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# CONSUMER PRICE INDEX JUNE 2019

Mild uptick in CPI inflation, driven by hardening of food prices

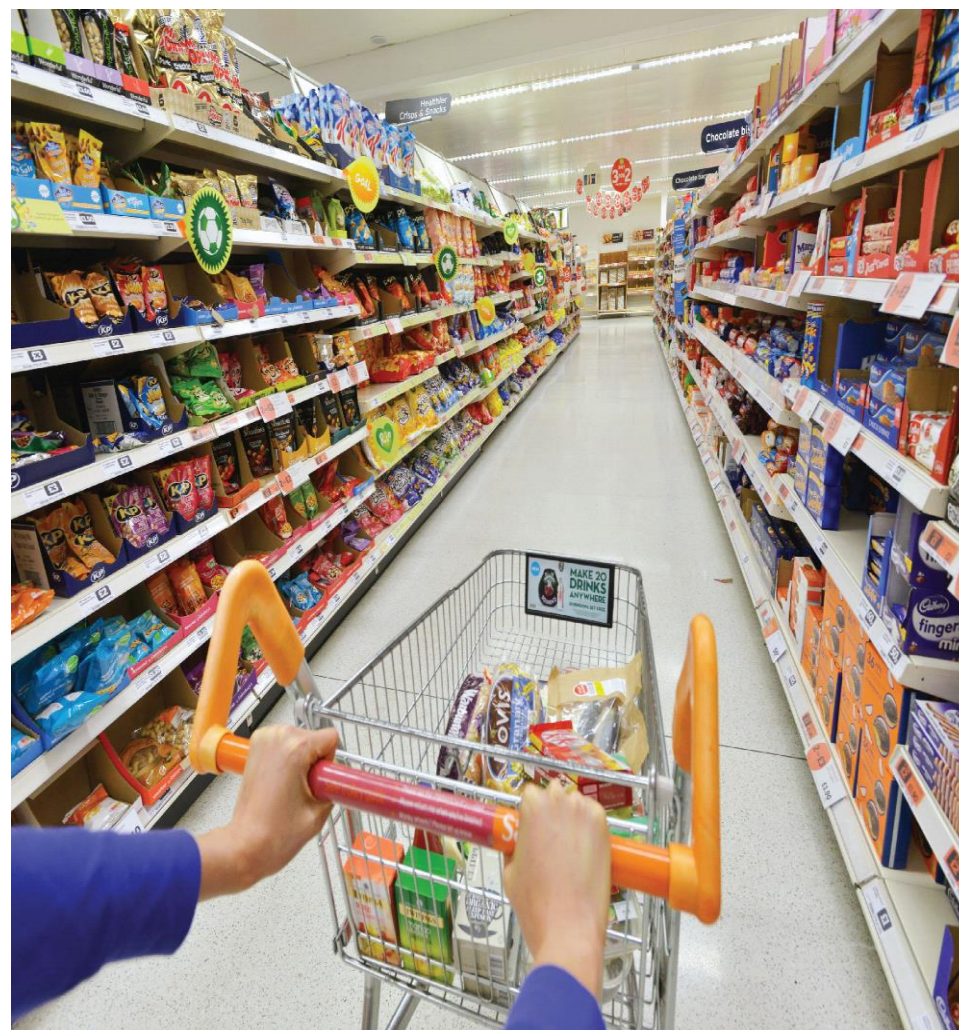






## HIGHLIGHTS

- In line with our expectation, the year-on-year (YoY) CPI inflation rose mildly to an 8-month high 3.2% in June 2019, from 3.0% in the previous month, driven primarily by the hardening of food prices.
- While the food inflation hardened to 2.4% in June 2019 from 2.0% in May 2019, the impact of the same was partly offset by a mild dip in the core component of CPI inflation (that is, excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles), to 4.2% from 4.3%, respectively.
- While rural inflation rose to 2.2% in June 2019 from 1.9% in May 2019, urban inflation eased to 4.3% from 4.5%, respectively. Nevertheless, urban inflation exceeded rural inflation for the twelfth month in a row.
- Despite the consistent mild uptick in the recent months, the CPI inflation has continued to undershoot the Monetary Policy Committee's (MPC's) medium-term inflation target of 4%.



