SBI ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

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JUNE 12, 2018
ISSUE NO: 19, FY19

CPI & IIP: A CONTRASTING STORY OF BASE EFFECTS, BUT CAN WE CHANGE THE TIMING OF DATA RELEASE?

The CPI and IIP numbers portray a contrasting story of base effects. While the jump in CPI was anticipated, specifically the core CPI (still likely to peak in June 2018 and may even top 6.5% (base effect contributing close to 50 bps) on the back of a lowest core CPI in June 2017). IIP jumped too, but because of a favourable base.

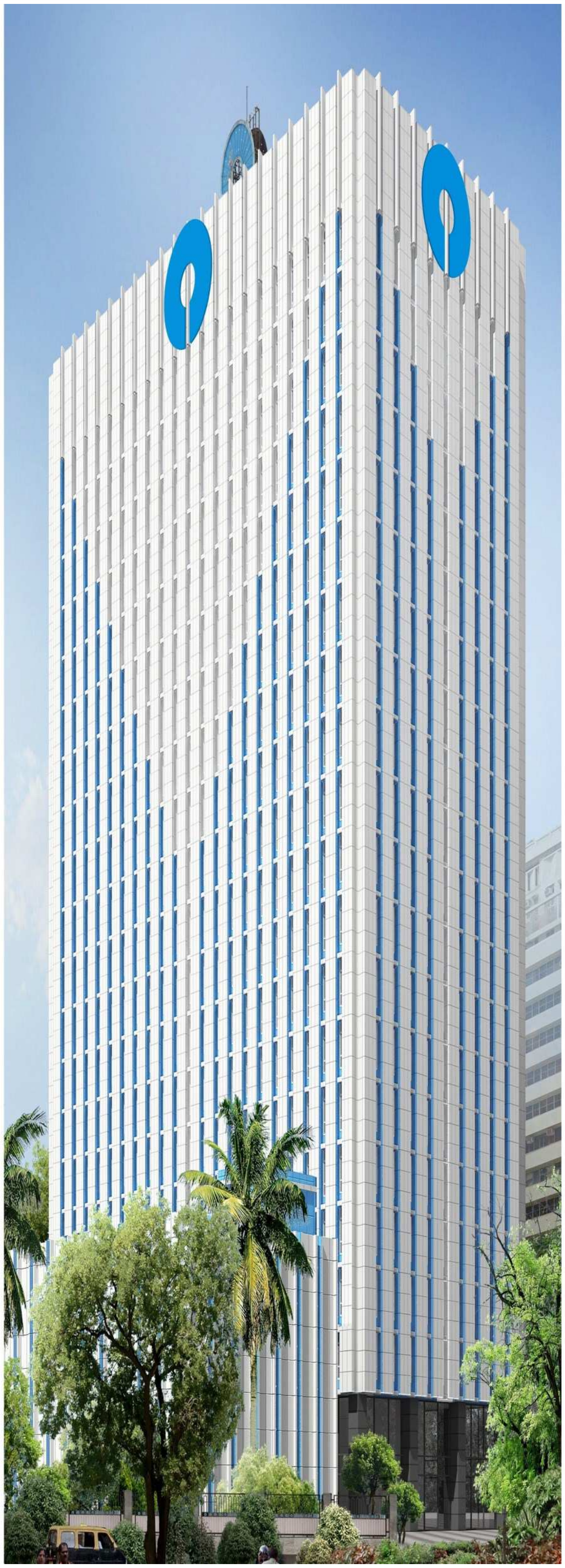
Core CPI internals for the 12 month period ended Apr'18 reveal Housing Rent, Tuition fees and Petrol for Vehicle are the top 3 contributors to core inflation. The monthly momentum of core CPI has slowed down significantly in May'18 and we expect it to decelerate rapidly post June. We expect RBI should watch out CPI numbers post June for more clarity before arriving at any rate decision in August.

One of the key issues regarding the release of macro data by CSO that bothers us is the timing at 5:30 pm. India has always been a pioneer in adopting international best practices in each and every sphere of Policy Making, Governance and Regulation. However, in one key area, i.e., data release, we were erstwhile following the best practices which were abandoned in 2013.

Till June 2013, the key macro indicators data were released by 12 noon, the practice followed by various developed and developing economies. However, in July 2013 the then Government took the decision to release the key macro data (except WPI) at 5:30 pm, which was apparently done to prevent any knee-jerk reaction to unfavourable data prints at that time.

Looking at the global practices, we looked at the timing of CPI release of some major countries and found that almost all countries (except Russia) release the CPI data before noon. We believe this is the right time that Government should withdraw the 5-year old decision and release all the key macroeconomic indicators data before noon (say 11.00 am), as per the international best practices.

The worrying thing is that FY18 was a relatively bad year for corporates with topline / net sales for 3964 corporates reporting increase by 11%, but bottomline / PAT (adj) exhibiting decline by about 15% or so. We foresee an investment recovery in H2FY19, once consumption growth gains momentum.



CPI INFLATION INCREASED

- As expected, CPI inflation increased moderately to 4.87% in May'18 from 4.58% in Apr'18, with increase in prices in clothing, fuel & light and miscellaneous group within which transport and communication witnessed a significant jump. Prices of food and beverages
- Meanwhile, the Core CPI has increased further to 6.18% compared to 5.92% in Apr'18, getting a push from education and clothing and footwear. Rural inflation (4.88%) has again grown faster than urban inflation (4.72%).
- Core CPI internals for the 12 month period ended Apr'18 reveal Housing Rent, Tuition fees and Petrol for Vehicle are the top 3 contributors to core inflation.
- The monthly momentum of core CPI has slowed down significantly in May'2018 and we expect it decelerate rapidly post June. We expect Core CPI for June to climb further on the back of the most adverse base in June 2017 (we believe a 50 bps contribution to core numbers because of base in June).

