

CONSUMER PRICE INDEX SEPTEMBER 2018

CPI inflation rose mildly to 3.8% in Sept 2018 from 3.7% in Aug 2018, while remaining sub-4.0%, in line with our expectation

OCTOBER 2018



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation rose mildly to 3.8% in September 2018 from the 10-month low 3.7% in August 2018, led by a rise in the inflation for food and beverages, and pan, tobacco and intoxicants, even as the YoY inflation eased for housing, clothing and footwear, and fuel and light.*
- The mild uptick in the CPI inflation in September 2018 is in line with our expectation of a sub-4% print for that month.*
- The inflation for food and beverages recorded a modest uptick to 1.1% in September 2018 from the 13-month low 0.8% in August 2018, reflecting an unfavourable base effect, as well as the narrowing disinflation for vegetables.*
- The core CPI inflation (excluding food and beverages, fuel and light, as well as petrol and diesel for vehicles) eased to 5.7% in September 2018 from 5.9% in August 2018, led primarily by the base-effect led easing in housing inflation.*

OVERVIEW

- The CPI inflation inched up to 3.8% in September 2018 (+3.3% in September 2017) from 3.7% in August 2018 (+3.3% in August 2017; refer Exhibit 1 and 2), largely in line with our forecast (+3.9%). This sequential uptick was led by a rise in inflation for food and beverages, and pan, tobacco and intoxicants, even as the YoY inflation eased for housing, clothing and footwear, and fuel and light. The CPI inflation remained below the Monetary Policy Committee's (MPC's) medium term target of 4.0% for the second month in a row.
- The inflation for food and beverages recorded a modest uptick to 1.1% in September 2018 (+1.8% in September 2017) from the 13-month low 0.8% in August 2018 (+2.0% in August 2017; refer Exhibit 3), partly led by an unfavourable base effect. The YoY inflation rose in September 2018 relative to August 2018 for vegetables (to -4.2% from -7.1%), non-alcoholic beverages (to +2.1% from +1.9%), prepared meals and snacks (to +4.4% from +4.2%), spices (to +2.9% from +2.8%), and cereals and products (to +3.1% from +3.0%). However, the YoY inflation dipped in September 2018 relative to August 2018 for categories such as egg (to +3.8% from +6.8%), fruits (to +1.1% from +3.5%), sugar and confectionary (to -6.4% from -5.4%), pulses and products (to -8.6% from -7.8%), meat and fish (to +2.3% from +3.2%), and oils and fats (to +3.2% from +3.5%). In month-on-month (MoM) terms, the food and beverages sub-index declined by 0.8% in September 2018, narrower than the fall of 1.1% that had been recorded in September 2017 (refer Exhibit 4), driven by the trend in vegetables (-4.2%, -7.1%).
- The inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) rose to 5.6% in September 2018 from the series-low print of 5.4% in August 2018. Moreover, this sub-index increased by 0.8% in MoM terms in September 2018, higher than the 0.7% rise recorded in September 2017.
- In contrast, the core-CPI inflation eased to 5.7% in September 2018 from 5.9% in August 2018 (refer Exhibit 5), led primarily by the base-effect led easing in housing inflation. On an MoM basis, this sub-index rose by 0.5% in September 2018, lower than the uptick of 0.6% recorded in September 2017. Accordingly, the wedge between headline and core-CPI inflation narrowed to 195 bps in September 2018 from 216 bps in August 2018.

Contact:

