India economy update: August 2024

Industrial production: Mfg growth falls to 7-month low, dragging headline IIP growth to 4.2%

- Industrial production grew 4.2% YoY in June 2024, down from 6.2% YoY last month and 4.0% a year ago. Manufacturing growth falls to 7-month low of 2.6%. Average IIP growth during Q1FY25 now stands at 5.1% (4.7% in Q1FY24).
- Manufacturing sector's growth fell to 7-month low of 2.6% YoY, playing a big drag on headline IIP growth. Mining and electricity growth was robust.
- Within manufacturing, lower production of basic metals, leather, pharma and petroleum products dragged overall growth lower. On the other hand, wood and paper, computer and electronic products, and chemicals were positive contributors.
- From the use-based perspective, there was a steep slowdown in infra/construction goods (4.4% in June 2024 vs 13.3% in June 2023), possibly due a dip in construction activity at the beginning of the monsoon season. Consumer durables recorded robust growth albeit on a low base. Consumer nondurables growth slipped into the red, persisting worries about weak rural consumption

Retail inflation: Base-effect drives inflation lower

- CPI inflation fell to a 59-month low of 3.54% vs. 5.08% in June. Food inflation moderated to 5.1% YoY (8.4% in June), while core inflation inched up to 3.4% YoY (+3.1% earlier).
- The softening in inflation was driven by a favourable base, as both headline inflation (+1.4% MoM) and food inflation (2.8% MoM) rose sequentially. Out of the 150bps decline in inflation compared to last month (3.54% in July vs 5.08% in June), favourable base effect shaved off 290bps while sequential momentum added 140bps, indicating the deceleration is mostly due to statistical effect.
- Sequential increase in food inflation was led by veggies (+14% MoM), eggs (+2% MoM), pulses (+1.3% MoM), fruits (+1.2% MoM), cereals (+0.6% MoM) and oil and fats (+0.6% MoM). With veggie prices witnessing a decline in August, it bodes well for food and headline inflation.
- The telecom tariff hikes seen in July drove the communication sub-index (+8.1% MoM) higher in-turn pushed core inflation higher to 3.4% YoY from a low of 3.1% in June. Muted global commodity prices are a positive for outlook on goods inflation.
- Normal monsoon (+6% of LPA) and higher acreage for paddy and pulses should drive inflation lower in these segments. Along with easing of veggie prices, we expect Q2 inflation to average 4.2% with a downside bias (RBI: 4.4%). For FY25, inflation estimate stands at 4.5% (RBI: 4.5%). We believe inflation trajectory should open room for MPC to change stance in December and cut rates later in the year when MPC can assess the impact of global slowdown on domestic growth.

% YoY	weight	Jul-23	Jun-24	Jul-24	FYTD24	FYTD25
Headline	100.0	7.4	5.1	3.5	5.3	4.6
CPI: Food & Beverages	45.9	10.6	8.4	5.1	5.7	7.3
Cereals	9.7	13.0	8.8	8.1	13.0	8.6
Vegetables	6.0	37.4	29.3	6.8	5.6	22.8
Protein items	13.0	7.0	6.1	6.1	5.8	6.5
Oils & fats	3.6	-16.8	-2.7	-1.2	-15.8	-5.0
Fruits	2.9	3.1	7.2	3.8	1.8	5.7
Sugar & confectionery	1.4	3.8	5.8	5.2	2.8	5.7
Spices	2.5	21.7	2.1	-1.4	19.1	3.2
Non-alcholic beverages	1.3	3.6	2.4	2.3	3.8	2.4
Prepared meals	5.6	5.5	3.4	3.5	6.2	3.4
CPI: Fuel & light	6.8	3.7	-3.6	-5.5	4.5	-4.2
CPI: Core	47.3	4.9	3.1	3.4	5.1	3.2
Pan, tobacco & intoxicants	2.4	3.9	3.1	3.0	3.6	3.0
Clothing & footwear	6.5	5.6	2.7	2.7	6.5	2.7
Housing	10.1	4.5	2.7	2.7	4.7	2.7
Household goods & services	3.8	5.2	2.4	2.3	5.8	2.5
Health	5.9	6.2	4.1	4.1	6.2	4.2
Transport & communication	8.6	2.5	1.0	2.5	1.8	1.4
Recreation & amusement	1.7	3.7	2.3	2.2	3.7	2.4
Education	4.5	5.5	3.6	3.4	5.7	3.8
Personal care & effects	3.9	8.9	8.2	8.4	9.2	7.9

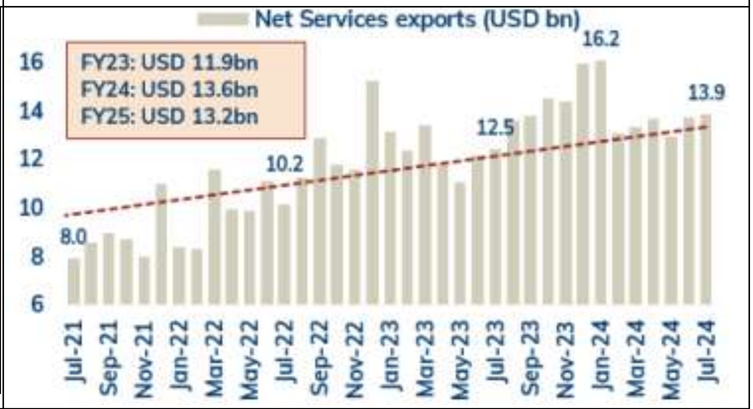
India trade: Trade deficit widens led by higher imports

