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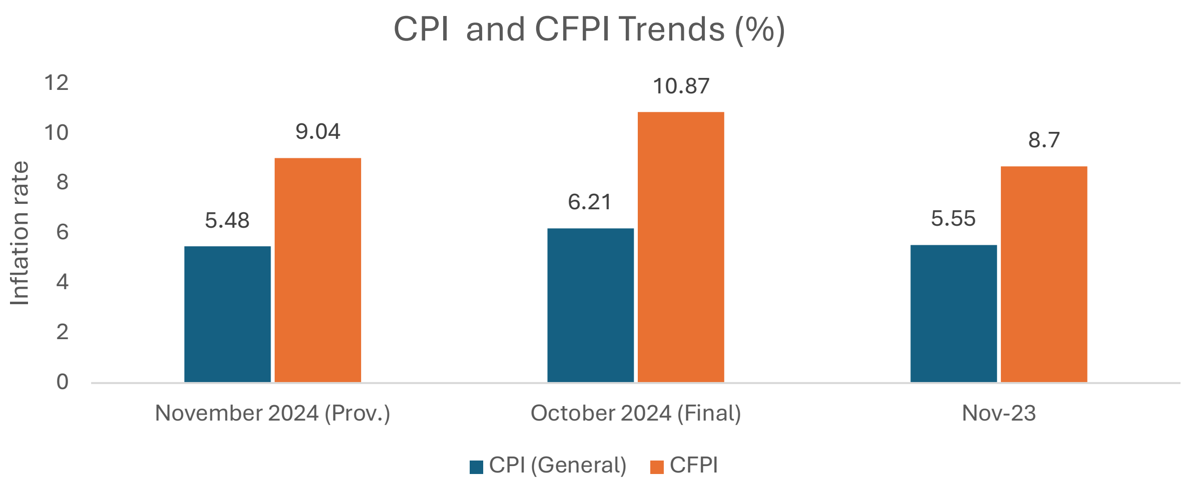
INDIAN ECONOMY: MIXED MACRO TRENDS, NEED CAUTIOUS MONITORING

