India economy update: September 2024

Industrial production: Manufacturing recovers led by uptick in capital goods and consumer durables

- Industrial production grew 4.8% YoY in July 2024, slightly better than 4.7% YoY last month but slower than 6.2% a year ago.
- Manufacturing sector's output grew 4.6% in July, recovering from the 7-month low growth of 3.2% in June. The growth in manufacturing was broad-based as only 5 out of the 23 manufacturing subcomponents recorded contraction.
- Within manufacturing, larger components such as basic metals (6.4% YoY) and coke and refined petroleum (6.9% YoY) supported overall manufacturing index. On the other hand, pharma (-8.1% YoY), and other manufacturing (-14.4% YoY) reported large contraction.
- While there was a deceleration seen in infra/construction goods (4.9% in July 2024 vs 12.6% in July 2023), possibly due lower government spending along with beginning of monsoon. Capital goods saw a sharp recovery at 12% YoY which bodes well for capex led growth in FY25.
- Consumption growth was mixed with durables reporting robust growth albeit on a low base. Consumer non-durables continued to be in the red. Pick-up in rural demand bodes well for outlook.

IIP (July 2024): Industrial output stable

Industrial Production Index; 2011-12= 100 (% YoY)	Jul-23	Jun-24	Jul-24	FYTD24	FYTD25
IIP (100%)	6.2	4.7	4.8	5.1	5.2
Mining (14.37%)	10.7	10.3	3.7	7.3	6.9
Manufacuring (77.63%)	5.3	3.2	4.6	5.1	4.2
Electricity (7.99%)	8.0	8.6	7.9	2.9	10.1
Primary goods (34.05%)	7.7	6.3	5.9	4.6	6.6
Capital goods (8.22%)	5.1	3.8	12.0	5.1	5.4
Intermediate goods (17.22%)	3.2	3.0	6.8	3.4	4.4
Infra & construction goods (12.34%)	12.6	7.1	4.9	13.1	6.7
Consumer durables (12.84%)	-3.6	8.7	8.2	-2.9	10.0
Consumer non-durables (15.33%)	8.3	-1.5	-4.4	7.2	-1.5

Source: MoSPI, CEIC, ICICI Bank Research

Retail inflation: Lower global commodity prices a positive; veggie prices rising again

- CPI inflation inched up to 3.65% YoY in August from 3.6% in July (revised upwards from 3.54% earlier). Food and beverages inflation rose to +5.3% YoY (+5.1% in July), while core inflation remained steady at +3.4% YoY (same as July).
- Sequentially, food inflation saw a dip (-0.3%) driven by decline in veggies (-2.5%), eggs (-2.7%) and meat and fish (-3.2%). On a YoY basis, pulses (+13.6%), veggies (+10.7%), cereals (+7.3%) and fruits (+6.5%) continue to see elevated inflation.
- Core inflation was steady at +3.4% YoY and +0.4% MoM, with good inflation remaining muted at +2.9% YoY (same as last month) and a marginal pick-up in services inflation at +3.3% YoY (+3.2% in July. Muted global commodity prices are a positive for outlook on goods inflation.
- Normal monsoon (+8% of LPA) and higher acreage for paddy and pulses implies inflation should ease in these segments. Although, a pick-up in veggie prices (led by onion) is visible on account of heavy rainfall in a few states impacting output.

- As of now, we believe Q2 inflation should average lower at 4.1% (RBI: 4.4%). For FY25, inflation estimate still stands at 4.5% (RBI: 4.5%) given uptick in veggie prices seen now. We believe MPC is best placed to change stance in Dec but should sound dovish in Oct policy given changing global backdrop of lower commodity prices.

% 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 gold imports

- Merchandise exports fell by 9.3% YoY at USD 34.7bn in August led by lower oil exports (-38% YoY) even as non-oil exports were stable (+0.1% YoY). Net services exports rose by +10% YoY at USD 15bn.
- Imports rose by +3.3% YoY to an all-time high of USD 64.4bn led by higher gold imports (+104% YoY) and non-oil non-gold imports (+5.4% YoY). Oil imports fell sharply (-32% YoY).
- Trade deficit widened to a 10-month high of USD 29.7bn in August from USD 23.6bn in July, led by higher gold imports (USD 10bn in Aug) and non-oil non-gold deficit at USD 13.9bn (USD 12.1bn in July). Oil deficit narrowed to USD 5.1bn (USD 8.6bn in July).
- Slowing global economy would have an impact on India's exports. Gold imports this year too will be elevated given higher global prices. But lower commodity and oil prices should offset the impact to some extent.
- We see trade deficit at USD 262bn in FY25 (CAD at 0.8% of GDP) and a BoP surplus of ~USD 49bn. While such a high trade deficit is negative for the INR, dollar weakness is a bigger trend playing out right now. We see INR in 83.5-84.5 range.

