India economy update: December 2024

Industrial production: Strong sequential momentum takes growth to 3-month high

- Index of industrial production grew 3.5% YoY in October 2024, a 3-month high. Notably, this growth has come on a high base of 11.9% YoY a year ago. In MoM terms IIP grew 2.2%, strongest since May 2024
- From a sectoral perspective, manufacturing performed the best and grew 4.1% YoY while electricity and mining sectors grew 2% YoY and 0.9% YoY respectively
- Manufacturing growth was broad-based, with 18 out of the 23 components recording positive growth. The biggest drivers of growth were metal products, chemicals and petroleum (different sectors from what we have written in text below)
- Consumer durables (5.9% YoY) and non-durables (2.7% YoY) expanded along with infra and construction. Capital goods is a bit muted. Industrial activity should pick up on the back of higher government spending and rural consumption

IIP (October 2024): Industrial output grows

Industrial Production Index; 2011-12=100 (% YoY)	Oct-23	Sep-24	Oct-24	FYTD24	FYTD25
IIP (100%)	11.9	3.1	3.5	7.0	4.0
Mining (14.37%)	13.1	0.2	0.9	9.4	3.6
Manufacturing (77.63%)	10.6	3.9	4.1	6.5	3.8
Electricity (7.99%)	20.4	0.5	2.0	8.0	5.4
Primary goods (34.05%)	11.4	1.8	2.6	7.1	4.1
Capital goods (8.22%)	21.7	3.6	3.1	8.9	4.0
Intermediate goods (17.22%)	9.5	3.6	3.7	5.2	3.9
Infrastructure & construction goods (12.34%)	12.6	3.2	4.0	13.0	5.4
Consumer durables (12.84%)	15.9	6.5	5.9	1.4	8.2
Consumer non-durables (15.33%)	9.3	2.2	2.7	7.2	-0.7

Source: MoSPI, CEIC, ICICI Bank Research

Retail inflation: Inflation softened led by veggies prices

- CPI inflation softened to 5.48% YoY in November (our est: 5.42%) compared with 6.21% YoY in previous month. Food inflation eased to 9.0% YoY (10.9% in Oct), while core inflation stood at 3.64% YoY (3.67% in Oct)
- Lower food inflation was driven by a sequential dip in veggies (-4.6%), fruits (-1.1%), meat and fish (-0.3%), and pulses (-0.2%). But edible oil (+3.1% MoM) and eggs (+2.8% MoM) are showing higher uptick. Winter arrivals should aid decline in veggie prices in coming months, but the extent of decline could impact the near-term trajectory of food
- Core inflation was steady and we do see a gradual uptick in core inflation. Lower global commodity and energy prices along with China's excess capacity imply core inflation is positive for the outlook despite slightly weaker currency
- This month (Dec) has seen a relatively lower deceleration in vegetable prices as of now which could put some upward bias to December print. But a buoyant rabi crop should drive deceleration in food inflation in coming months and year
- Next policy would be the first for the new Governor. Growth as well as inflation would play a role in MPC decision making when already two members had voted for a cut in repo rate. We expect a reduction in repo rate of 50bps starting February after reduction in CRR

- 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	Nov-23	Oct-24	Nov-24	FYTD24	FYTD25
Headline	100.0	5.6	6.2	5.5	5.4	4.9
CPI: Food & Beverages	45.9	8.0	9.7	8.2	6.6	7.6
Cereals	9.7	10.3	6.9	6.9	12.0	7.8
Vegetables	6.0	17.7	42.2	29.3	9.0	26.2
Protein items	13.0	7.1	3.9	4.0	6.6	5.4
Oils & fats	3.6	-15.1	9.6	13.3	-15.2	0.6
Fruits	2.9	11.0	8.4	7.7	4.9	6.6
Sugar & confectionery	1.4	6.6	2.6	1.3	4.0	4.4
Spices	2.5	21.5	-7.0	-7.4	20.8	-1.5
Non-alcholic beverages	1.3	3.6	2.7	2.7	3.7	2.5
Prepared meals	5.6	4.2	3.7	3.9	5.5	3.6
CPI: Fuel & light	6.8	-0.8	-1.7	-1.8	2.6	-3.4
CPI: Core	47.3	4.1	3.7	3.6	4.7	3.4
Pan, tobacco & intoxicants	2.4	3.8	2.5	2.3	3.8	2.8
Clothing & footwear	6.5	3.9	2.7	2.7	5.5	2.7
Housing	10.1	3.6	2.8	2.9	4.3	2.7
Household goods & services	3.8	3.5	2.7	2.8	5.0	2.6
Health	5.9	5.5	4.0	4.0	6.1	4.1
Transport & communication	8.6	2.1	2.8	2.6	2.0	2.1
Recreation & amusement	1.7	3.1	2.4	2.6	3.5	2.4
Education	4.5	5.0	3.9	3.9	5.4	3.9
Personal care & effects	3.9	7.8	11.0	10.4	8.7	8.8

