India economy update: March 2025

Industrial production: Capital goods, infra and durables drive growth

- Industrial production accelerated to 5.0% YoY in January 2025, led by higher manufacturing growth at 5.5% YoY. IIP growth during Apr-Jan FY25 stands at 4.2% YoY, lower than 6.0% last year
- Capital goods (7.8% YoY), durables (7.2% YoY) and infrastructure (7.0% YoY) drove industrial activity in January. Higher government spending along with resilient rural demand and non-oil exports explain the acceleration seen in the above segments
- On the other hand, electricity output was a tad weak at 2.4% YoY in Jan but has seen an acceleration in Feb. However, a few other high frequency indicators have seen some loss of momentum in Feb even as travel demand continues to remain resilient
- Domestic growth momentum should turn increasingly favourable given tax incentive for urban India in the Budget along with further policy easing by RBI. However, external environment can turn uncertain given the rhetoric on tariffs and have an impact on India's exports

IIP (January 2025): Industrial output expands

Industrial Production Index; 2011-12=100 (% YoY)	Jan-24	Dec-24	Jan-25	FYTD24	FYTD25
IIP (100%)	4.2	3.5	5.0	6.0	4.2
Mining (14.37%)	6.0	2.7	4.4	8.3	3.4
Manufacturing (77.63%)	3.6	3.4	5.5	5.5	4.2
Electricity (7.99%)	5.6	6.2	2.4	6.8	5.1
Primary goods (34.05%)	2.9	3.8	5.5	6.5	4.1
Capital goods (8.22%)	3.2	10.4	7.8	6.7	5.4
Intermediate goods (17.22%)	5.3	6.4	5.2	4.9	4.6
Infrastructure & construction goods (12.34%)	5.5	7.4	7.0	10.1	6.2
Consumer durables (12.84%)	11.6	8.3	7.2	2.1	8.6
Consumer non-durables (15.33%)	0.3	-7.5	-0.2	4.8	-1.3

Source: MoSPI, CEIC, ICICI Bank Research

Retail inflation: Inflation at 7-month low, driven by food prices

- CPI inflation softened to 3.61% YoY in February (our est: 3.82%) compared with 4.26% YoY in Jan, led by food inflation at 3.7% YoY (6.0% in Jan), while core inflation saw a pick-up at 4.0% YoY (3.7% in Jan)
- Sequentially, food inflation saw a sharp correction (-2.0%) led by veggies (-11.2% MoM), eggs (-5.3% MoM), pulses (-3.6% MoM), and meat and fish (-0.8% MoM). While veggie prices should start increasing in summer months, a high base effect is a positive
- Within core, personal care and effects segment continues to see an acceleration led by precious metals, while other segments are muted. A stable rupee is a positive going forward even as recent increase in commodity prices should drive core inflation higher. But recent dip in oil prices along with weak urban demand implies core inflation should average 4.6% in FY26

- With today's print, inflation in Q4 is now seen lower at 3.9% (RBI: 4.4%). A normal monsoon, stable INR and weaker energy prices imply FY26 inflation should align with target at 4.2% YoY
- With inflation lower than RBI's Q4 trajectory, we believe MPC should cut rates in April as well with a possible change in stance to neutral giving RBI flexibility to inject liquidity to spur growth. After April the timing of next rate cut is uncertain and would depend upon growth-inflation dynamics along with what happens globally (tariffs, Dollar index and capital flows)

% YoY	weight	Feb-24	Jan-25	Feb-25	FYTD24	FYTD25
Headline	100.0	5.1	4.3	3.6	5.4	4.7
CPI: Food & Beverages	45.9	7.8	5.7	3.8	7.0	7.1
Cereals	9.7	7.7	6.2	6.1	11.0	7.4
Vegetables	6.0	30.2	11.3	-1.1	14.3	22.4
Protein items	13.0	7.0	3.5	1.7	6.6	4.8
Oils & fats	3.6	-14.0	15.6	16.4	-15.0	4.7
Fruits	2.9	4.8	12.2	14.8	5.8	8.1
Sugar & confectionery	1.4	7.5	0.3	2.2	4.9	3.4
Spices	2.5	13.5	-6.8	-5.8	19.7	-2.9
Non-alcholic beverages	1.3	3.0	3.4	3.7	3.6	2.7
Prepared meals	5.6	3.7	4.1	4.2	5.1	3.7
CPI: Fuel & light	6.8	-0.8	-1.5	-1.3	1.7	-2.8
CPI: Core	47.3	3.4	3.7	4.0	4.4	3.5
Pan, tobacco & intoxicants	2.4	3.1	2.3	2.4	3.7	2.7
Clothing & footwear	6.5	3.1	2.7	2.7	4.9	2.7
Housing	10.1	2.9	2.8	2.9	4.0	2.7
Household goods & services	3.8	2.8	2.9	2.9	4.5	2.6
Health	5.9	4.5	4.0	4.1	5.7	4.1
Transport & communication	8.6	1.8	2.8	2.9	2.0	2.3
Recreation & amusement	1.7	2.7	2.7	2.7	3.4	2.5
Education	4.5	4.8	3.8	3.8	5.3	3.9
Personal care & effects	3.9	5.2	10.6	13.6	8.0	9.5

