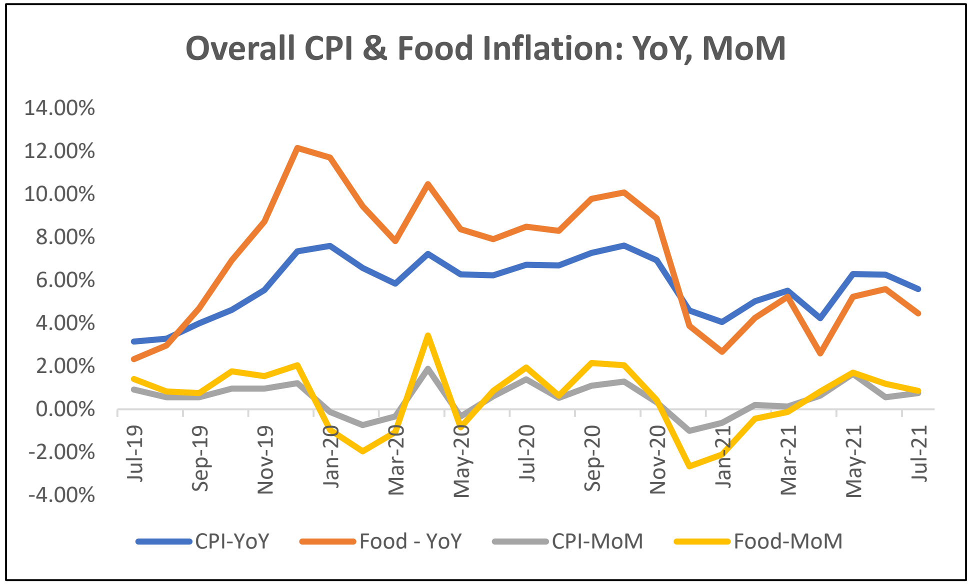
Comments on:
CPI Inflation July’ 21 & IIP June’ 21

Relief in food prices moderates CPI trajectory

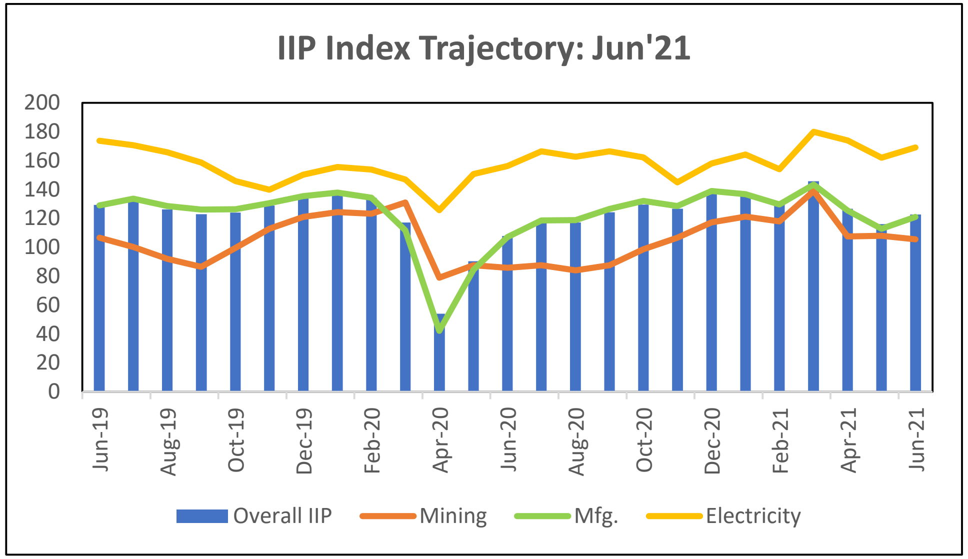


- CPI inflation encouragingly, has declined to 5.59% in Jul-21 from 6.26% in Jun-21 which highlights the easing of supply constraints due to the unlocking measures steadily undertaken by the state governments.
- This partly reinforces RBI's assertion that the inflationary pressures are largely supply driven and are likely to taper off with a favourable crop output in the kharif season.
- Food inflation has eased considerably from 5.58%YoY to 4.46%YoY driven by lower vegetable prices where the inflation print has been (-)7.75%; inflation in animal protein and edible oil continues to be high although there has been some relief in prices of pulses subsequent to the steps taken by the Government.