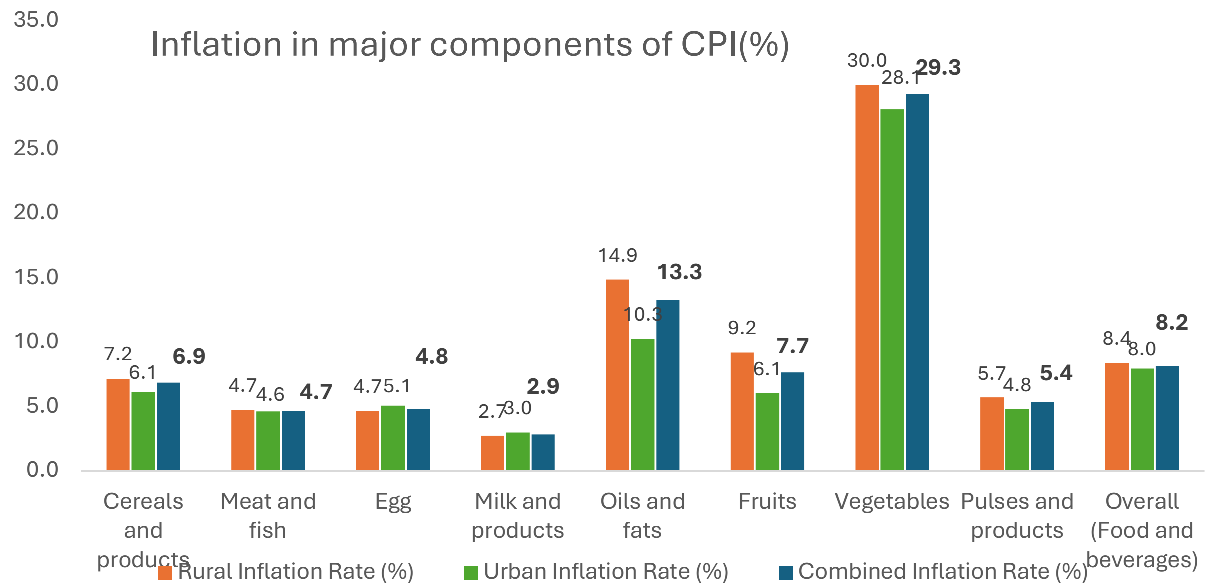
20 December 2024

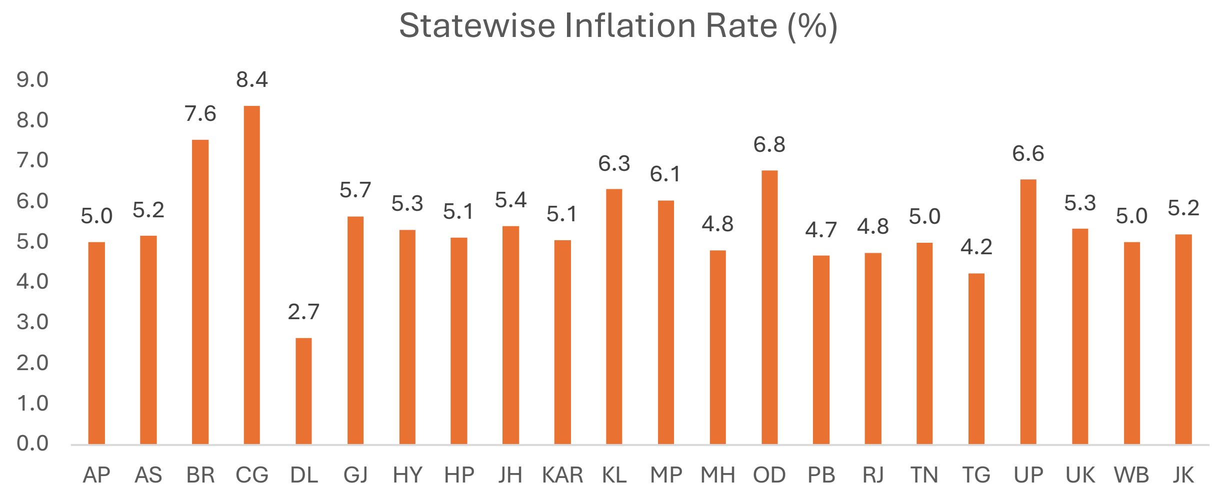
The CPI inflation declined from 5.48% in Nov'24 from 6.21% in Oct'24. But the food inflation remains uncertain and sticky. On a positive note, the vegetable prices, which increased by 42.2% in Oct'24, eased to 29.3% in Nov'24 on expected lines. After the protectionist-hawk Trump became the US President-elect, the potential tariff war may pose certain uncertainties regarding imported inflation and related distortions. The kharif output trends would be the key with improved supply chain distributions.



Moreover, structural bottlenecks like inputs costs, state wise inequalities and state-specific concerns need to be addressed. Imported inflation in the CPI basket would be determined largely by implications of trade protectionism, kharif arrivals and global economic trends, geopolitical challenges etc.

Interestingly, some studies have shown corporate profits have increased faster than wage growth, which could explain relatively lower inflation in high-income states due to relatively lower marginal propensity to consume (MPC) of corporates/businesses compared to the wage workers. Inflation in low-income states is, however, higher due to higher MPC along with structural bottlenecks. Climate shocks have pushed inflation higher in states like Chhattisgarh, Madhya Pradesh, Rajasthan, Tamil Nadu etc.