Aditi Nayar

+91 124 4545 385

aditin@icraindia.com

Medha Sinha

+91 124 4545 399

medha.sinha@icraindia.com

- The inflation for miscellaneous items (with a weight of 28.3% in the CPI Index) remained unchanged at 5.6% in September 2018, in line with the print in August 2018. The YoY CPI inflation for personal care and effects (to +4.1% from +4.5%), and household goods and services (to +4.9% from +5.0%) eased in September 2018 relative to the previous month. In contrast, the CPI inflation rose for transport and communication (to +6.4% from +6.0%, reflecting the rise in prices of fuels such as petrol and diesel), education (to +6.4% from +6.1%), recreation and amusement activities (to +5.0% from +4.9%), and healthcare (to +5.9% from +5.8%) in September 2018 relative to August 2018. On an MoM basis, the sub-index for miscellaneous items rose by 0.6% in September 2018, in line with the uptick in September 2017.
- Reflecting the favourable base effect, housing inflation (with a weight of 10.1% in the CPI Index) softened to an 11-month low 7.1% in September 2018 from 7.6% in August 2018. In MoM terms, the sub-index rose by 0.5% in September 2018, considerably lower than 1.0% increase recorded in September 2017, which had reflected the staggered impact of the revision in house rent allowance for Central Government employees.
- The inflation for clothing and footwear (with a weight of 6.5% in the CPI) also eased to 4.6% in September 2018 from 4.9% in August 2018. In MoM terms, the sub-index for clothing and footwear rose by 0.3% in September 2018, lower than the uptick of 0.5% recorded in September 2017.
- The inflation related to fuel and light dipped mildly to 8.5% in September 2018 (+1.8% in September 2017) from the 60-month high 8.6% in August 2018 (+5.0% in August 2017). This sub-index increased by a considerable 0.9% in MoM terms in September 2018, similar to the rise recorded in September 2017.
- The urban CPI inflation posted an uptick to 4.3% in September 2018 from the 10-month low print of 4.0% in August 2018, led by food and beverages (to +0.7% from -0.3%), and clothing and footwear (to +5.4% from +5.3%). However, the inflation eased in September 2018 relative to the previous month for housing (to +7.1% from +7.6%), fuel and light (to +8.8% from +9.2%), and pan, tobacco and intoxicants (to +6.3% from +6.6%).
- In contrast, the rural CPI inflation softened mildly to an 11-month low 3.3% in September 2018 from 3.4% in August 2018, led by clothing and footwear (to +4.2% from +4.7%), and food and beverages (to +1.4% from +1.5%), even as the print for pan, tobacco and intoxicants rose (to +5.3% from +5.0%) during these two months. The urban CPI inflation exceeded the rural CPI inflation for the third month in a row in September 2018 (refer Exhibit 6).
- The buildup in the CPI inflation up to September 2018 stood at 2.8%, modestly lower than the buildup of 3.3% recorded up to September 2017.
- The final headline CPI inflation for August 2018 remained unchanged at 3.7%, in line with the initial print for the month.

OUTLOOK

The high frequency data reveals a mixed trend in food prices in the ongoing month. The uneven distribution of monsoon rainfall may limit the growth in kharif output, which in conjunction with the revision in minimum support prices (MSPs) may impact prices in the immediate term. However, the YoY rise in reservoir levels across most regions would support a brisk pace of rabi sowing, once it commences. Overall, the extent to which the revised MSPs result in a rise in crop prices after the kharif harvest would crucially determine the trajectory of food inflation in the remainder of this fiscal.

The weakness in the INR is expected to impact the landed cost of various imports in the near term. Despite the recent excise cut, the average prices of petrol and diesel in October 2018 remain higher than the previous month, which may have a second-round impact on the prices of various perishable items.

The rise in crude oil prices, the sharp weakening of the INR, and the revision in MSPs are likely to push up the headline inflation above 4% in the ongoing quarter. These risks, combined with the change in stance from neutral to calibrated tightening, suggest the continued possibility of a rate hike in the December 2018 policy review.