Inflation likely to remain moderate in the near term

- Core inflation estimates stand at 5.95%YoY which has declined slightly from the previous months but is still anchored closely to the upper band of the CPI target range of 2%-6%.
- Regulatory tolerance on inflation will continue to be higher in the current context given the priority accorded to the revival of the growth impulses.
- Given the surge in CPI print in May and June due to the second Covid wave and the consequent supply constraints, Acuité had earlier increased the average CPI inflation forecast to 5.5% for FY22 earlier and RBI has also revised its forecasts in the latest MPC to 5.7%.
- However, we expect the average CPI inflation to moderate over the next few months with further easing of supply constraints along with the favourable impact of a healthy monsoon on overall food prices.
- However, the monetary landscape may change by end of Q3FY22 if there are increasing signs of a demand pickup in the domestic economy.
- Acuité expects an increase in reverse repo rate by Q4FY22 which will signal a transition from an accommodative to a neutral monetary policy

Recovery in industrial activity after Covid 2.0

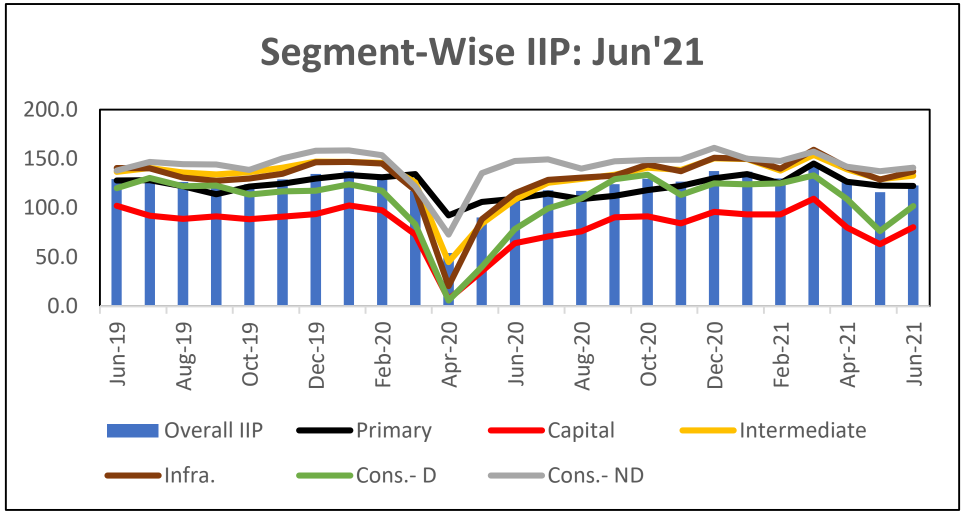


- IIP print for Jun-21 at 13.6%YoY reflected an even better performance than the core sector which had reported an 8.9%YoY growth. This indicates that the key industrial sectors are witnessing a gradual output recovery after the taper down of the second wave of Covid.

- Overall IIP was driven by a healthy growth in the manufacturing sector output which grew by 13.0%YoY and 7.36%MoM respectively.

- It is encouraging to witness a broad based recovery in manufacturing with a pickup in textile and capital goods among others along with a continuing momentum in the metals and the auto sector.

As risk of another intense pandemic wave wanes, IIP set for a steady rebound



- While mining has seen a good annualised growth, the sequential contraction may be related to the seasonal disruption brought in by the monsoon.
- The rise in electricity generation both annually and sequentially is also a reflection of a pickup in industrial activity.
- Except for consumer non-durables, all the use based segments have seen a healthy growth YoY.
- While the risks of a third wave still persist, a steady progress in vaccination has raised hopes for a steady rebound of the IIP trajectory from Q2FY22