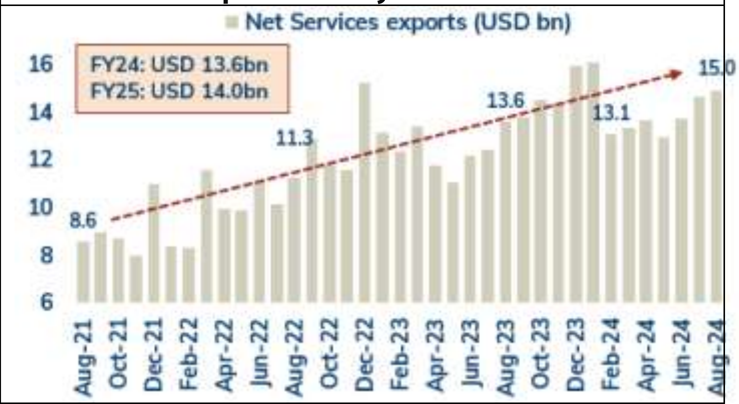
India Trade: August 2024

(USD bn)	Aug-23	Jul-24	Aug-24	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	38.3	33.9	34.7	-9.3	2.4	176.7	178.7	1.1
Of which								
Oil	9.5	5.2	6.0	-37.6	13.8	35.3	31.8	-9.8
Non-oil	28.7	28.7	28.8	0.1	0.3	141.4	146.8	3.9
Imports	62.3	57.5	64.4	3.3	12.0	275.8	295.3	7.1
of which								
Oil	16.3	13.9	11.0	-32.4	-20.6	70.0	76.4	9.2
Gold	4.9	3.1	10.1	103.7	221.4	18.1	22.7	25.2
Non-oil non-gold	41.1	40.5	43.3	5.4	6.9	187.7	196.2	4.5
Trade Deficit	-24.0	-23.6	-29.7			-99.2	-116.6	

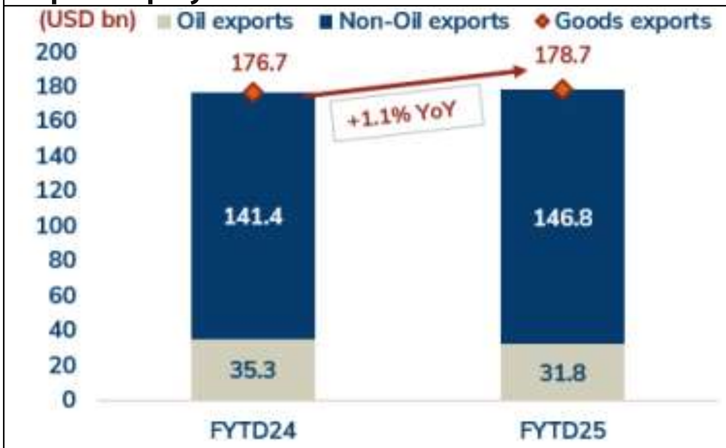
Source: CEIC, PIB press release, ICICI Bank Research

Goods exports fell by 9.3% to USD 34.7bn

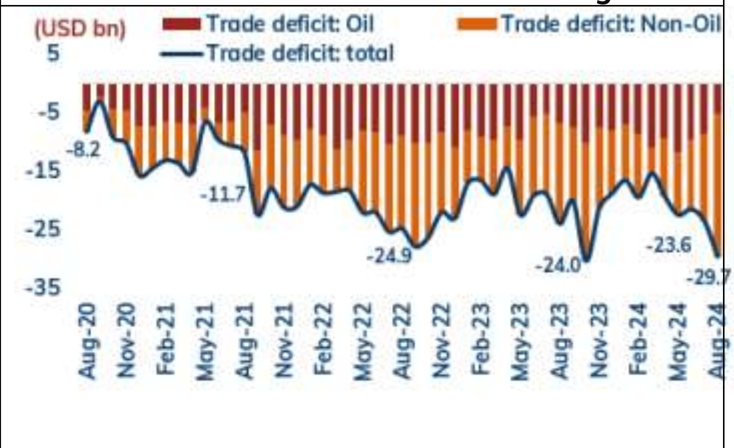
Net Services exports steady at USD 15bn



Exports up by +1.1% YoY at USD 178.7bn so far



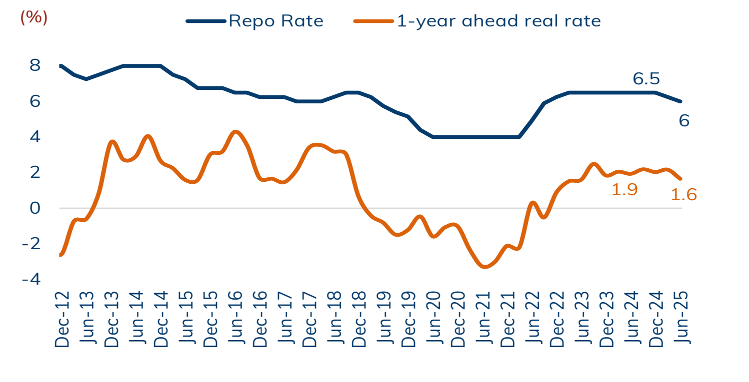
Trade deficit widened to USD 29.7bn in August



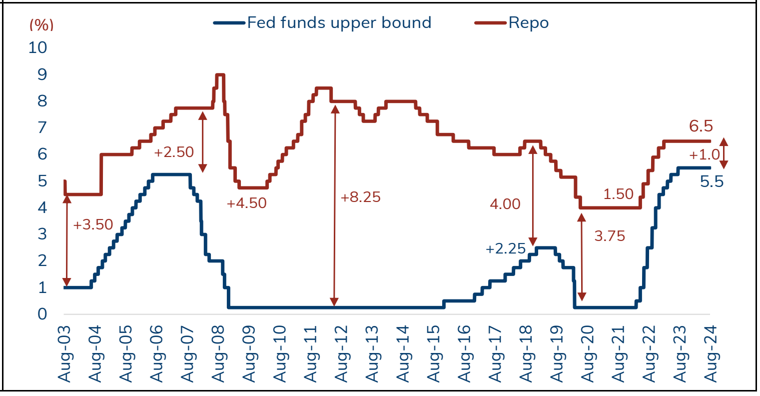
MPC keeps status-quo in August amid high food inflation

- 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 favorable, 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%



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