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

India trade: High gold imports push trade deficit to a record high

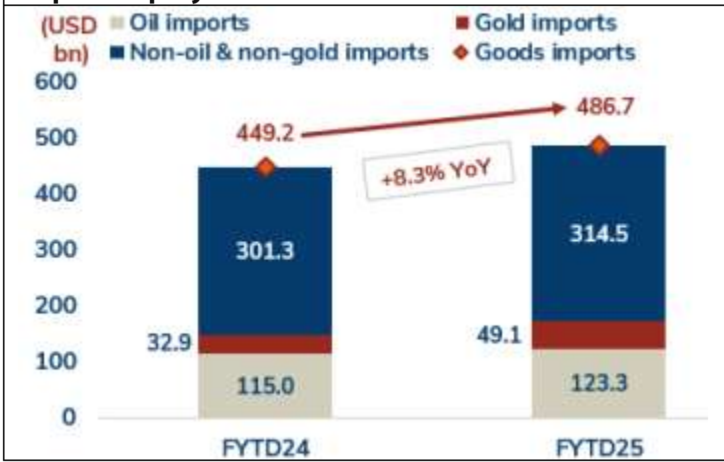
- India's goods exports fell sharply by 4.9% YoY at USD 32bn in Nov, led by lower oil exports (-50% YoY) even as non-oil exports were higher (+7.7% YoY). Net services exports rose by 27% YoY at USD 18bn
- Goods imports accelerated by 27% YoY to an all-time high of USD 70bn, led by higher gold imports at USD 14.9bn (+330% YoY), along with higher oil (+7.9% YoY) and non-oil non-gold imports (+6.3%)
- Thus, goods deficit widened to a record high of USD 37.8bn (USD 27bn in Oct), led by higher gold imports (+USD 7.7bn), and higher non-oil non-gold deficit at USD 10.6bn (USD 6.3bn in Oct). Oil deficit was tad lower at USD 12.4bn (USD 13.7bn in Oct)
- While India's non-oil exports have continued to do well (+7.4% up in FY25 so far), oil exports are sharply lower (-19% YoY in FY25). Gold imports too are sharply higher (USD 49bn in FY25) led by higher prices. Given uptick in rural demand, import momentum should sustain even as urban demand has moderated a tad
- We are revising our trade deficit higher to USD 287bn (USD 269bn earlier), which implies CAD of USD 41bn (1.1% of GDP) now. BoP surplus is now seen at USD 5bn (USD 12bn earlier). The stronger dollar index is driving all EM currencies lower, but INR remains relatively less volatile due to RBI's FX intervention. Even so INR continues to drift lower and could continue to trade in the range of 84.5 to 85.5 in the near-term

India Trade: November 2024

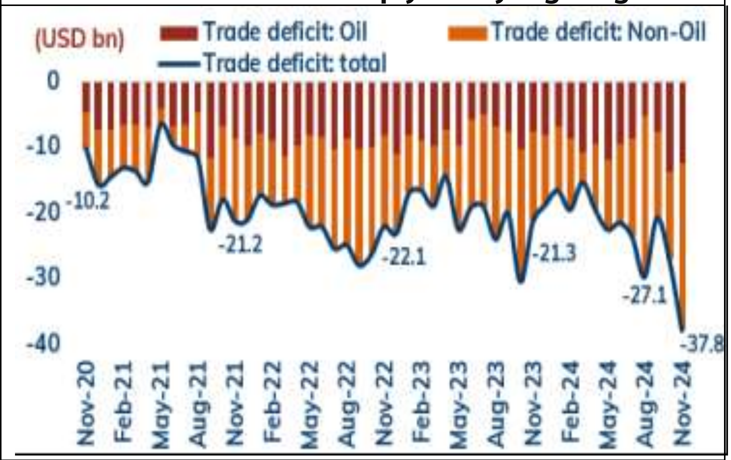
(USD bn)	Nov-23	Oct-24	Nov-24	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	33.8	39.2	32.1	-4.9	-18.1	278.3	284.3	2.2
Of which								
Oil	7.4	4.6	3.7	-49.8	-19.2	55.0	44.7	-18.8
Non-oil	26.4	34.6	28.4	7.7	-17.9	223.2	239.7	7.4
Imports	55.1	66.3	70.0	27.0	5.4	449.2	486.7	8.3
of which								
Oil	14.9	18.3	16.1	7.9	-12.0	115.0	123.3	7.2
Gold	3.4	7.1	14.9	331.4	108.5	32.9	49.1	49.1
Non-oil non-gold	36.7	40.9	39.0	6.3	-4.7	301.3	314.5	4.4
Trade Deficit	-21.3	-27.1	-37.8			-171.0	-202.4	

Source: CEIC, PIB press release, ICICI Bank Research

Imports up by +8.3% YoY at USD 487bn so far



Trade deficit widened sharply led by higher gold



MPC Review: Stance changed to neutral to support growth

- MPC kept the repo rate unchanged at 6.50% (4:2 vote versus 4:1 earlier) with policy stance retained at 'Neutral'. However, CRR was cut by 50bps to 4% to support liquidity
- Growth projection for FY25 has been revised lower to 6.6% (7.2% earlier) with growth now projected at 7% in H2 as against 7.4% earlier. Even as RBI has been revising growth projections lower, inflation projections have been getting revised higher due to food inflation. Q3 inflation is now projected at 5.7% and Q4 at 4.5% with H1 inflation settling at 4.3% (4% earlier)
- Given demand for currency and FPI outflows, RBI has injected durable liquidity via CRR cut. Given large short forward positions, more may have to be done later
- We believe the odds of a rate cut in Feb are lower given elevated food inflation. Further, global events (hawkish FOMC, higher US yields, stronger dollar and FPI outflows) have also lowered bets of a rate cut in Feb. As a result, the rate cut cycle is expected to be a shallow one (50bps)

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