## OVERVIEW

The CPI inflation inched up to an 8-month high of 3.2% in June 2019 (+4.9% in June 2018) from 3.0% in May 2019 (+4.9% in May 2018; refer Exhibit 1 and 2), led largely by a pickup in food inflation. Nevertheless, the CPI inflation remained largely benign, despite the delay in the monsoon and kharif sowing.

In addition to food inflation, while the YoY CPI inflation print for pan, tobacco and intoxicants registered an uptick in June 2019 relative to the previous month, that of fuel and light, clothing and footwear and miscellaneous items witnessed a decline. In the case of housing, the YoY inflation print remained unchanged in these two months. Crucially, the CPI inflation remained below the MPC's medium-term target of 4%, for the eleventh month in a row.

The inflation in the food and beverages sub-index inched up to a 12-month high of 2.4% in June 2019 (+3.1% in June 2018) from 2.0% in May 2019 (+3.3% in May 2018; refer Exhibit 3). In terms of the composition, the YoY CPI inflation print picked up in June 2019 in comparison to May 2019, for the majority of the sub-indices, including meat and fish (to +9.0% from +8.1%), pulses and products (to +5.7% from +2.1%), spices (to +1.6% from +1.3%), cereals and products (to +1.3% from +1.2%), fruits (to -4.2% from -5.2%), milk and products (to +0.6% from +0.3%), and prepared meals, snacks, sweets, etc. (to +2.7% from +2.5%). In contrast, the YoY inflation fell in June 2019 relative to May 2019 in the case of vegetables (to +4.7% from +5.5%), eggs (to +1.6% from +1.8%), non-alcoholic beverages (to +3.1% from +3.2%), oil and fats (to +0.7% from +0.8%), and sugar and confectionery (to -0.1% from +0.3%). In month-on-month (MoM) terms, the sub-index rose a substantial 1.3% in June 2019, higher than the 0.9% uptick in June 2018 (refer Exhibit 4).

After recording a series low of 3.9% in May 2019, the inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) inched up to 4.1% in June 2019. Moreover, this sub-index increased by 0.4% in MoM terms in June 2019, slightly higher than the rise in June 2018 (+0.3%).

Housing inflation (with a weight of 10.1% in the CPI Index) remained steady at 4.8% (same as May 2019). In MoM terms, the sub-index declined by 0.5% in June 2019, in line with the 0.5% correction in June 2018.

The inflation related to fuel and light softened slightly to 2.3% in June 2019 (+7.2% in June 2018) from 2.5% in May 2019 (+5.8% in May 2018). The sub-index rose by a moderate 0.7% in MoM terms in June 2019, slightly lower than the increase of 0.9% recorded in June 2018.

The core-CPI inflation slipped to a 23-month low of 4.2% in June 2019 (+6.3% in June 2018) from 4.3% in May 2019 (+6.2% in May 2018; refer Exhibit 5), driven by miscellaneous items, and clothing and footwear. On an MoM basis, this sub-index rose by 0.1% in June 2019, mildly lower than the uptick of 0.2% registered in June 2018. Notably, the wedge between the headline and core-CPI inflation eased to 103 bps in June 2019 from 125 bps in May 2019.

The inflation for miscellaneous items (with a weight of 28.3% in the CPI) dipped to a 15-month low of 4.4% in June 2019 from 4.6% in May 2019. The YoY CPI inflation eased in June 2019 relative to the previous month for transport and communication (to +0.7% from +1.6%), household goods and services (to +4.3% from +4.6%), and recreation and amusement activities (to +5.2% from +5.6%). In contrast, the YoY CPI inflation edged up in June 2019 relative to the previous month in case of healthcare (to +8.2% from +8.0%), personal care and effects (to +3.2 % from +2.7%), and education (to +6.8% from +6.7%).

Continuing its downward trend, the inflation for clothing and footwear (with a weight of 6.5% in the CPI) dipped to a series-low 1.5% in June 2019 from 1.8% in May 2019. In MoM terms, the sub-index for clothing and footwear rose by 0.1% in June 2019, lower than the uptick registered in June 2018 (+0.3%).

