Comments on:
IIP March 2021 and CPI April 2021 figures

Healthy momentum in March IIP beyond the base effect

- IIP growth print for March 2021 has clearly benefitted from the base effect with the national lockdown in the last week of March 2020; the overall index, therefore shot up by 22.4% on a YoY basis compared to the sharply lower base in March 2020.
- However, the sequential movement in the overall index and all its components – mining, manufacturing and electricity has pleasantly surprised us. Even if we ignore the weaker data for Jan and Feb, the output levels in March 2021 have gone up significantly from those seen in Dec 2020.
- It is interesting to note that the gross generation of electricity in FY21 almost reached the levels in FY20 despite the lockdown driven disruption, implying that higher residential power demand largely offset the drop in demand from industrial and commercial activity.
- There has been a heightened activity in the export driven sectors and particularly refined petroleum products in March 2021.
- However, the sustainability of an uptrend in manufacturing is clearly in question due to the expected disruption caused by Covid 2.0 in April and May 2021. The YoY figures may not be meaningful to analyse at this point and we need to look closely at the sequential data.

Base effect gives relief to the CPI Inflation print

- Expectedly, the CPI print for April 2021 has benefitted from the base effect given the national lockdown in the same period of previous year and the elevated prices therein driven by supply constraints.
- The CPI inflation has moderated from 5.52% in March 2021 to 4.29% in April 2021 driven particularly by a deflation in vegetable prices of 14.2% on a YoY basis.
- While vegetables and cereals pulled down the food inflation significantly to 2.02%, we note that some categories in the food basket such as meat and fish, edible oil, fruits and pulses continue to show high inflation both on YOY and sequential basis, reflecting structural supply bottlenecks that might have got further aggravated by the fresh disruption brought in by the second Covid wave.
- Core inflation largely remains firm due to the cost push factor triggered by higher retail fuel prices.
- There is clearly a risk of a further increase in retail prices due to the re-emergence of supply constraints from Covid 2.0 lockdowns but the base effect may help to moderate the inflation print even if there is a sequential uptick.