India economy update: November 2024

Industrial production: Manufacturing drives industrial activity

- Industrial production grew by 3.1% YoY in September led by manufacturing sector at 3.9% YoY compared with a mild contraction in August 2024
- Power output expanded marginally at 0.5% YoY compared with contraction last month. Same is the case with mining output which increased by 0.2% YoY as against a decline of 4.3% YoY in August
- Manufacturing sector saw broad based growth with as many as 19 out of 23 sub-components witnessing an expansion compared with 12 out of 23 in the previous month. Within manufacturing, electrical equipment, transport equipment , furniture and rubber and plastics segments did well
- Consumer durables demand continues to do well. Even capital goods has seen a pick-up from August. More importantly, consumer non-durables too reported an expansion of 2% driven by rural demand. We expect rural demand and government spending to be drivers of growth in H2FY25

IIP (September 2024): Industrial output grows

Industrial Production Index; 2011-12=100 (% YoY)	Sep-23	Aug-24	Sep-24	Q2FY24	Q2FY25	FYTD24	FYTD25
IIP (100%)	6.4	-0.1	3.1	7.8	2.6	6.2	4.0
Mining (14.37%)	11.5	-4.3	0.2	11.5	-0.1	8.7	4.1
Manufacturing (77.63%)	5.1	1.1	3.9	6.8	3.1	5.9	3.7
Electricity (7.99%)	9.9	-3.7	0.5	11.1	1.4	6.1	6.1
Primary goods (34.05%)	8.0	-2.6	1.8	9.3	1.6	6.4	4.3
Capital goods (8.22%)	8.4	0.5	2.8	8.8	4.9	7.0	4.0
Intermediate goods (17.22%)	6.1	3.0	4.2	5.6	4.5	4.5	4.0
Infrastructure & construction goods (12.34%)	10.1	2.2	3.3	12.8	3.3	13.0	5.7
Consumer durables (12.84%)	1.0	5.3	6.5	1.1	6.7	-0.8	8.6
Consumer non-durables (15.33%)	2.7	-4.5	2.0	7.0	-2.3	6.9	-1.3

Source: MoSPI, CEIC, ICICI Bank Research

Retail inflation: Vegetable prices drive headline inflation to a 14-month high

- CPI inflation jumped to a 14-month high of 6.21% YoY in October, from 5.49% YoY in September. Food inflation rose to a 15-month high of 10.9% YoY (9.2% in Sep), while core inflation rose to a 10-month high of 3.7% YoY (3.5% in Sep)
- Sequential pick-up in food inflation can be explained by sharp uptick in veggies (+8.2% MoM) and edible oil prices (+6.0%). Higher veggies prices are explained by lower mandi arrivals. Notably, while tomato prices are declining now, onion prices should continue to put upward pressure on food inflation
- Increase in core inflation is driven by personal care and effects (11% YoY), while other segments are relatively stable. Core inflation is expected to be benign given weak urban consumption outlook. Lower energy and commodity prices too bode well for core goods inflation
- Given the revised food inflation trajectory seen now, we now expect Q3 headline inflation at 5.5% (5.1% earlier) and Q4 at 4.1% (4% earlier). Thus, FY25 inflation is now seen at 4.7% (4.5% earlier), while FY26 inflation remains unchanged at 4.3% (RBI: 4.1%)
- With headline inflation above 6%, MPC would have to wait for inflation to ease towards its target before it can reduce rates. This is likely in Q4 by when vegetable and cereal inflation should moderate

- Recent uptick in festive demand (auto) would be viewed positively by MPC even as Q2 and FY25 growth forecast has to be tweaked to factor in moderation in industrial activity. Hence, most opportune time for MPC to move on rates is likely to be Feb. In the interim, liquidity should continue to be favourable.

% YoY	weight	Oct-23	Sep-24	Oct-24	FYTD24	FYTD25
Headline	100.0	4.9	5.5	6.2	5.4	4.8
CPI: Food & Beverages	45.9	6.3	8.4	9.7	6.4	7.5
Cereals	9.7	10.7	6.8	6.9	12.2	7.9
Vegetables	6.0	2.8	36.0	42.2	7.8	25.8
Protein items	13.0	7.6	4.3	3.9	6.5	5.7
Oils & fats	3.6	-13.7	2.5	9.5	-15.2	-1.2
Fruits	2.9	9.3	7.6	8.4	4.0	6.5
Sugar & confectionery	1.4	5.5	3.5	2.6	3.6	4.8
Spices	2.5	22.7	-6.1	-7.0	20.8	-0.7
Non-alcholic beverages	1.3	3.5	2.6	2.7	3.7	2.5
Prepared meals	5.6	4.7	3.6	3.7	5.7	3.5
CPI: Fuel & light	6.8	-0.4	-1.3	-1.6	3.1	-3.6
CPI: Core	47.3	4.3	3.5	3.7	4.8	3.3
Pan, tobacco & intoxicants	2.4	3.9	2.5	2.5	3.8	2.8
Clothing & footwear	6.5	4.3	2.7	2.7	5.7	2.7
Housing	10.1	3.8	2.7	2.8	4.4	2.7
Household goods & services	3.8	3.9	2.5	2.7	5.2	2.5
Health	5.9	5.9	4.1	4.0	6.1	4.1
Transport & communication	8.6	2.0	2.7	2.7	2.0	2.0
Recreation & amusement	1.7	3.3	2.4	2.5	3.6	2.4
Education	4.5	5.1	3.8	4.0	5.5	3.9
Personal care & effects	3.9	7.8	9.0	11.0	8.8	8.5