- Merchandise exports fell by 1.5% YoY at USD 34bn in July led by lower oil exports (-22% YoY) even as non-oil exports were higher (+3.5% YoY). Net services exports rose by +11.2% YoY at USD 13.9bn.
- Imports rose by +7.5% YoY at USD 57.5bn led by higher oil (+17.3% YoY) and non-oil-non-gold imports (+6.1% YoY), while gold imports fell by 10.7% YoY at USD 3.1bn.
- Trade deficit widened to a 9-month high of USD 23.5bn in July from USD 21bn in June, led by non-oil non-gold deficit at USD 12bn (USD 8.6bn in June). Oil deficit narrowed a tad to USD 8.6bn (USD 9.5bn in June). Gold imports were steady on MoM basis.
- India's stronger growth compared with world is driving non-oil deficits higher. Gold imports to see a near-term pick-up in demand post customs duty cut. While exports were steady so far, a slowing global economy could impact India's goods and services exports.
- We see trade deficit at USD 261bn in FY25 (CAD at 0.8% of GDP) and a BoP surplus of ~USD 40bn. The global risk-aversion and strong dollar demand from importers has driven a depreciation bias in INR, which fell to a lifetime low of 83.98 this week. While DXY should remain weak on account of easing US policy regime, INR is seen trading in a narrow range of 83.5-84.5 in the near-term with RBI's FX intervention limiting an upside.

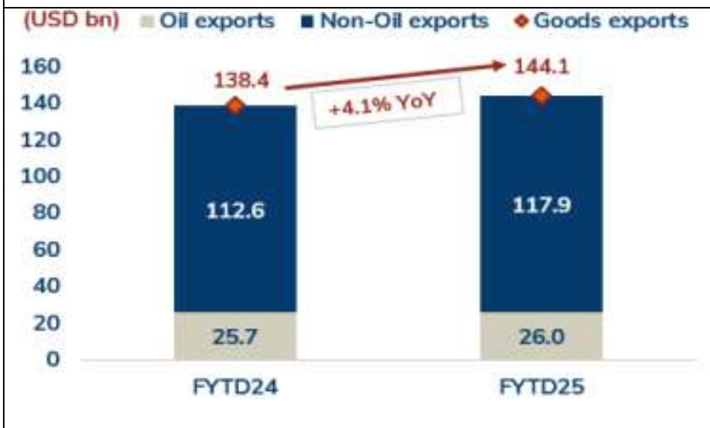
India Trade: July 2024								
(USD bn)	Jul-23	Jun-24	Jul-24	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	34.5	35.2	34.0	-1.5	-3.5	138.4	144.1	4.1
Of which								
Oil	6.7	5.5	5.2	-22.2	-5.3	25.7	26.0	1.1
Non-oil	27.8	29.7	28.8	3.5	-3.1	112.6	117.9	4.7
Imports	53.5	56.2	57.5	7.5	2.3	213.5	229.7	7.6
of which								
Oil	11.8	15.1	13.9	17.3	-7.8	53.7	65.4	21.8
Gold	3.5	3.1	3.1	-10.7	2.1	13.2	12.6	-4.2
Non-oil non-gold	38.2	38.1	40.5	6.1	6.3	146.7	151.7	3.4
Trade Deficit	-19.0	-21.0	-23.5			-75.1	-85.6	

Goods exports fell by 1.5% to USD 34bn

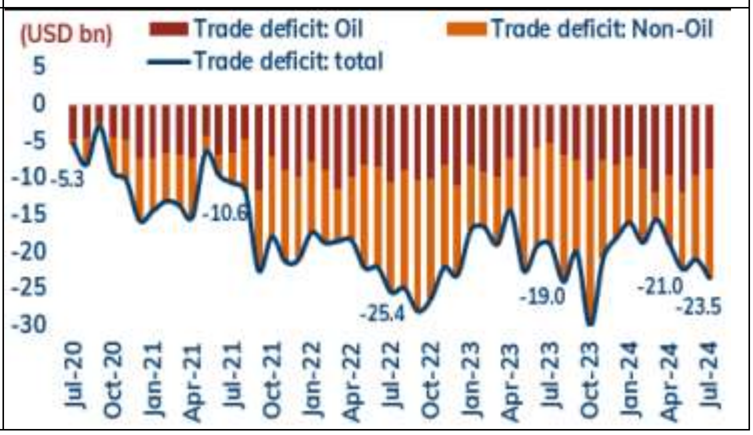
Net Services exports steady at USD 13.9bn



Exports up by +4.1% YoY at USD 144bn so far



Trade deficit widened to USD 23.5bn in July



MPC keeps status-quo in August amid high food inflation

- The MPC kept repo rate unchanged and retained stance at 'withdrawal of accommodation' with a 4-2 vote, unchanged from the previous policy meeting.
- Growth forecast for FY25 is unchanged at 7.2%. Near-term inflation forecast (Q2 and Q3) revised higher due to veggie prices and telecom tariff hikes which should dissipate by Q4 (revised lower) However, outlook is positive for medium-term inflation.

- MPC would get better handle on food inflation by December since in October sowing of winter crops would have just started and new external members would have just been on-boarded. Given the emphasis on inflation (food) and bringing it down durably when growth outlook is favourable, we believe MPC would change stance in December and cut rates later.

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