IIP growth rebounds, inflation cools

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India's factory output rebounded to a five-month high in November and retail inflation eased marginally to a 12-month low in December, providing the much-needed comfort to the government.

These will be the final set of key macro indicators available to Finance Minister Nirmala Sitharaman as she prepares to present Budget 2023-24 on February 1.

Data released by the National Statistical Office showed Consumer Price Index-based inflation rate, at 5.72 per cent, remained below the Reserve Bank of India's (RBI's) upper tolerance limit of 6 per cent for a second consecutive month in December due to continued moderation in food prices.

Meanwhile, factory output, measured through the Index of Industrial Production (IIP), grew at a robust 7.1 per cent in November, mostly due to a favourable base effect.

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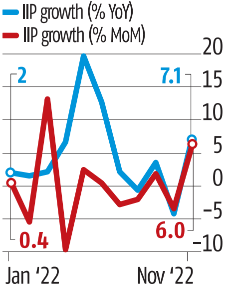
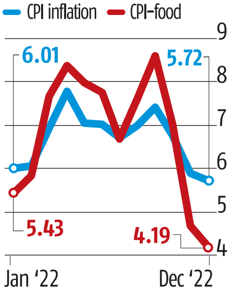
US INFLATION COOLS AGAIN, SLOWER RATE HIKES LIKELY Page 8

INDUSTRIAL OUTPUT ZOOMS



PRICE PRESSURES EASE

(% YOY)



Note: CPI: Consumer Price Index; IIP: Index of Industrial production; YoY: Year on Year; MoM: Month on Month
Source: National Statistical Office

IIP growth...

While the mining and manufacturing sectors grew 9.7 per cent and 6.1 per cent, respectively, in November, electricity output clocked double-digit growth at 12.7 per cent.

The food inflation rate fell to 4.19 per cent in December, from 4.67 per cent in November, driven by vegetables (minus 15.08 per cent), fruit (2 per cent), and prepared meals (7.76 per cent). However, core inflation — that excludes volatile food and fuel items — remained above 6 per cent in December, even after marginal deceleration.

RBI Governor Shaktikanta Das in his latest monetary policy statement had expressed concern over "sticky and elevated" core inflation. Retail inflation had been above the 6 per cent mark for three consecutive quarters, forcing the RBI to go on a rate-hike spree, as the Monetary Policy Committee hiked the lending rate by 225 basis points (bps) since May to 6.25 per cent.

Madan Sabnavis, chief economist, Bank of Baroda, believes the RBI will increase rates in February by 25 bps. This may be the last hike for this cycle, as the numbers in the months to come are expected to come down due to the base effect. Aditi Nayar, chief economist at ICRA, however, believes the MPC may choose to pause its rate-hike cycle in February, taking into account the lower-than-expected retail inflation print and muted average IIP growth of 1.3 per cent during October-November 2022.

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