at USD 29.6bn in April, but fell on a MoM basis (-1.5%). Net services exports stood at USD 12.6bn (lower than last year's average run-rate at USD 13.6bn). Overall goods and services exports increased by +6.9% YoY at USD 64.6bn.
- Merchandise imports witnessed a sharp acceleration in the month, rising by +10.3% YoY at USD 54.1bn, led by oil (+20.1% YoY) and gold imports (+209% YoY), while non-oil non-gold imports remain flat (+0.5% YoY). Service imports rose by +21.6% YoY and +2.2% MoM at USD 17bn in April. Overall goods and services imports rose by +12.8% YoY at USD 71.1bn, but remain lower on MoM basis (-3.8%).
- Trade deficit widened to a 4-month high of 19.1bn in April from USD 15.6bn in March, mainly led by higher imports (gold).
- Our base case is for oil prices to remain in USD 80-90/bbl. during the year thus implying a trade deficit of USD 266bn and CAD of 1.1% of GDP.
- Outlook for INR is not as positive as seen earlier, due to strong dollar, FPI sells off visible in the year so far and volatile global oil prices

Gold imports increased sharply at USD 3.1bn



Trade deficit widened to USD 19.1bn



MPC keeps status-quo on rate and stance, optimistic on growth

- MPC voted to keep repo rate unchanged at 6.5% and retained stance of 'withdrawal of accommodation' with 5:1 vote each. Growth and inflation forecasts for FY25 were retained at 7% and 4.5% respectively. Notably, while CPI forecast was kept unchanged, inflation estimate for all quarters other than Q3 was revised lower.
- Liquidity conditions have tightened since end-April with a build-up of government cash balances and FPI outflows.
- US rate cut cycle is getting delayed with an uncertain disinflation trajectory given sticky services inflation and now rising commodity and energy prices. Higher US rates imply higher global yields.
- With growth sustaining close to 7%, no undue pressure on MPC to ease. While MPC was seen to be easing policy rates from October earlier, the cycle is likely to get delayed given geo-political uncertainties (rising commodity prices and Fed cut) and RBI's focus on bringing inflation to 4% on a durable basis.

Real rates are comfortably above the 1% mark	**Interest rate differential between the MPC and the FOMC stands at 1%**