India economy update: February 2025

Industrial production: Subdued performance led by consumer non-durables

- Industrial production growth fell to 3-month low 3.2% YoY in December 2024, mainly due to slower growth in manufacturing. In YTD terms, average IIP growth during Apr-Dec FY25 stands at 4%, lower than 6.3% growth during the same period last year
- Electricity recorded strong output expansion (6.2% in December 2024 vs 1.2% a year ago) while mining output growth halved (2.6% vs 5.2%). Manufacturing sector too recorded slower growth (3% vs 4.6%), mainly on the back of deceleration in pharma, vehicle and leather production
- While capital goods output has seen a pick-up to 10.3% YoY, consumer non-durables growth fell to 26-month low of -7.6% YoY. Consumer durable did well to grow by 8.3% YoY. Weaker urban demand is reflected in the performance of FMCG demand
- The tax incentive for urban India in the Budget along with repo rate cut from RBI implies urban consumption should start to see an improvement in the next year when prospects of rural India remain bright. However, uncertainty on trade front remains a risk for goods exports .

IIP (December 2024): Industrial output growth falls to 3-month low

Industrial Production Index; 2011-12=100 (% YoY)	Dec-23	Nov-24	Dec-24	Q3FY24	Q3FY25	FYTD24	FYTD25
IIP (100%)	4.4	5.0	3.2	6.1	4.0	6.3	4.0
Mining (14.37%)	5.2	1.9	2.6	8.2	1.8	8.5	3.3
Manufacturing (77.63%)	4.6	5.5	3.0	5.4	4.3	5.7	4.0
Electricity (7.99%)	1.2	4.4	6.2	9.0	4.1	7.0	5.4
Primary goods (34.05%)	4.8	2.7	3.8	8.1	3.0	6.9	3.9
Capital goods (8.22%)	3.7	8.8	10.3	7.5	7.3	7.1	5.1
Intermediate goods (17.22%)	3.7	4.8	5.9	5.5	5.1	4.8	4.5
Infrastructure & construction goods (12.34%)	5.5	8.1	6.3	6.5	6.4	10.7	6.1
Consumer durables (12.84%)	5.2	14.1	8.3	5.3	9.2	1.1	8.7
Consumer non-durables (15.33%)	3.0	0.4	-7.6	2.5	-1.9	5.4	-1.5

Source: MoSPI, CEIC, ICICI Bank Research

Retail inflation: Veggies driving inflation lower

- CPI inflation softened to 4.31% YoY in January (our est: 4.42%) compared with 5.22% YoY in Dec, led by food inflation at 6.0% YoY (8.4% in Dec), while core inflation saw a mild pick-up at 3.66% YoY (3.58% in Dec)
- Sequentially, food inflation saw a sharper correction (-2.9%) led by veggies (-15.7% MoM), pulses (- 2.1% MoM), eggs (-2.0% MoM), and spices (-0.7% MoM). Seasonal fall in veggies should continue to keep inflation benign, but higher edible oil prices are a risk
- Within core, personal care and effects (precious metals) saw an acceleration, while other segments are muted. A weaker rupee and recent increase in commodity prices should drive core inflation higher. But China's rising exports (excess capacity) and weak demand are a disinflationary impulse
- With this print, inflation in Q4 is now seen lower at 4.2% (RBI: 4.4%). Food inflation should remain lower led by seasonal decline in veggies, along with higher kharif and rabi output. CPI is seen averaging ~4.8% in FY25 (same as RBI) and 4.3% in FY26 (RBI: 4.2%)

- With inflation now lower than RBI's Q4 trajectory, we believe MPC should continue to cut in April unless global backdrop changes. We see a cumulative easing of 75bps during the current cycle but timing of last 25bps rate cut is uncertain (June or Oct) given global uncertainty