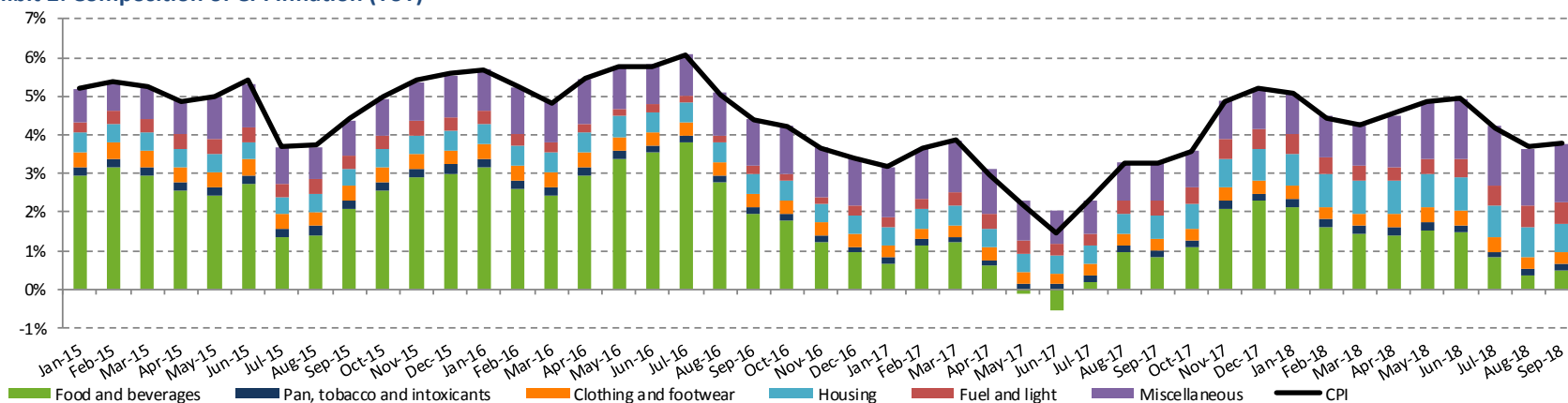
Exhibit 1: Trend in CPI Inflation (YoY)

	Weight	YoY Inflation				MoM	Buildup*
		Jul-18	Aug-18	Aug-18	Sep-18	Sep-18	Sep-18
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	4.2%	3.7%	3.7%	3.8%	-0.1%	2.8%
Food and beverages	45.86	1.7%	0.9%	0.8%	1.1%	-0.8%	2.4%
Cereals and products	9.67	2.9%	3.0%	3.0%	3.1%	0.4%	2.0%
Meat and fish	3.61	2.3%	3.2%	3.2%	2.3%	-1.6%	1.5%
Egg	0.43	7.4%	7.0%	6.8%	3.8%	-2.2%	-2.3%
Milk and products	6.61	2.9%	2.7%	2.6%	2.6%	0.4%	1.4%
Oils and fats	3.56	2.8%	3.5%	3.5%	3.2%	0.0%	1.2%
Fruits	2.89	6.9%	3.6%	3.5%	1.1%	-4.0%	-1.1%
Vegetables	6.04	-2.3%	-7.0%	-7.1%	-4.2%	-4.2%	11.5%
Pulses and products	2.38	-8.9%	-7.8%	-7.8%	-8.6%	-0.7%	-2.5%
Sugar and confectionary	1.36	-5.8%	-5.4%	-5.4%	-6.4%	-0.9%	-2.1%
Spices	2.50	2.7%	2.9%	2.8%	2.9%	0.1%	1.2%
Pan, tobacco and intoxicants	2.38	6.3%	5.3%	5.4%	5.6%	0.8%	1.9%
Clothing and footwear	6.53	5.3%	4.9%	4.9%	4.6%	0.3%	2.4%
Housing	10.07	8.3%	7.6%	7.6%	7.1%	0.5%	2.3%
Fuel and light	6.84	8.0%	8.5%	8.6%	8.5%	0.9%	4.1%
Miscellaneous	28.32	5.8%	5.5%	5.6%	5.6%	0.6%	3.4%
Household goods and services	3.80	5.1%	4.9%	5.0%	4.9%	0.3%	3.1%
Health	5.89	5.9%	5.8%	5.8%	5.9%	0.4%	3.0%
Transport and communication	8.59	6.6%	6.0%	6.0%	6.4%	1.3%	4.0%
Recreation and amusement	1.68	5.1%	4.9%	4.9%	5.0%	0.5%	3.0%
Education	4.46	5.8%	6.0%	6.1%	6.4%	0.1%	4.6%
Personal care and effects	3.89	5.3%	4.5%	4.5%	4.1%	0.6%	2.1%
CPI-Food	36.55	1.3%	0.3%	0.3%	0.5%	-1.1%	2.5%
CPI-Core	44.97	6.2%	5.8%	5.9%	5.7%	0.5%	2.8%
CPI Rural		4.1%	3.4%	3.4%	3.3%	-0.2%	2.5%
CPI Urban		4.3%	4.0%	4.0%	4.3%	0.1%	3.1%

