SBI

ECOWRAP

भारतीय स्टेट बैंक
STATE BANK OF INDIA

'Be the Bank of Choice for a Transforming India'

MARCH 12, 2019
ISSUE NO:95, FY19

CPI SHOWS A MARGINAL UPTICK WHILE IIP DISAPPOINTS

CPI inflation reported an uptick to 2.57% in Feb'19 compared to 1.97% in Jan'19. Though Headline is showing an increase, the Core CPI component moderated again to 5.30% in Feb'19 from Jan'19 level of 5.36%. Subsequently, Rural Core has moderated to 5.68% in Feb'19 from month before level of 5.87%. Urban Core also continues to decline and stands at 4.83%.

Rural Health and Education inflation, which spiked surprisingly in Oct'18 have softened significantly in Jan'19 and then in Feb'19. We had observed that there was possibly a clear-cut case of data aberration in CPI-Rural (Health and Education Category) in Dec'18 month data release and now with Feb release our observation seems to have been validated.

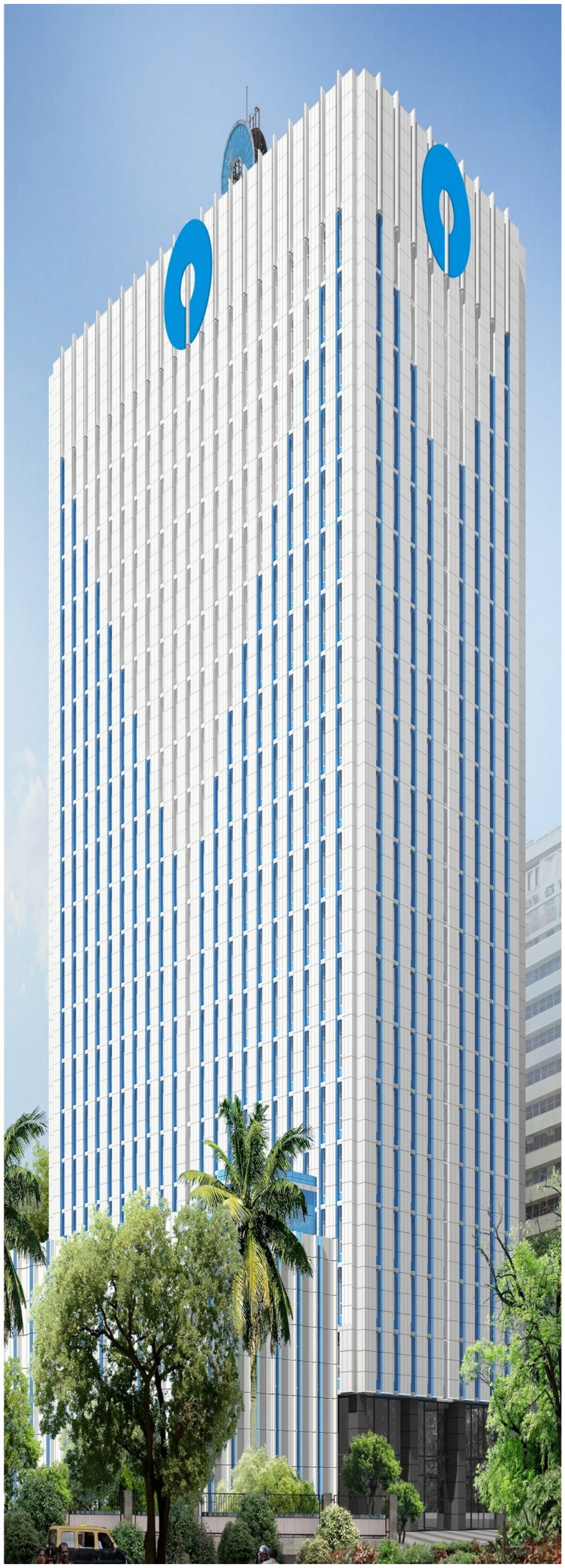
There is a palpable expectation in the market that the income support scheme may have an impact on inflation also (particularly in those states where more number of farmers received first installment) via consumption. State-wise CPI inflation data for Jan'19 and Feb'19 reveal states have witnessed modest pick-up in inflation. But CPI inflation has increased in other states as well, like Kerala where only 4% farmers have only been covered under the scheme. Thus PM Kisan alone does not explain the increase in inflation.