Note : Protein items includes meat and fish, eggs, milk and pulses; Source : CEIC, ICICI Bank Research

India trade: India's non-oil exports outshine

- Merchandise exports rose by +17% YoY at USD 39.2bn in Oct led by higher non-oil exports (+26% YoY) even as oil exports were lower (-22% YoY). Net services exports rose by +17% YoY at USD 17bn
- Imports rose by +3.9% YoY to an all-time high of USD 66.3bn, led by higher oil imports (+13.4% YoY). Non-oil non-gold imports grew at a much more moderate pace (+1.0% YoY). Gold imports stood at USD 7.1bn (-1.4% YoY)
- Trade deficit widened to USD 27.1bn in Oct (USD 20.8bn in Sep) led by higher oil deficit at USD 13.7bn (+USD 5.9bn over Sep) and gold imports (+USD 2.7bn over Sep). Non-oil non-gold deficit narrowed to USD 6.3bn (from USD 8.6bn in Sep)
- India's non-oil exports are growing (+7.3% up during FY25 so far) and thus contributing to growth. Imports too are higher given India's stronger growth relative to the world. Given uptick in rural demand, import momentum should sustain even as urban demand has moderated a tad

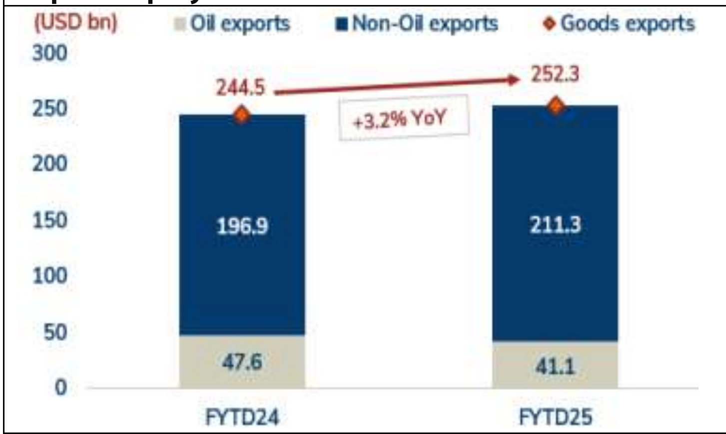
- We see trade deficit at USD 269bn in FY25 (CAD at USD 35bn or 0.9% of GDP). Given the FPI outflows seen in EMs and in India in recent weeks we expect BoP surplus of USD 30bn (USD 35bn earlier). Even so, INR has outperformed other currencies given India's strong macro fundamentals. We expect INR to be range-bound between 84.0 and 85.0 to USD.

India Trade: October 2024

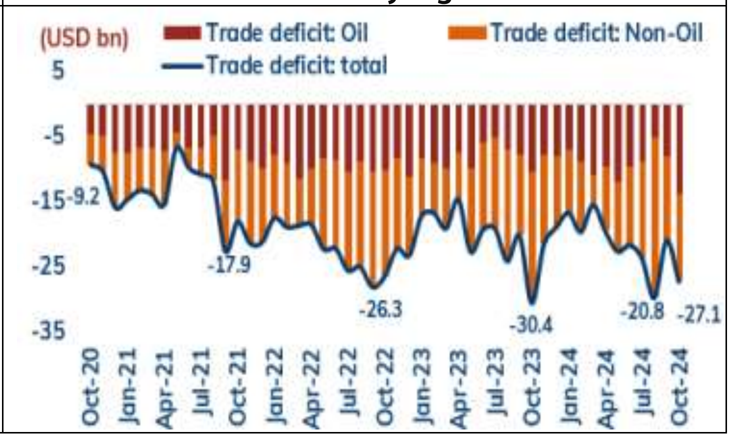
(USD bn)	Oct-23	Sep-24	Oct-24	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	33.4	34.6	39.2	17.3	13.4	244.5	252.3	3.2
Of which								
Oil	5.9	4.7	4.6	-21.9	-3.0	47.6	41.1	-13.7
Non-oil	27.6	29.9	34.6	25.6	15.9	196.9	211.3	7.3
Imports	63.9	55.4	66.3	3.9	19.8	394.2	417.0	5.8
of which								
Oil	16.1	12.5	18.3	13.4	45.9	100.1	107.2	7.1
Gold	7.2	4.4	7.1	-1.4	62.2	29.5	34.2	16.1
Non-oil non-gold	40.5	38.4	40.9	1.0	6.5	264.6	275.6	4.1
Trade Deficit	-30.4	-20.8	-27.1			-149.7	-164.7	

Source: CEIC, PIB press release, ICICI Bank Research

Exports up by +3.2% YoY at USD 252bn so far



Trade deficit widened led by higher oil deficit



MPC Review: Stance changed to neutral to support growth

- From being actively disinflationary, MPC unanimously changed stance to neutral. Stance change is supportive of growth going forward and shows MPC is confident of aligning inflation to target (4%) over the medium-term.
- Growth and inflation estimates are unchanged for FY25, quarterly estimates show near-term growth is revised lower and medium-term is revised higher. Revised inflation forecasts show MPC believes food inflation should ease on the back of above normal monsoon this year
- US yields have surged after US elections with clear steepening bias visible and dollar is stronger. Given such a move in US yields, it is not easy for MPC to cut rates particularly when inflation is on the higher side of its tolerance band
- This makes a case for MPC to move in Feb or Apr but it has ample of room to sound dovish on rates front in the policy in particular when FY25 growth estimate might be revised lower given H1 growth is lower than RBI's forecast

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