% YoY	weight	Jan-24	Dec-24	Jan-25	FYTD24	FYTD25
Headline	100.0	5.1	5.2	4.3	5.4	4.9
CPI: Food & Beverages	45.9	7.6	7.7	5.7	6.9	7.4
Cereals	9.7	7.8	6.5	6.2	11.4	7.5
Vegetables	6.0	27.1	26.6	11.3	12.7	24.8
Protein items	13.0	6.1	3.9	3.5	6.5	5.1
Oils & fats	3.6	-15.0	14.6	15.6	-15.1	3.5
Fruits	2.9	8.6	8.6	12.2	5.9	7.4
Sugar & confectionery	1.4	7.4	0.2	0.3	4.6	3.5
Spices	2.5	16.3	-7.4	-6.8	20.3	-2.7
Non-alcholic beverages	1.3	3.3	3.0	3.4	3.6	2.6
Prepared meals	5.6	4.0	4.0	4.1	5.2	3.7
CPI: Fuel & light	6.8	-0.6	-1.3	-1.4	1.9	-3.0
CPI: Core	47.3	3.6	3.6	3.7	4.5	3.4
Pan, tobacco & intoxicants	2.4	3.3	2.5	2.3	3.7	2.7
Clothing & footwear	6.5	3.4	2.7	2.7	5.1	2.7
Housing	10.1	3.2	2.7	2.8	4.1	2.7
Household goods & services	3.8	3.1	2.8	2.9	4.6	2.6
Health	5.9	4.9	4.0	4.0	5.8	4.1
Transport & communication	8.6	2.0	2.6	2.8	2.0	2.2
Recreation & amusement	1.7	2.9	2.7	2.6	3.4	2.5
Education	4.5	4.9	3.9	3.8	5.3	3.9
Personal care & effects	3.9	5.9	9.8	10.6	8.2	9.1

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

India trade: Non-oil exports and services showing resilience

- India's goods exports fell by 2.4% YoY at USD 36.4bn in Jan (USD 38bn in Dec) led by oil exports (-59% YoY). Non-oil exports have done well (14% YoY) and so have net services exports at 26% YoY (at USD 20.3bn)
- Goods imports rose by 10.3% YoY at USD 59.4bn in Jan, driven by higher gold imports (41% YoY) as well as non-oil non-gold imports (18.8% YoY). Oil imports contracted by 13.5% YoY
- Goods deficit widened to USD 23bn in Jan from USD 21.9bn in Dec, driven by higher non-oil non-gold deficit at USD 10.4bn (USD 6.9bn in Dec). But oil deficit narrowed (USD 9.9bn) and gold imports fell sequentially
- India's non-oil exports have been resilient (7.8% YoY) led by electronics and engineering goods. But growth in imports is outpacing exports given India's stronger growth momentum thus pushing trade deficit higher. Given the rhetoric on tariffs, in particular 'reciprocal', global trade and India's exports are vulnerable
- While trade deficit in FY25 is estimated at USD 277bn (7.0% of GDP), current account deficit is expected to be modest (0.9% of GDP) with services exports now clocking (USD 15.6bn/month) and elevated remittances

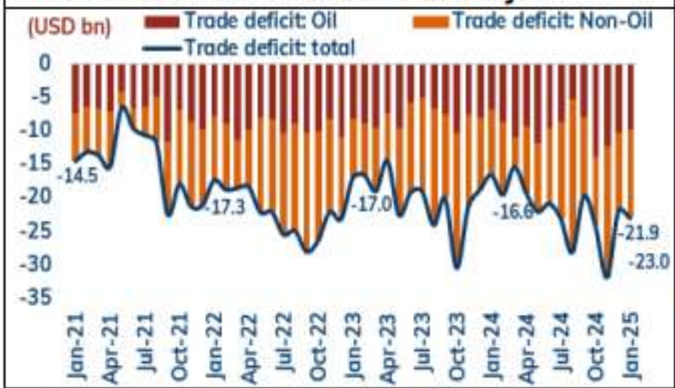
- However, muted net FDI inflows and FPI outflows implies negative BoP for the year as against a surplus of USD 24bn in H1. Given outflows from EMs are likely to continue, view on EM currencies is not very positive. Near-term outlook is a tad better with trade rhetoric easing for now but uncertainty should increase closer to April when reciprocal tariffs on countries may be announced