International experiences suggest, there is some time lag on impact of cash transfer to boost consumption growth. For example, a study by World Bank on Food Support Program carried out in southern States of Mexico reveals that it took approximately 2-years to see the cash transfer has a large and positive impact on total and food consumption.

However, the yearly income support amount may not have much impact on over all consumption expenditure as its share in PFCE is less than 0.6%. Besides, historical trend suggests, during the years when general elections were held, there is a significant jump in revenue expenditure which directly impacts the consumption growth, and it slows down thereafter. Thus, the net effect on consumption could go either way, but it is unlikely that this cash transfer will have a significant impact on inflation.

Overall, there seems to be an improvement in market prices in selected categories across coarse cereals, oilseeds and even pulses. It seems that the tide of continued decline in food prices may be turning around the corner, but we still expect headline CPI to stay decisively below 4% till Aug / Sep 2019.

Meanwhile, IIP continued to stay weak. Overall, we believe sectors such as FMCG, Chemicals, Auto Ancillary, Steel, Gas Distribution, Packaging etc. are likely to continue to do well in the near future.



CPI IS AT 4-MONTH HIGH

- CPI inflation reported an uptick to 2.57% in Feb'19 compared to 1.97% in Jan'19. The increase in CPI has been observed in cereals & products (1.32%), Milk and Products (0.92%), clothing (2.71%), footwear (3.10%), Housing (5.10%), Health (8.82%0, Transport & communication (3.08%), Education (8.13%).
- Though headline is showing an increase, the Core CPI component moderated again to 5.30% in Feb'19 from Jan'19 level of 5.36% due to relatively lower than previous month growth in segments carrying high weights such as Clothing (2.71% against 2.93%), Transport & Communication (3.08% against 3.45%), Health (8.82% against 8.93%) and Housing (5.10% against 5.20%).
- The food inflation though still negative has come to the border level of -0.7% and may witness reversal in the coming months. However, fuel inflation has registered a growth of only 1.24%, lower than the previous month's y-o-y growth of 2.12%.
- Important segments such as Health and Education seems to have softened in the urban areas but continue to rule high in the rural segments.
- Rural Core has moderated to 5.68% in Feb'19 from month before level of 5.87%. Urban Core also continues to decline and stands at 4.83%. With overall Core now at 5.30%, **we expect March Core to decline further**.
- Rural Health and Education inflation, which spiked surprisingly in Oct'18 have softened significantly in Jan'19 and then in Feb'19. We had observed that there was possibly a clear-cut case of data aberration in CPI-Rural (Health and Education Category) in Dec'18 month data release and now with Feb release our observation seems to be true. The CPI Rural Health having a M-o-M/ sequential average of 0.5% suddenly jumped to 3.43% in Oct'18 and 3.09% in Dec'18. The Oct and Dec numbers were way above the average + 3*standard deviation, indicating an occurrence probability of once in 333 months (27.7 years)! The Jan'19 and Feb'19 sequential numbers indicate a return to trend growth rates.