Items under Core Inflation and their Contribution to Inflation (May'17 to Apr'18)

Inflation Range	Number of Items	Combined weight	Major Contributor
5.00-5.99	16	7.93	Tuition and other fees (14 bps); Petrol for Vehicle (11bps)
6.00-6.99	15	3.44	Doctor's/ surgeon's fee-first consultation (5 bps); Barber, beautician, etc. (4bps):Hospital Nursing Home charges(3bps)
7.00-9.99	11	10.37	**House rent, garage rent (67 bps)**
10.00 and above	5	0.43	Bidi (5 bps)
Over All	**47**	**22.2**	**142 (bps)**

Source: SBI Research

Arithmetic of Core CPI Inflation

Month	Inflation	Adjusted to Base effect	Base Effect	
			bps	Comment
May-18	6.18	5.93	25	Unfavourable
Jun-18	6.54	6.04	50	Unfavourable

Source: SBI Research

NEED TO CHANGE DATA RELEASE TIMING

- India is always pioneer in adopting international best practices in each and every sphere of policy making, governance and regulation. However, in one key area, i.e., CPI and IIP Data release, we were erstwhile following the best practices which were abandoned in 2013.
- Till June 2013, the key macro indicators data like CPI, IIP, WPI and GDP were released by 12 noon, the practice followed by various developed and developing economies. However, in July 2013 the then Government took the decision to release the key macro data (except WPI) at 5:30 pm, which was apparently done to prevent any knee-jerk reaction to unfavourable data prints at that time.
- During Jan-Jun 2013, Rupee was too volatile and it was depreciating rapidly from as low as Rs 53 per dollar to as high as Rs 61 per dollar. During the same period, CPI was hovering in the range of 8-10%. Now the situation has changed and market is much more stable. The most important thing is that the RBI's targeted CPI inflation is now below 5%. Further, the markets always predict the data much before by various polls and adjust accordingly. So, the negative data doesn't affect the markets significantly.
- Looking at the global practices, we analysed the timing of CPI release of some major countries and found that almost all countries (except Russia) release the CPI data before noon, which is the most important factor in deciding the key policy rate by central bank.
- We believe, this is the right time that Government should withdraw the 5-year old decision and release all the key macro-economic indicators data before noon (say 11.00 am), as per the international practices. This will also increase Government's transparency in public disclosure.

CPI Release Time

Country	Local Time
Germany	8:00 AM
US	8:30 AM
Japan	8:30 AM
Canada	8:30 AM
France	8:45 AM
Spain	9:00 AM
UK	9:30 AM
China	9:30 AM
South Africa	10:00 AM
Brazil	10:00 AM
Australia	11:00 AM
Italy	11:00 AM
Russia	4:00 PM
India	5:30 PM

Source: SBI Research

IIP GREW BY 4.9% IN APR'18

- The Index of Industrial Production (IIP) grew by 4.9% in Apr'18, compared to an upwardly revised 4.6% in Mar'18. Low growth in Electricity (2.1%) dragged the industrial performance. Meanwhile, Mining and Manufacturing grew by 5.1% and 5.2% respectively in Apr'18. The improvement in Mining sector was heartening after consecutive months of low growth.
- As per use based classification, Capital goods grew by a significant 13%, Primary goods by 3.1%, intermediate goods by 1.6% and Infrastructure/ Construction goods by 7.5%. The Consumer durables and Consumer non-durables have recorded growth of 4.3% and 7.0%, respectively. Out of 23 industry groups in the manufacturing sector, 16 have shown positive growth during Apr'18 as compared to the corresponding month of the previous year.
- Mining, scientific instruments/ apparatus for drawing, calculating and measurement, commercial vehicles, sugar and cement were the chief positive contributors to IIP growth whereas gold jewellery, copper rods, wires and bars, telephone and mobile instruments, readymade garments and air filters were major negative contributors.
- Going forward IIP is likely to remain on the higher side for next 2 months owing to the base effect. A clearer picture should emerge post June, when the IIP series will be devoid of any base impact. We foresee an investment recovery in H2FY19, once consumption growth gains momentum.

CORPORATE RESULTS

- From 3964 corporate results for FY2018, a majority—3777 corporates reported increase in Net Sales. While the overall Net sales for 3964 corporates reported increased by 11%, PBIDT & PAT change reported decline by 2.4% and by about 15% respectively. In terms of overall performance in growth on all three parameters viz., Net Sales, PBIDT and PAT, sectors such as IT Hardware, Steel, Cables, Stock / Commodity Brokers, Chemicals and Cement Products were top performers. In terms of decline in growth, some of the key sectors that underperformed are Capital Goods (Electrical Equipment), Sugar, Engineering, Oil Drilling and Shipping. Few sectors weighed on the overall performance in terms of profitability. Going forward, key sectors (including services) such as Steel, Automobile, Insurance, Castings & Forgings, Gas Distribution and Fertilisers are likely to contribute to play a pivotal role in the overall growth story. We expect that the Q1FY2019 results may see tapering of decline in profitability and hopefully bottoming out of margins.

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

DISCLAIMER

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