India Trade: January 2025

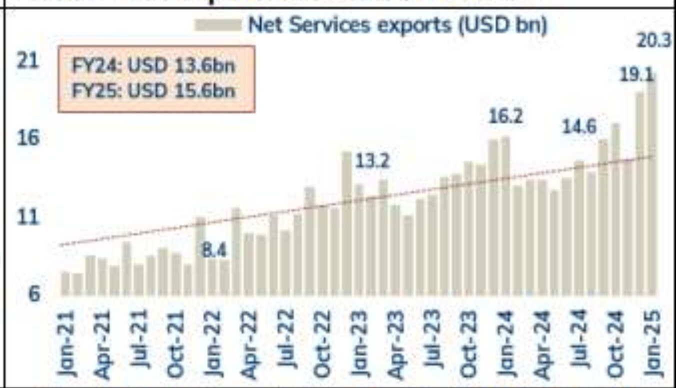
(USD bn)	Jan-24	Dec-24	Jan-25	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	37.3	38.0	36.4	-2.4	-4.2	354.0	358.9	1.4
Of which								
Oil	8.6	4.9	3.6	-58.6	-27.4	70.5	52.6	-25.4
Non-oil	28.7	33.1	32.9	14.5	-0.7	283.4	305.6	7.8
Imports	53.9	60.0	59.4	10.3	-0.9	560.3	601.9	7.4
of which								
Oil	15.5	15.3	13.4	-13.5	-12.0	145.5	151.7	4.3
Gold	1.9	4.7	2.7	40.8	-42.9	37.9	44.8	18.3
Non-oil non-gold	36.4	40.0	43.3	18.8	8.3	376.9	395.4	4.9
Trade Deficit	-16.6	-21.9	-23.0			-206.3	-243.0	

Source: CEIC, PIB press release, ICICI Bank Research

Trade deficit widened to USD 23bn in Jan

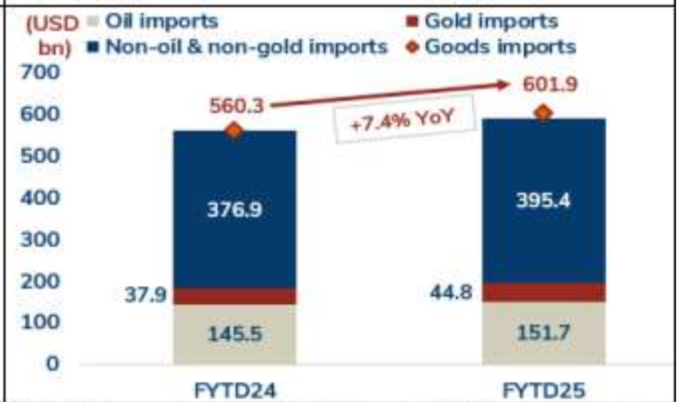


Net services exports rose to USD 20.3bn



Goods exports are up by 1.4% YoY at USD 358.9bn in FY25 so far

...Goods imports are higher by 7.4% YoY at USD 601.9bn



Net FPIs now lower at –USD 0.7bn in FY25

Net FDIs muted at USD 0.5bn in FY25 (Apr-Nov)

Source: CEIC, ICICI Bank Research

MPC Review: A cut after a two-year pause

- The MPC cut repo rate by 25bps, the first cut in almost 5 years and after a pause of 2 years given the confidence on inflation aligning with target so as to support growth
- Stance was maintained at neutral given volatility in global financial markets on the back of uncertainty about global trade policies which pose risk to growth and inflation
- Growth projection for FY26 was lowered to 6.7% (October MPR estimate: 7.1%) given the slowdown in urban demand even as Budget is likely to support consumption and investments
- Inflation is increasingly aligning with target on the back of correction in vegetable prices and good monsoon. For FY26, inflation is projected at 4.2% which is higher than earlier forecast on the back of depreciation pressure seen in INR and higher commodity prices
- With liquidity measures announced earlier, no new liquidity measures were announced but Governor emphasized that RBI will maintain a proactive approach in providing durable and overnight liquidity. Measures taken so far are adequate for the quarter, but more would have to be done for next year
- Given MPC is tilting towards a less restrictive policy with inflation expected to align closer to target, we see another 25bps rate cut in April. While our base case is of 50bps rate cut in the cycle given a hawkish Fed, room for more rate cuts may open up if growth disappoints

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