

# May retail inflation, April factory output spring positive surprises

**DOUBLE DELIGHT.** CPI eases to 4.3%, IIP rebounds to 4.2%; RBI may continue its pause on rate for 3rd time in Aug

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Post the spurt in GDP growth number, two high frequency economic indicators have brought further cheer to the economy. Retail inflation, based on the Consumer Price Index (CPI), eased to a 20-month low of 4.3 per cent in May and factory growth, based on the Index of Industrial Production (IIP), rebounded to 4.2 per cent in April.

Better-than-expected numbers on these two counts translate into the likelihood of the Monetary Policy Committee (MPC) continuing with pause for the third successive time when it meets in August. Though it is good news for borrowers, there is less cause for depositors to be elated as banks have started lowering interest rates on some term deposits.

Prices of various goods in the retail market, barring spices, continued to decline with edible oil and veget-

## Softening prices

### Item-wise retail inflation

Item	April (in %)	May (in %)
Oils & fats	-12.33	-16.01
Vegetables	-6.50	-8.18
Meat & fish	-1.23	-1.29
Cereals	13.67	12.65
Spices	17.43	17.90

### Top States with high retail inflation

State	April (in %)	May (in %)
Haryana	5.68	6.04
Bihar	5.33	6.00
Uttarakhand	6.04	5.75
Uttar Pradesh	5.29	5.21
Telangana	6.02	4.76

Source: MoSPI

ables seeing the sharpest downward spiral. However, there are worrying signs underlined by Sunil Kumar Sinha (Principal Economist) and Paras Jasrai (Senior Analysts) of India Ratings & Research (Ind-ra) in a note.

"Though cereals inflation has reduced from its recent peak of 16.73 per cent in February 2023, has remained in double digit in last nine months, milk inflation remaining in excess of 6 per cent in last 10

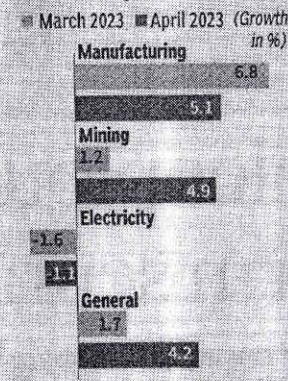
months, and core inflation remaining more than 5 per cent in last 37 months," the economists' note said.

### EL NINO IMPACT

Going forward, there is another concern around the El Nino impact on monsoon.

Aditi Nayar, Chief Economist with ICRA, said, while seasonally healthy reservoir levels are likely to provide some respite, a normal distribution of rainfall

## Factory output



in July will be critical to ensure timely sowing of kharif crops.

"The development of El Nino conditions would be closely monitored as these could lead to a sub-par monsoon and impact kharif yields and rabi sowing, and thereby impact crop output and food inflation," she said.

Meanwhile, most economists agree on one point — that the pause on policy rates is to continue. Rajani

Sinha, Chief Economist with CareEdge Ratings, said: "We expect the RBI to maintain a status quo in 2023 with CPI inflation remaining above 4 per cent target and growth impulses expected to hold up well."

### INDUSTRIAL GROWTH

Factory output rebounded from 5-month low of 1.7 per cent in March to 4.2 per cent in April. Manufacturing gave a big push with a growth rate of around 5 per cent. It got support from mining (5.1 per cent). However, the electricity sector saw a second consecutive month of de-growth (1.1 per cent) in April.

Vivek Rathi, Director Research, Knight Frank India, felt the latest headline and some sector numbers indicate healthy investment cycle in the economy. However, he said, "signals of recovery in domestic consumption, which is the key engine to growth, is uneven, as the growth in consumer durables goods is yet to pick up."