M-o-M Change in Health and Education Inflation (%)

	Apr-11 to Sep-18 (90 months)				Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
	Max	Min	Average	Standard Deviation	Actual				
Rural CPI Health	**1.37**	-0.31	0.49	0.27	**3.43**	0.41	**2.89**	0.07	0.13
Rural CPI Education	**2.55**	-1.36	0.58	0.49	0.27	1.49	**3.26**	0.00	0.26
Memo:									
Urban CPI Health	1.57	0.09	0.46	0.24	0.37	0.44	0.37	0.36	0.51
Urban CPI Education	2.35	-0.33	0.56	0.62	0.21	0.41	0.27	0.07	0.00

Source: SBI Research

PM-KISAN AND ITS IMPACT ON CONSUMPTION AND PRICES

- In the Union Budget 2019-20, Government has introduced a new scheme, Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), to address the farmer distress in the country by providing direct income support of Rs 6,000 per year to 12 crore small and marginal farmers. In the budget, Government has made a provision of Rs 20,000 crore for FY19 to pay the first installment.
- On 24 Feb'19, Government has launched the scheme and paid 1.01 crore farmers @Rs 2000 each. As on 07 March'19, Government has transferred Rs 5,215 crore to over 2.6 crore (21% of the total targeted farmers) small and marginal farmers under the PM-KISAN scheme. Out of the 2.6 crore farmers, around 74.71 lakh farmers in UP, 32.15 lakh farmers in AP, 25.58 lakh farmers in Gujarat, 11.55 lakh farmers in Maharashtra, 14.41 lakh farmers in Telangana and 14.01 lakh farmers in Tamil Nadu got the first payment. Among other States, 8.34 lakh farmers in Haryana had received the first installment, followed by 8.09 lakh farmers in Assam and 8.07 lakh farmers in Odisha.

State Wise Number of Farmers Benefited under PM-KISAN till 7th March 2019 (In Lakh)							
	Status under PM-KISAN (till 7th Mar'19)				CPI Inflation (%)		
States	Number of Farmer Received	Amount Disbursed	Total Farmers Eligible	% of farmer Covered	Jan-19	Feb-19	Change in bps
Andhra Pradesh	32.15	64301	75.50	43%	-1.20	0.43	163
Assam	8.09	16182	23.64	34%	4.70	5.31	61
Bihar	0.72	1448	159.14	0%	1.72	1.37	-35
Punjab	2.63	5264	3.62	73%	2.39	2.63	24
Haryana	8.35	16692	11.16	75%	0.30	0.52	23
Gujarat	25.58	51162	36.34	70%	1.81	2.65	84
Himachal Pradesh	2.83	5662	8.85	32%	-2.38	-2.09	29
Jharkhand	4.70	9402	23.04	20%	2.23	2.76	53
Jammu & Kashmir	3.42	6832	13.47	25%	3.66	3.79	13
Kerala	3.37	6742	75.14	4%	4.53	5.53	100
Maharashtra	11.56	23112	118.71	10%	1.87	2.24	37
Odisha	8.07	16140	45.24	18%	-0.07	0.80	87
Telangana	14.41	28822	52.49	27%	-0.29	0.29	58
Tamil Nadu	14.01	28028	73.43	19%	2.87	3.17	30
Uttarakhand	2.99	5972	8.08	37%	2.04	2.82	78
Uttar Pradesh	74.72	149438	221.09	34%	2.16	2.91	75
Others*	0.72	1443	110.44	1%	-	-	-
Total	**260**	**521500**	**1256**	**21%**	**2.05**	**2.57**	52

Source: Ministry of Agriculture, SBI Research; * A & N Islands, Chhattisgarh, Daman & Diu, Karnataka, Manipur, Mizoram, Puducherry and Tripura

