India economy update: January 2025

Industrial production: Manufacturing sector props up growth

- Index of industrial production grew 5.2% YoY (est: 4.6%) in November 2024, a 7-month high. Although this growth comes on the back of a low base of 2.5% YoY in November 2023.
- From a sectoral perspective, manufacturing sector registered an upside surprise at 5.8% YoY. Electricity growth was at 4.4% YoY, while mining sector grew at a tepid 1.9% YoY.
- Manufacturing growth was broad-based, with 18 out of the 23 components recording positive growth. High growth was seen in furniture, electrical equipment, computer & electronics, and fabricated metals.
- Consumer durables (13.1% YoY) posted a 13-month high number even as consumer non-durables (0.6% YoY) remained muted. Capital goods (9.0% YoY) growth bodes well for industrial output going forward.

IIP (November 2024): Industrial output grows

Industrial Production Index; 2011-12=100 (% YoY)	Nov-23	Oct-24	Nov-24	FYTD24	FYTD25
IIP (100%)	2.5	3.7	5.2	6.5	4.1
Mining (14.37%)	7.0	0.9	1.9	9.1	3.4
Manufacturing (77.63%)	1.3	4.4	5.8	5.9	4.1
Electricity (7.99%)	5.8	2.0	4.4	7.7	5.3
Primary goods (34.05%)	8.4	2.5	2.7	7.2	4.0
Capital goods (8.22%)	-1.1	3.1	9.0	7.6	4.4
Intermediate goods (17.22%)	3.4	4.6	5.0	5.0	4.2
Infrastructure & construction goods (12.34%)	1.5	4.8	10.0	11.4	6.3
Consumer durables (12.84%)	-4.8	5.7	13.1	0.6	8.7
Consumer non-durables (15.33%)	-3.4	2.6	0.6	5.7	-0.5

Source: MoSPI, CEIC, ICICI Bank Research

Retail inflation: Food inflation drives CPI inflation lower

- CPI inflation softened to 5.22% YoY in December (our est: 5.39%) compared with 5.48% YoY in Nov with food inflation easing to 8.4% YoY (9.0% in Nov) while core inflation saw a mild decline at 3.58% YoY (3.64% in Nov)
- Sequentially, food inflation fell by 1.5% MoM led by veggies (-7.4% MoM), pulses (-1.0% MoM), fruits (-0.9% MoM), meat and fish (-0.7% MoM), sugar (-0.6% MoM) and spices (-0.3% MoM). In fact, veggie prices have continued to correct even in Jan 2025 but edible oil prices are on the higher side
- Within core, most segments have seen either a mild decline in inflation trajectory or remained steady given consumption outlook. China's excess capacity implies a positive outlook for core inflation. However, volatile energy prices and a weaker currency can impart an upside risk
- With today's print, inflation in Q3 stands at 5.6% (RBI: 5.7%). Seasonal decline in veggies, along with higher kharif and rabi output bodes well for food inflation, which should ease further. Our Q4 inflation is now seen at 4.3% versus 4.4% earlier (RBI: 4.5%)

- MPC members should take comfort in easing inflation trajectory, when consumption and investment is relatively weak. While a weaker INR can steer a few members to vote for a pause, a relatively contained current account should nudge them to vote for a cut in Feb (25bps) to support growth when inflation is moving in-line or better than RBI's trajectory