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

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India trade: Goods deficit narrowed to a 42-month

- India's goods exports fell by 10.9% YoY at USD 36.9bn in Feb, led by oil exports (-29% YoY) and non-oil exports (-6.3% YoY). Net services exports rose by 41% YoY at USD 18.5bn
- Goods imports moved to a 22-month low of USD 51bn, falling by 16% YoY and 14% MoM. All three major segments viz. oil imports (-30% YoY), gold imports (-63% YoY) and non-oil non-gold imports (- 2.9% YoY) recorded a dip
- Goods deficit narrowed to a 42-month low of USD 14bn (USD 23bn in Jan), led by both oil deficit at USD 6.1bn (USD 9.9bn in Jan) and non-oil deficit at USD 8.0bn (USD 13.1bn in Jan). Non-oil non-gold imports declined by USD 6.5bn on MoM basis
- During Apr-Feb 2025, India's trade deficit is USD 261bn (USD 226bn in same period last year). While today's print is positive, uncertainties around global trade policies could continue to remain a concern in near-term. The biggest worry is related to imposition of 'reciprocal tariffs' by the US, which could have an impact on India's exports
- However, a steady pick-up in net services exports (USD 15.6bn in FY25 vs. USD 13.6bn in FY24) and remittances is a positive. Thus, we have revised our CAD estimates lower to 0.7% of GDP from earlier estimate of 0.8% of GDP
- While current account is improving, muted net FDI and FPI outflows imply BoP should remain negative for the year but the magnitude would be lower. Outlook for INR too has improved with appreciation visible in currencies of India's trading partners against the Dollar. We see USD/INR pair trading in the range of 86.5 to 87.5 in the near-term

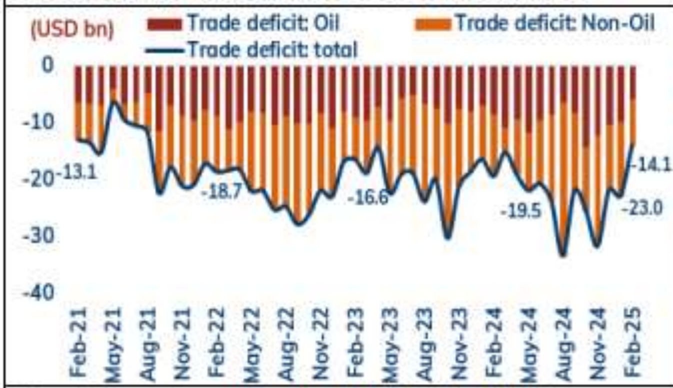
India Trade: February 2025

(USD bn)	Feb-24	Jan-25	Feb-25	(% YoY)	(% MoM)	FYTD24	FYTD25	Growth (%)
Exports	41.4	36.4	36.9	-10.9	1.3	395.4	395.6	0.1
Of which								
Oil	8.2	3.6	5.8	-29.3	62.7	78.7	59.0	-25.1
Non-oil	33.2	32.9	31.1	-6.3	-5.4	316.6	337.0	6.4
Imports	60.9	59.4	51.0	-16.3	-14.2	621.2	656.7	5.7
of which								
Oil	16.9	13.4	11.9	-29.6	-11.5	162.4	166.4	2.5
Gold	6.2	2.7	2.3	-62.6	-14.4	44.0	53.5	21.5
Non-oil non-gold	37.9	43.3	36.8	-2.9	-15.1	414.8	434.1	4.7
Trade Deficit	-19.5	-23.0	-14.1			-225.8	-261.1	

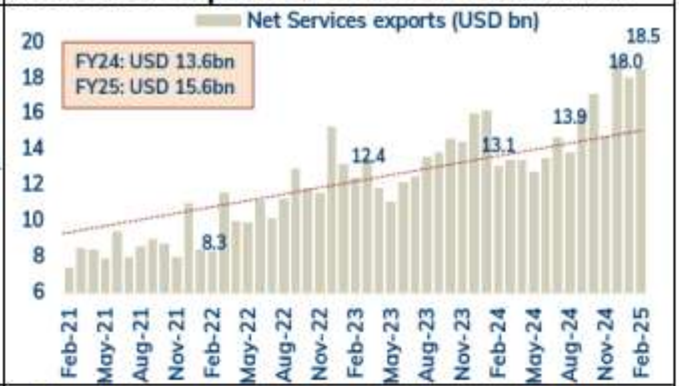
Source: CEIC, PIB press release, ICICI Bank Research