All India Average Price Movement of Kharif crops Post MSP Announcement (price per quintal)							
Crops		Weight in CPI	MSP 2018-19	Jan-19	Feb-19	Growth Feb'19 over MSP (%)	Growth Feb'19 over Jan'19 (%)
Cereals	Wheat*	2.73	1840	2089	2098	14.0	0.4
	Paddy	4.75	1750	1977	2010	14.8	1.6
Coarse Cereals	Barley*	0.05	1440	2065	1846	28.2	-10.6
	Jowar	0.23	2430	2452	2276	-6.3	-7.2
	Bajra	0.11	1950	1984	2106	8.0	6.1
	Maize	0.06	1700	1768	1913	12.5	8.2
	Ragi	0.05	2897	2337	2320	-19.9	-0.7
Pulses	Gram*	0.29	4620	5078	4991	8.0	-1.7
	Masur*	0.3	4475	5766	5786	29.3	0.3
	Arhar	0.80	5675	5152	5408	-4.7	5.0
	Moong	0.36	6975	5745	5673	-18.7	-1.2
	Urad	0.27	5600	5205	5349	-4.5	2.8
Oilseeds	Mustard*	1.33	4200	3969	3951	-5.9	-0.5
	Soyabean	0.30	3390	3536	3660	8.0	3.5
	Groundnut	0.33	4890	4645	4909	0.4	5.7
	Seasamum	0.01	6249	10060	9999	60.0	-0.6
	Nigerseed	0.01	5877	4395	4447	-24.3	1.2
	Cotton	0.05	5150	5358	5263	2.2	-1.8

Source: AGMARKET, SBI Research Note: *: MSP for 2019-20

Impact on Prices

- There is a palpable expectation in the market that the income support scheme may have an impact on inflation also (particularly in those states where more number of farmers received first installment) via consumption. State-wise CPI inflation data for Jan'19 and Feb'19 reveal states have witnessed modest pick-up in inflation. But CPI inflation has increased in other states as well, like Kerala where only 4% farmers have only been covered under the scheme. Thus PM Kisan alone does not explain the increase in inflation. It is in fact too early to see the impact of the scheme on inflation as the scheme started at the end of Feb'19. We believe that its impact will be visible only, if any in coming months once the scheme is implemented completely.
- Overall, there has been an improvement in market prices in selected categories across coarse cereals, oilseeds and even pulses. It seems that the tide of continued decline in food prices may be turning around the corner, but we still expect headline CPI to stay decisively below 4% till Aug / Sep 2019.

Impact on Consumption

- The State wise number of farmer who have benefited so far indicates a large variation across the States. In the States like Punjab, Haryana and Gujarat, more than 70% of total eligible farmers have received the first instalment whereas in other States like Karnataka, Bihar and Kerala, there only 5% of the total farmers have benefited.
- International experience suggests, there is some time lag on impact of cash transfer to boost consumption growth. For example, a study by World Bank on Food Support Program carried out in southern States of Mexico reveals that it took approximately 2-years to see that the cash transfer has a large and positive impact on total and food consumption. The transfer, does not affect overall participation in labor market activities but induces beneficiary households to switch their labor allocation from agricultural to non-agricultural activities. Further, the finding suggest that the program leads to a significant reduction in poverty.
- Though, the PM-KISAN scheme has not yet matured as its coverage till now is only one fifth of the total intended farmers, so we believe it may not have much immediate impact on consumption in this quarter. However, once the coverage under PM-KISAN reaches close to 100%, it may boost food consumption. With food being the largest part of consumption spending across low income segments and in India Food expenditure contributes 30% of Private Final Consumption Expenditure (PFCE), so it will have an impact on the food economy is most likely.
- However, the yearly income support amount of Rs 75,000 crore (approximately) to 12 crore farmers may not have much impact on over all consumption expenditure as its share in PFCEs is less than 0.6%.

- Besides, historical trend suggests, during the years when general elections were held, there is a significant jump in revenue expenditure which directly impacts the consumption growth. And it slows down thereafter. Thus, the net effect on consumption could go either way, but it is unlikely that this cash transfer will have a significant impact on inflation.