% YoY	weight	Dec-23	Nov-24	Dec-24	FYTD24	FYTD25
Headline	100.0	5.7	5.5	5.2	5.5	4.9
CPI: Food & Beverages	45.9	8.7	8.2	7.7	6.8	7.6
Cereals	9.7	9.9	6.9	6.5	11.8	7.6
Vegetables	6.0	27.6	29.4	26.6	11.1	26.3
Protein items	13.0	6.5	4.0	3.9	6.6	5.3
Oils & fats	3.6	-15.0	13.3	14.6	-15.2	2.1
Fruits	2.9	11.1	7.7	8.5	5.6	6.8
Sugar & confectionery	1.4	7.2	1.3	0.3	4.3	3.9
Spices	2.5	19.7	-7.4	-7.4	20.7	-2.2
Non-alcholic beverages	1.3	3.3	2.7	3.1	3.6	2.6
Prepared meals	5.6	4.1	3.9	4.0	5.3	3.6
CPI: Fuel & light	6.8	-1.0	-1.8	-1.4	2.2	-3.1
CPI: Core	47.3	3.9	3.6	3.6	4.7	3.4
Pan, tobacco & intoxicants	2.4	3.6	2.3	2.5	3.8	2.7
Clothing & footwear	6.5	3.6	2.7	2.7	5.3	2.7
Housing	10.1	3.6	2.9	2.7	4.2	2.7
Household goods & services	3.8	3.4	2.8	2.8	4.8	2.6
Health	5.9	5.1	4.0	4.0	5.9	4.1
Transport & communication	8.6	2.0	2.7	2.6	2.0	2.1
Recreation & amusement	1.7	3.1	2.6	2.7	3.5	2.5
Education	4.5	4.8	3.9	3.9	5.4	3.9
Personal care & effects	3.9	7.3	10.4	9.7	8.5	8.9

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

India trade: Trade deficit narrows due to lower imports

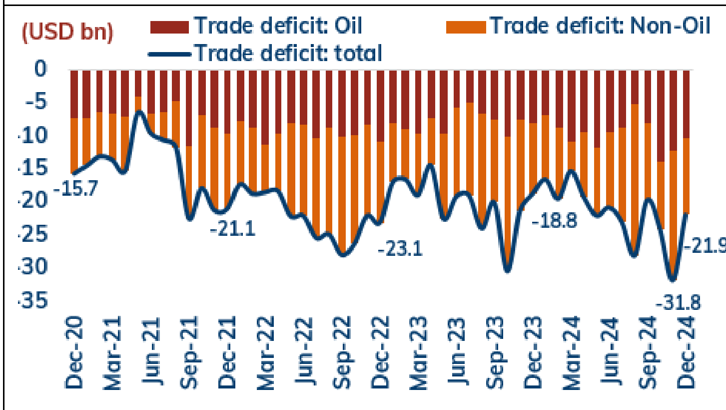
- India's goods exports contracted by 1.0% YoY at USD 38bn in Dec (USD 32bn in Nov) led by lower oil exports (-29% YoY) even as non-oil exports were higher (+5.0% YoY). Net services exports fell by 5.3% YoY at USD 15.2bn
- Goods imports rose by +4.9% YoY at USD 60bn, driven by higher gold imports (+55% YoY). Oil (+2.2% YoY) and non-oil non-gold imports (+2.0% YoY) were marginally higher. On a MoM basis, imports have contracted by 6.1% from last month's imports at USD 63.9bn (revised lower from USD 70bn reported earlier)
- Goods trade deficit narrowed to USD 21.9bn in Dec from USD 31.8bn in Nov (revised lower from USD 37.8bn reported earlier). The decline in trade deficit is broad-based with lower gold, oil and non-oil-non-gold deficit
- With revision in goods imports (by USD 14.2bn) for the year, we have revised our estimates. Gold imports are now seen at USD 51bn in FY25 (USD 63bn earlier) implying a trade deficit of USD 277bn now (USD 287bn earlier) building in higher oil prices. CAD is seen at USD 35bn (0.9% of GDP)

- Despite this, the outlook for BoP remains weak due to FPI outflows seen in last four months (-USD 15.5bn). Net FDI inflows are also muted. Thus, BoP surplus is seen at USD 2bn in FY25 vs. USD 64bn in FY24
- The stronger dollar profile should continue to impart weakness in all EM currencies. INR touched a life-time low of 86.65 and is seen trading in a range of 86.0 to 87.0 in near-term, with upside of 87.50 towards year end