*Buildup with reference to March 2018

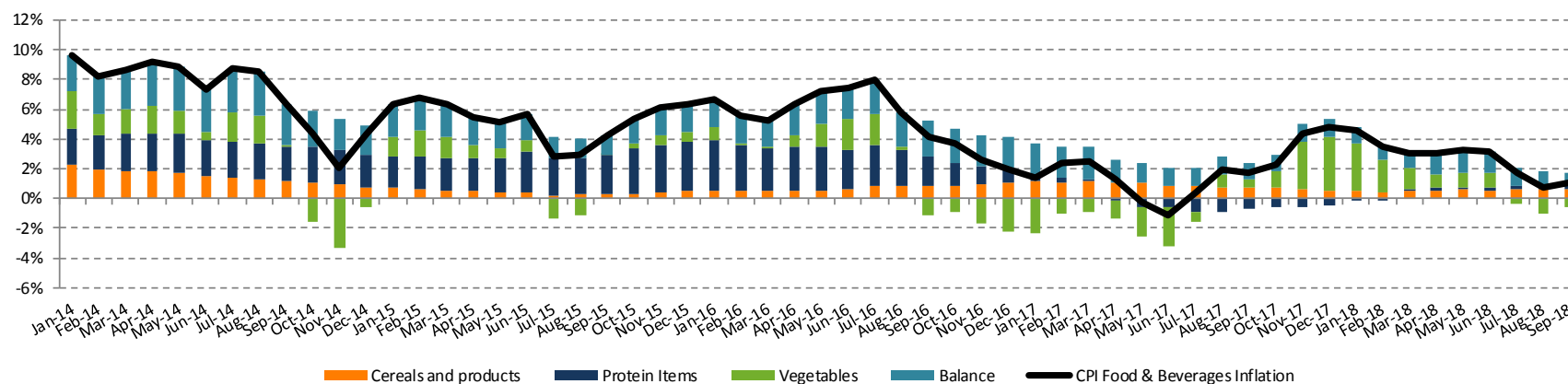
Source: Central Statistics Office (CSO); ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)