Source: CEIC, ICICI Bank Research

Trade deficit narrowed to USD 14.1bn in Feb

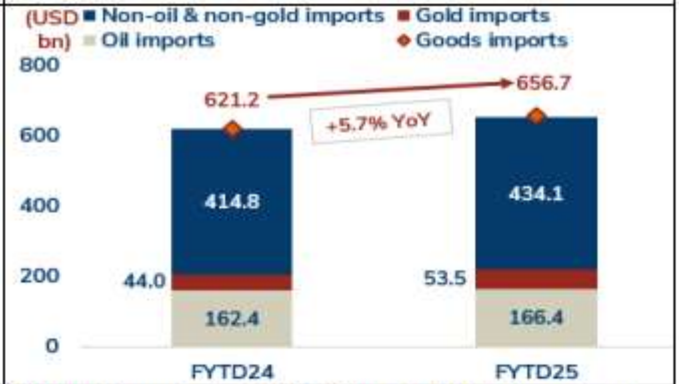


Net services exports stood at USD 18.5bn in Feb

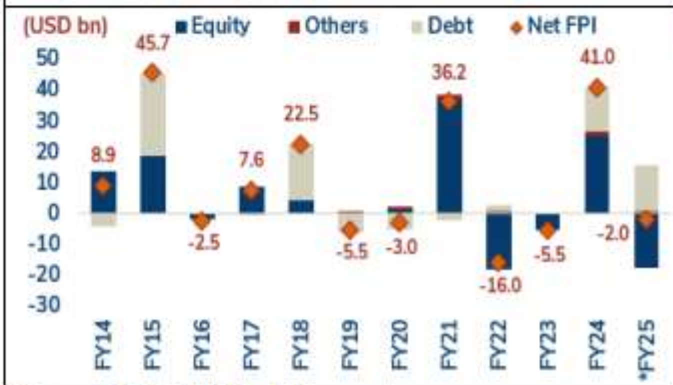


Goods exports are up by 0.1% YoY at USD 395.6bn in FY25 so far

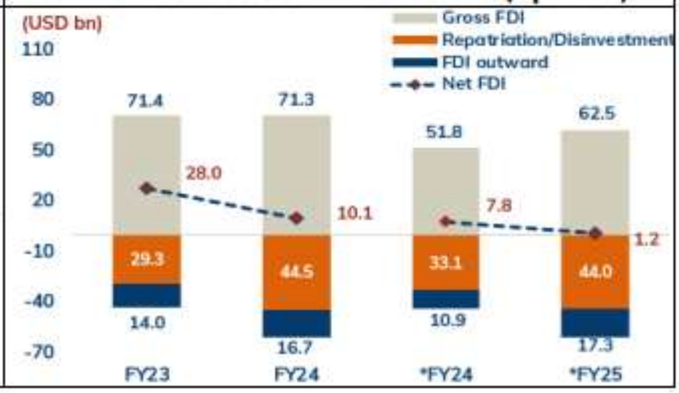
...Goods imports are higher by 5.7% YoY at USD 656.7bn



Net FPIs outflows at USD 1.2bn in FY25



Net FDIs muted at USD 1.2bn in FY25 (Apr-Dec)



Source: CEIC, ICICI Bank Research

MPC Review: A cut after a two-year pause

- After a pause in policy rate for 2 years, the MPC has unanimously cut the repo rate by 25bps to 6.25%, amid lower growth and easing inflation. Meanwhile, the stance was kept unchanged at 'Neutral' given the volatile geo-political and financial markets
- The RBI has revised its quarterly growth projections lower, with growth for FY26 estimated at 6.7%, Near-term inflation projections were also revised lower due to seasonal correction in vegetable prices, with FY26 estimate at 4.2%
- Given MPC is tilting towards a less restrictive policy, we expect a cumulative 75bps rate cut cycle, with another 25bps rate cut in April. The timing of the last 25bps cut is uncertain and would be dependent on global scenario. Given a hawkish Fed and risk of adverse weather events, the rate cut cycle will be shadow, with stance unchanged at neutral
- Should movement in INR hold back MPC? Given a moderate CAD and recent depreciation seen in INR, the currency is far more favourably placed now. Lower rates and more liquidity for transmission should be positive for growth and thus attracting growth capital

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