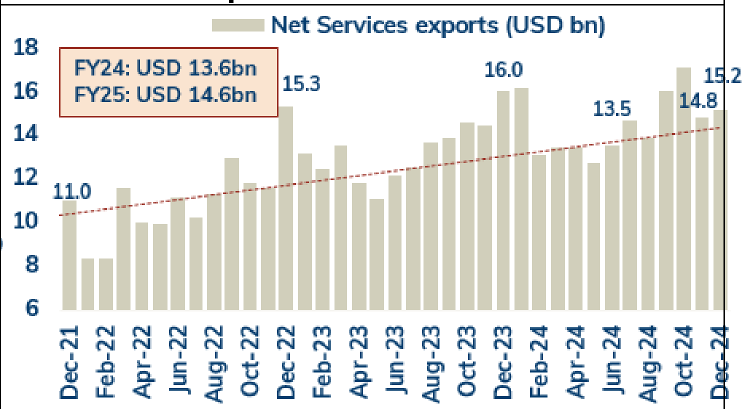
India Trade: December 2024

(USD bn)	Dec-23	Nov-24	Dec-24	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	38.4	32.0	38.0	-1.0	18.6	316.6	321.7	1.6
Of which								
Oil	6.9	3.7	4.9	-28.6	34.4	61.9	49.0	-20.8
Non-oil	31.5	28.4	33.1	5.0	16.6	254.7	272.7	7.0
Imports	57.2	63.9	60.0	4.9	-6.1	506.4	532.5	5.2
of which								
Oil	14.9	15.9	15.3	2.2	-4.0	130.0	138.3	6.4
Gold	3.0	9.8	4.7	55.4	-52.2	36.0	42.1	17.1
Non-oil non-gold	39.2	38.1	40.0	2.0	4.9	340.5	352.1	3.4
Trade Deficit	-18.8	-31.8	-21.9			-189.7	-210.8	

Trade deficit narrowed to USD 21.9bn in Dec



Net services exports rose to USD 15.2bn



Gold imports have been revised lower by USD 5bn in NoV and USD 11.7bn during Apr-Nov

...thus, goods imports revised lower by USD 14.2bn during Apr-Nov 2024

Source: CEIC, PIB press release, ICICI Bank Research

India savings: Financial savings inch up

- Gross and net financial savings of Indian households have increased to INR 34.3tn (11.6% of GDP) and INR 15.5tn (5.3% of GDP) in FY24 respectively compared with INR 29.4tn and INR 13.4tn in FY23
- While financial liabilities rose by INR 18.8tn (6.4% of GDP) in FY24, the lending picture has changed this year with credit growth now at 11.5% YoY vs 16.3% YoY in Mar 2024 (excl. merger)
- The increase in gross financial savings in FY24 is led by deposits at INR 13.9tn (INR 11.2tn in FY23) followed by small savings at INR 3.1tn (INR 2.0tn in FY23), pension funds at INR 7.2tn (INR 6.3tn in FY23) and mutual fund (including equity) inflows at INR 3.0tn (INR 2.1tn in FY23)
- Share of currency has come down to INR 1.2tn in FY24 from INR 2.4tn in FY23 which is explained by withdrawal of INR 2000 note last year as well as digital payments
- Net financial savings should increase in FY25 with deceleration in financial liabilities when gross financial savings should be holding up

MPC Review: Stance changed to neutral to support growth

- MPC kept the repo rate unchanged at 6.50% (4:2 vote versus 5:1 earlier) with policy stance retained at 'Neutral'. However, CRR was cut by 50bps to 4% to support liquidity
- In the December bulletin, the RBI's in-house model projects FY26 GDP growth is projected lower at 6.7% (7.1% in October MPR) with headline CPI at 3.8% (4.1% in October MPR). The RBI staff inflation projections indicate that CPI will be below 4% after Q1FY26, aided by an expected easing of vegetable prices
- This implies that there is room is likely to open up for RBI to cut rates in either February or April if inflation moderates to 4.5% in Q4 which implies real rate of 2%
- Although a hawkish Fed and weakening external outlook make the February rate cut a close call, we believe the expected decline in food prices and RBIs' estimate of <4% inflation in FY26 should ensure a 25bps rate cut in February. The rate cut cycle is expected to be shallow (50bps)

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