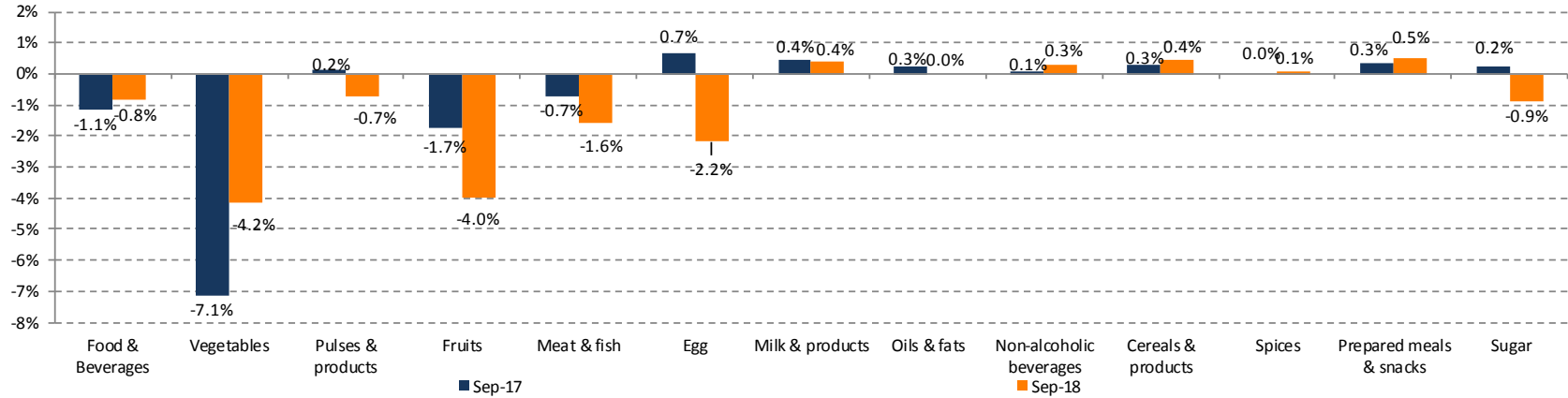
Source: CSO; ICRA research

Exhibit 3: Composition of Food and Beverages Inflation (YoY)



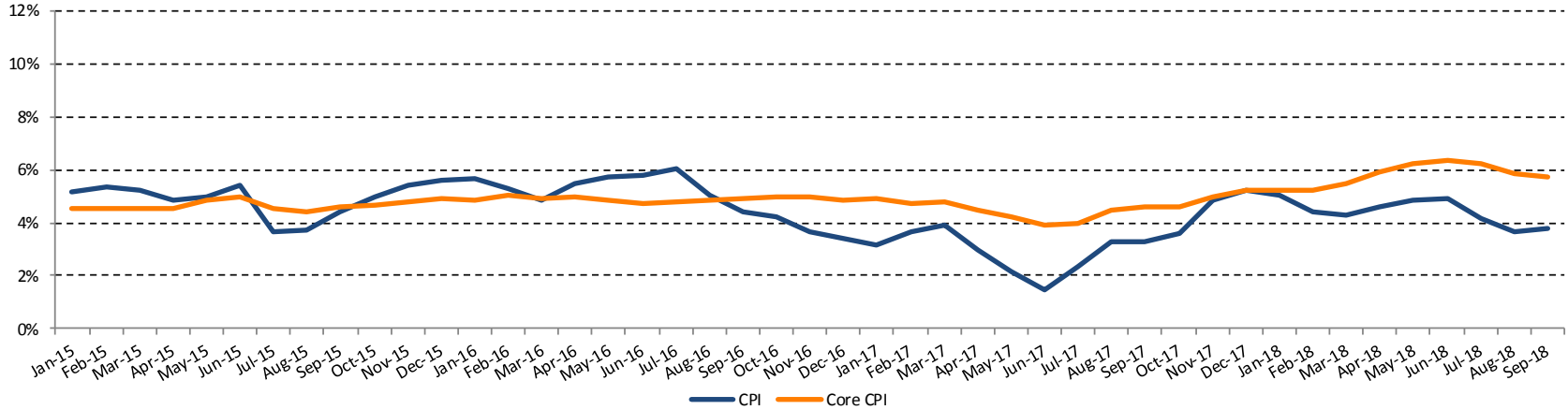
Source: CSO; ICRA research

Exhibit 4: MoM Change in Food and Beverage Sub-Index



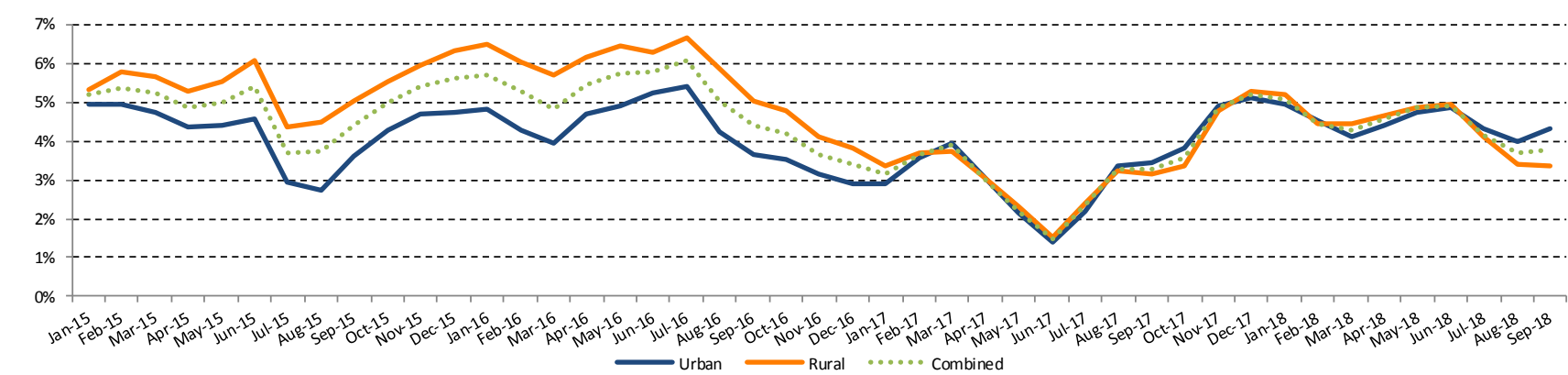
Source: CSO; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)