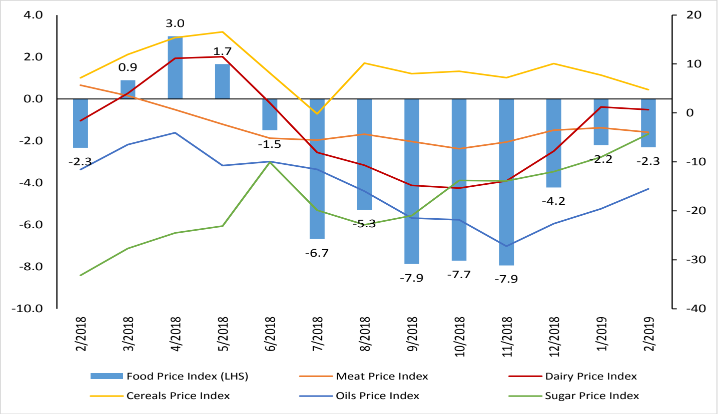
Central Govt. Revenue Expenditure during pre & Post election				
General Election	Held in Month	Previous two year Average Growth	Growth in Year following General Election	Difference in bps
13th	Sept-Oct 1999	17.22	9.71	751
14th	Apr-May 2004	9.6	6.13	347
15th	Apr-May 2009	24.52	14.86	966
16th	Apr-May 2014	9.72	7.35	237

Source: SBI Research

INTERNATIONAL FOOD PRICE SITUATION CONTINUES TO BE SOMBER

- The international trends in food price over the last one year has been a prolonged spell of contraction. The general food index has been contracting since June 2018. All the components of food index are in red except cereals. This is having an impact on MSP increase and hence domestic food prices.

Trends in International Food Prices (% Y-o-Y)



Source: FAO, SBI Research

IIP AND CORPORATE OUTLOOK

- IIP grew by 1.7% in Jan'19, compared to 2.4% in Dec'18. Base effect was at play in the low IIP growth, as in Jan'18 IIP grew by 7.5% growth. Manufacturing, the component with the highest weight grew by a tepid 1.3% vis-à-vis 2.7% in Dec'18 and 8.7% in Jan'18. The most volatile component mining grew by 3.9%, recovering from Dec'18 negative growth of -1.0% and 0.3% in Jan'18. Electricity sector, which had been performing most consistently this fiscal registered growth of 0.8% in Jan'19, its worst performance since Jun'15.
- For Apr-Jan'19, IIP grew by 4.4% compared to last year's growth of 4.1%.
- As per Use-Based classification, Infrastructure/ construction goods (weight of 12.3%) which has the best performing sub-sector this fiscal, has again displayed good growth of 7.9% in Jan'19. Capital goods, a highly volatile segment has again dived into negative growth territory in Jan'19 with -3.2% growth. Intermediate goods are again in negative zone with growth at -3.0%. Primary goods, consumer durable and non-durables grew by 1.4%, 1.8% and 3.8% respectively.
- In terms of industries, 11 industries (combined weight of 39.4% in IIP) out of the 23 industry groups, in the manufacturing sector have shown positive growth during Jan'19 vis-à-vis Jan'18. The industry group 'Manufacture of food products' has shown the highest positive growth of 17.0% followed by 16.4% in 'Manufacture of wearing apparel' and 10.4% in 'Printing and reproduction of recorded media'. These have a combined weight of 12.2% in IIP.
- On the other hand, the industry group 'Manufacture of furniture' has shown the highest negative growth of -12.0% followed by -9.0% in 'Manufacture of fabricated metal products, except machinery and equipment' and -6.4% in 'Manufacture of paper and paper products'.
- In Q3FY19, sectors which has reported growth in key parameters include Paper, Auto Ancillary, Steel etc. while sectors reporting negative growth include Sugar, Textile, Pharma, Construction etc. Overall, we believe sectors such as FMCG, Chemicals, Auto Ancillary, Steel, Gas Distribution, Packaging etc. are likely to continue to do well in the near future.

******

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

CONTACT DETAILS

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India
Corporate Centre
Madam Cama Road
Nariman Point
Mumbai - 400021

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in
Phone: 022-22742440

: @kantisoumya