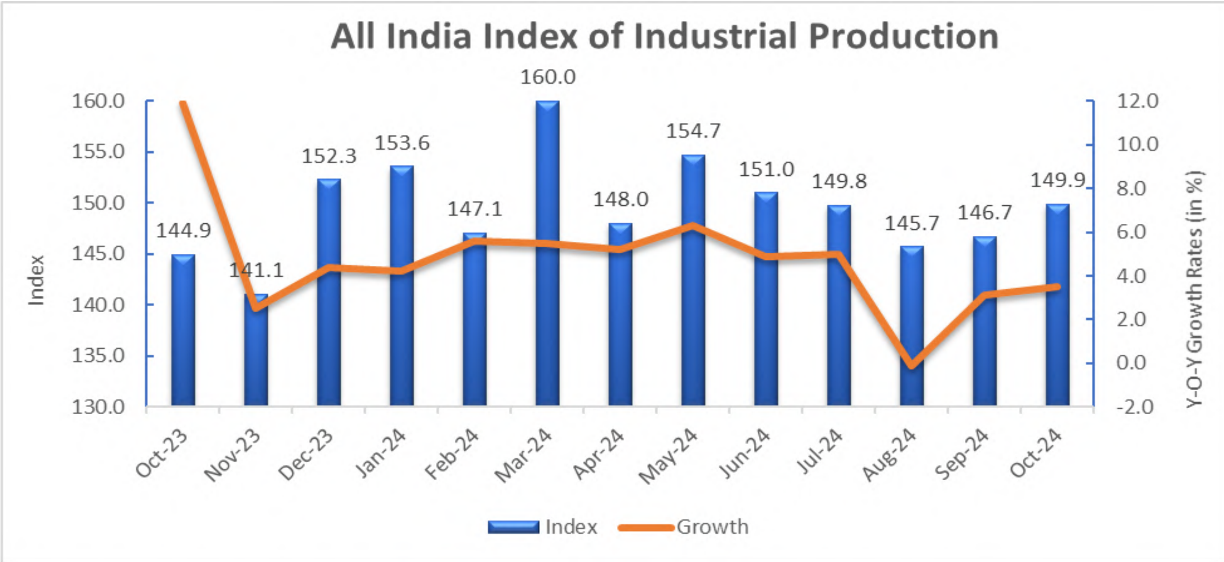


There are certain on-going structural bottlenecks in certain states, which makes the food inflation volatile and uncertain. For instance, urad prices have surged in Tamil Nadu and Andhra Pradesh due to floods and heavy rainfall and cyclone-related disruptions. In West Bengal, potato prices may be impacted due to the imposition of the inter-state transport ban imposed by the state government. An article[1] highlighted that wheat and edible oil may pose further challenges regarding the food inflation. Government procurement might be hampered due to higher open market prices compared to the minimum support price (MSP). Import might be feasible from other countries with competitive prices, with a modification in import duty.

[1] "Wheat, edible oil and inflation (16 Dec 2024) The Indian Express, by Harish Damodaran.

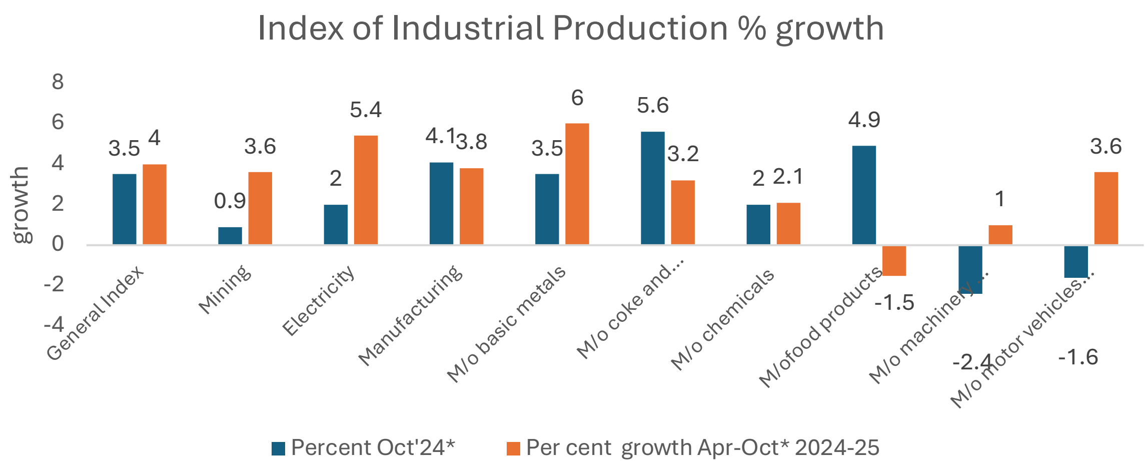
Industrial Production recovers:

Industrial production shows recovery as the IIP growth rose by 3.5% (3-month high) in Oct'24 compared with 3.1% in Sep'24. Manufacturing sector registered a growth of 4.1% against a growth of 3.9% in Sep'24. Both mining and electricity output also increased to 0.9% (0.2% in Sep'24) and 2% (from 0.5%) respectively for Oct'24.



Source: MOSPI.

Within the manufacturing sector, 18 out of 23 industry groups[2] have recorded a growth in October 2024 over October 2023. The top three positive contributors for the month of October 2024 are "basic metals" (3.5%), "electrical equipment" (33.1%) and "coke and refined petroleum products" (5.6%). Pipes and tubes, galvanised, bars and rods, mild steel, electrical equipment, LPG significantly contributed to growth.



[2] at NIC 2 digit-level.

Within use-based classification, primary (2.6% from 1.8%), intermediate (3.7% from 3.6%) and infrastructure goods (4% from 3.2%) output registered an improvement. Growth of the capital goods remained muted at 3.1% compared with a growth of 3.6% in Sep’24. For consumer goods, while moderation was witnessed in the output of consumer durable goods (5.9% from 6.5% in Sep’24), other categories i.e. consumer non-durables and FMCG products expanded by 2.7% against a growth of 2.2% noted in Sep’24, reflecting some boost in sales during the festive demand.

Month	Primary goods (34.048612)		Capital goods (8.223043)		Intermediate goods (17.221487)		Infrastructure/ construction goods (12.338363)		Consumer durables (12.839296)		Consumer non-durables (15.329199)	
	2023-24	2024-25	2023-24	2024-25	2023-24	2024-25	2023-24	2024-25	2023-24	2024-25	2023-24	2024-25
Growth over the corresponding period of previous year												
Sep	8.0	1.8	8.4	3.6	6.1	3.6	10.1	3.2	1.0	6.5	2.7	2.2
Oct*	11.4	2.6	21.7	3.1	9.5	3.7	12.6	4.0	15.9	5.9	9.3	2.7
Apr-Oct	7.0	4.1	8.9	3.9	5.2	4.0	12.9	5.6	1.4	8.2	7.2	-0.7

India adopted the Omnibus Technical Regulation (OTR) that offers a transformative opportunity to streamline regulatory frameworks. As highlighted in a media article[3], OTRs enhance market access particularly where stringent standards are the norm, increase investor confidence, reduce trade barriers, support SMEs by offering a standardised framework, enhance quality and innovation and improve environment sustainability.