Source: CSO; ICRA research

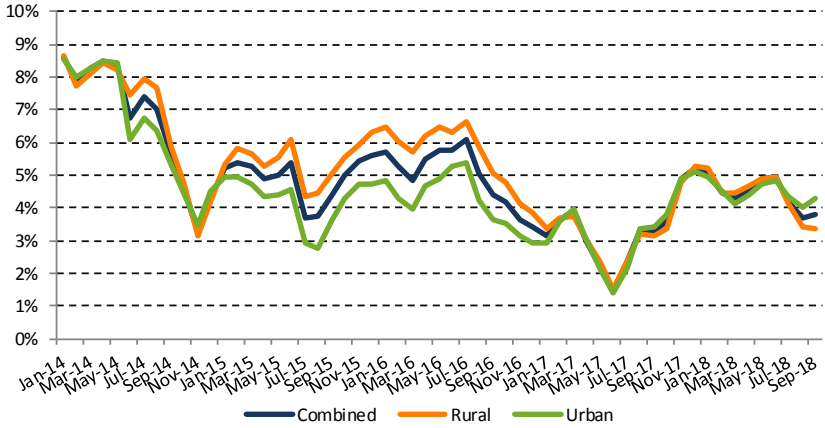
Exhibit 6: Rural and Urban CPI Inflation (YoY)



Source: CSO; ICRA research

ANNEXURE

Exhibit 7: CPI Inflation (YoY)



Source: CSO; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)

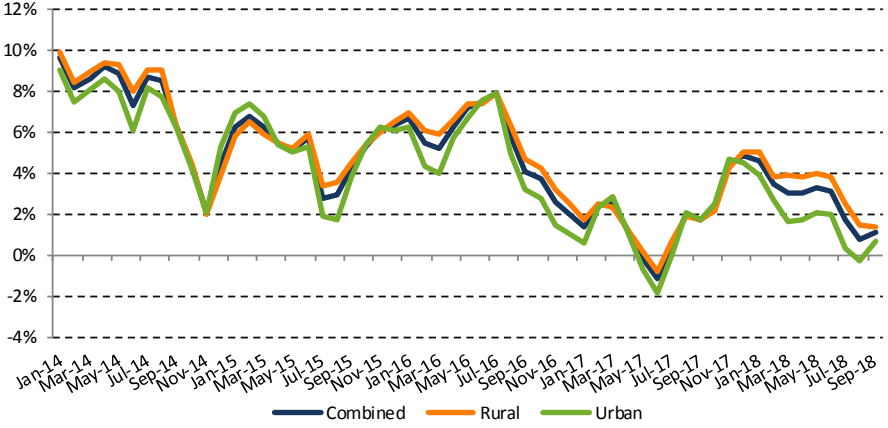
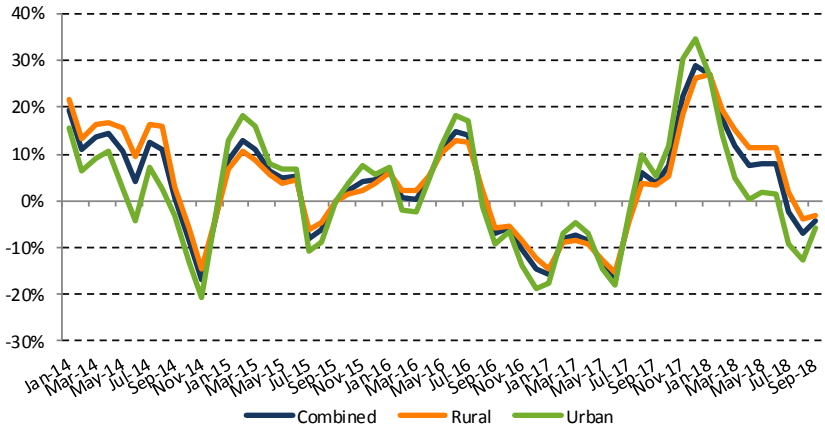


Exhibit 9: Vegetables Inflation (YoY)



Source: CSO; ICRA research

Exhibit 10: Fuel and Light Inflation (YoY)

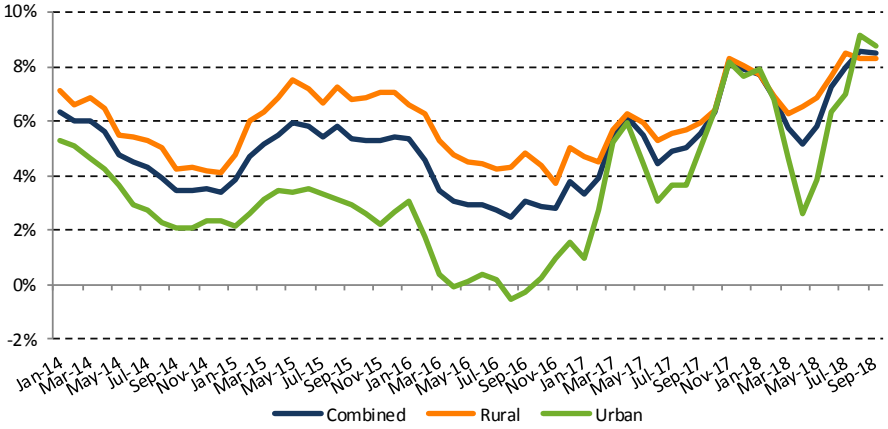
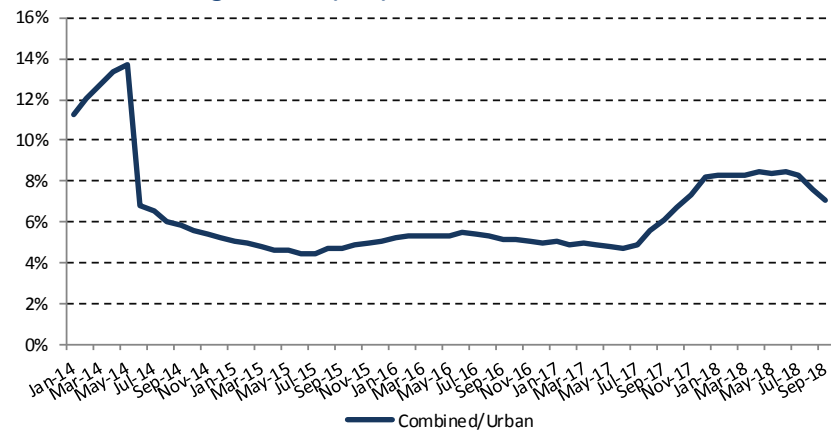


Exhibit 11: Housing Inflation (YoY)



Source: CSO; ICRA research

Exhibit 12: Clothing and Footwear Inflation (YoY)