Further the introduction of the Quality Control Orders (QCOs) has certain positive impact after the hallmarking of jewellery, as the industry witnessed a 15 per cent increase in exports.

[3] “Elevating manufacturing to global standards” (11 Dec 2024) Businessline, Vipin Sondhi.

The author, who held reputed positions in a leading industry opined that QCOs and the OTR are intended to strengthen Indian industry, indicating that regulatory frameworks can yield significant advancements in product quality.

Nonetheless, India is facing numerous challenges, like inadequate infrastructure, inefficient logistics facilities, lack of productivity and skilled labour among others. The foremost priority should be for an effective logistics and infrastructural facility among each state. There are substantial inter-state disparities in this regard. Further, India needs more skilled labour to enhance productivity with cutting-edge technology.

Trade Deficit increased due to surge in Gold Imports:

On trade front, India's trade deficit widened to $37.5 bn (Nov'24) from $27.1 bn in Oct'24, which was around $30 bn in Oct'23. The increase in deficit is driven primarily by record gold imports ($14.9 billion), which is almost around a fifth of aggregate merchandise import in Nov'24 that rose towards around $70 bn, which was at $66.3 bn during Oct'24.

Exports declined to $32.1 bn in Nov'24 compared to $39.2 bn previously, which has been affected largely due to the decline in petroleum prices. Gems & jewellery (G&J) saw a massive decline to $2.06 bn.

But non-petroleum products have experienced certain growth in exports, e.g. engineering goods, drugs & pharmaceuticals, electronic goods etc. The rise in gold imports can be explained by increasing demand as a hedge against volatile inflation, especially retail inflation in India, as well as growing demands amid the weddings during this season.

India's gold demand experienced an 18% YoY growth during the July-September quarter of 2024, reaching 248.3 tonnes, driven by a reduction in gold import duty that revitalised jewellery demand. In the same quarter of 2023, gold demand was recorded at 210.2 tonnes. The demand in value terms surged by 53% to US$ 19.68 billion (₹1,65,380 crore) during this period.[4] The aggregate jewellery demand increased by 10% to 171.6 tonnes, compared to 155.7 tonnes in Q3 2023.

The Indian rupee (INR) remains volatile:

The INR shows downtrend at (USD/INR) 84.93 per dollar due to high trade deficit amid surging gold imports, outflows from equities during Oct~Nov'24 and strengthening of the USD dollar index. The US dollar index gains amid Fed rate cut

[4] "Duty cut boosts India's gold demand to 248.3 tonne, up 18% in Q3: WGC" (1 Nov'24) IBEF, https://www.ibef.org/news/duty-cut-boosts-india-s-gold-demand-to-248-3-tonne-up-18-in-q3-wgc#:~:text=India's%20gold%20demand%20experienced%20an,World%20Gold%20Council%20(WGC).

expectations and better retails sales data as well as due to some external factors, e.g. the political instability in Germany has weakened the euro and related currencies to some extent.

Date	USD	GBP	EURO	YEN
17/12/2024	84.9264	107.6006	89.1659	55.1100
16/12/2024	84.8259	107.1594	89.1769	55.1800
13/12/2024	84.8411	107.3890	88.7398	55.4900
12/12/2024	84.8732	108.3712	89.1961	55.6400
11/12/2024	84.8427	108.3221	89.2947	55.9100
10/12/2024	84.8531	108.2793	89.6552	56.1400

Source: RBI.

Concluding Remarks:

The United States (US) is undergoing a period of transition with a second Trump administration following his recent election victory. The Federal Reserve (Fed), chaired by Jerome Powell currently maintains a target rate of the federal funds rate in the range of 4.50-4.75%. Though escalating trade tensions with China and the potential for major tariff implementation under Trump's administration create uncertainty, an improved situation is expected due to probable consultations and Trump's willingness to smooth out any geopolitical tensions.

The Fed reduced the rate by 25 bps. Amid strong USD index, the RBI has intervened in the forex market through state-run banks to stabilize the Indian Rupee (INR), which is under pressure due to a wider trade deficit. However, as the RBI would try to strengthen rupee by selling dollars, the reserve money (RM) might soften and can tighten the liquidity, which remained in strain earlier due to advance tax outflows and GST mop up.

The challenging time needs careful monitoring of major macroeconomic variables, such as, GDP growth, inflation rates, the trade deficit, and foreign investment flows. These factors will play important role in shaping India's economic trends.