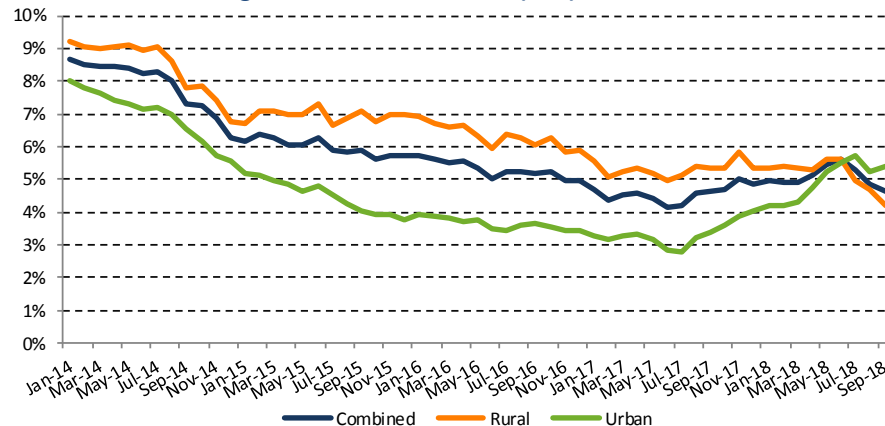
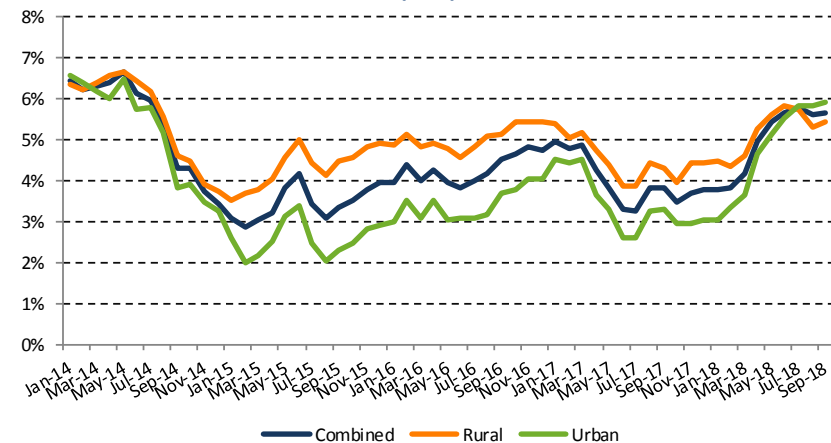
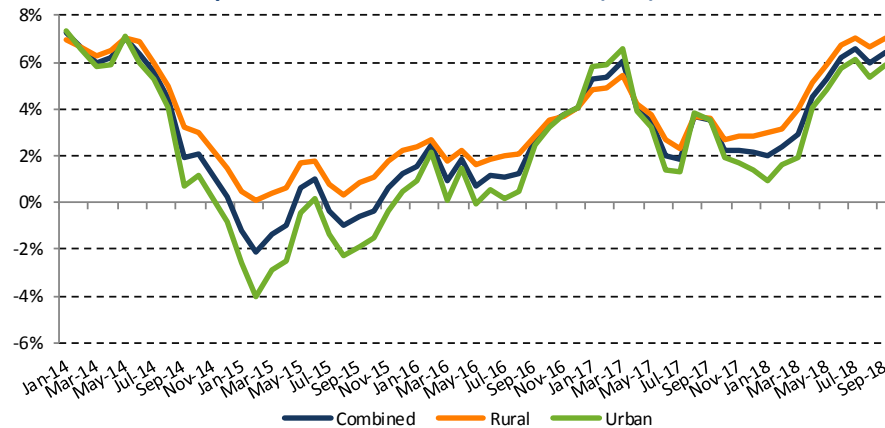


Exhibit 13: Miscellaneous Inflation (YoY)



Source: CSO; ICRA research

Exhibit 14: Transport and Communication Inflation (YoY)





Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Branches

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

907 & 908, Sakar – II,
Ellisbridge, Opp. Town Hall,
Ahmedabad - 380 006
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B,
Unit No. 1004, 10th Floor, 1 & 2 Murphy
Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch,
Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor, FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road, Shivajinagar,
Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com

Helpdesk: 124 3341580

Website: www.icra.in/ www.icraresearch.in

© Copyright, 2018, ICRA Limited. All Rights Reserved. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports June have presented data, analyses and/or opinions that June be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.