The urban CPI inflation declined to 4.3% in June 2019 from 4.5% in May 2019, driven primarily by a modest fall in the prices of food and beverages (to +5.1% from +5.4%), led by vegetables (to +17.6% from +23.0%), sugar and confectionery (to +3.1% from +5.6%) and eggs (to +4.9% from +6.0%), although the sub-index witnessed substantial pickup in the case of pulses and products (to +13.4% from +10.3%), and meat and fish (to +6.5% from +5.7%). In addition, inflation for other sub-indices, including pan, tobacco and intoxicants (to +3.5% from +3.7%), clothing and footwear (to +3.6% from +3.8%), fuel and light (to +3.2% from +3.8%), and miscellaneous items (to +3.1% from +3.4%), recorded a decline in June 2019 with respect to last month.

On the other hand, the rural CPI inflation rose to 2.2% in June 2019 from 1.9% in May 2019, led by food and beverages (to +0.7% from +0.1%), driven primarily by meat and fish (to +10.4% from +9.5%) and pulses and products (to +2.1% from -1.7%), along with pan, tobacco and intoxicants (to +4.4% from +4.0%) and fuel and light (to +1.9% from +1.8%). Nevertheless, urban inflation exceeded rural inflation for the twelfth month in a row.

The buildup in the CPI inflation up to June 2019 stood at 1.8%, moderately higher than the buildup of 1.5% recorded up to June 2018.

The final headline CPI inflation for May 2019 stood at 3.0%, in line with the initial print.

## OUTLOOK

While vegetable prices may firm up in the ongoing month on the basis of seasonal factors as well as higher transport costs, the pickup in the monsoon rainfall in the last week is likely to boost sowing in the near term, which would help to keep food inflation in check.

Although the recent uptick in crude oil prices has been offset by the INR appreciation, the increase in duties and cesses on fuels introduced in the Union Budget would have a modest first and second round impact on the retail inflation.

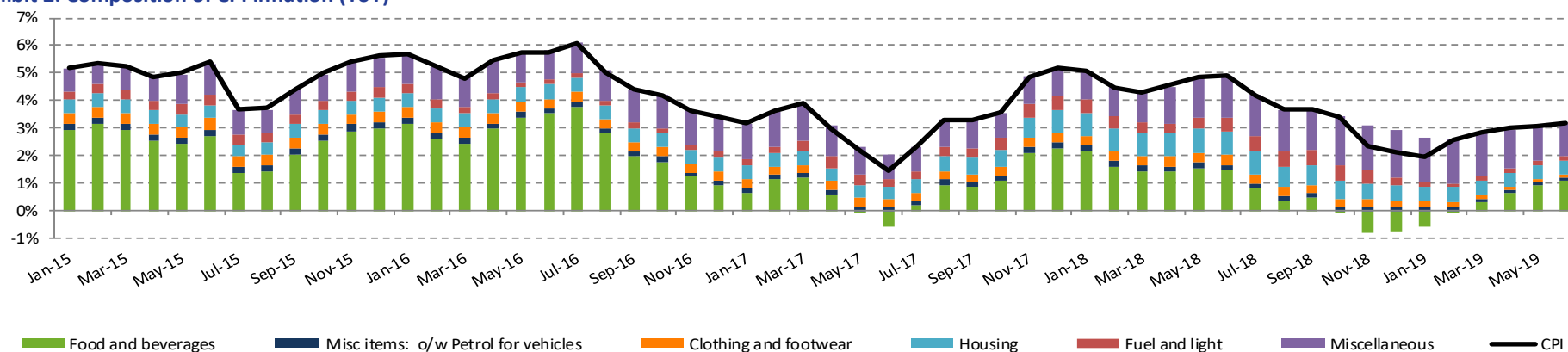
The shrinking of the monsoon deficit has allayed some concerns regarding the trajectory of food prices. However, the sustainability of the hardening in crude oil prices needs to be watched. At present, we expect CPI inflation to remain comfortably below the MPC's target of 4% during Q2 FY2020. Although the transmission of the previous rate cuts remains incomplete, the MPC may choose to frontload another rate to provide a boost to the outlook for economic growth.

Exhibit 1: Trend in CPI Inflation (YoY)

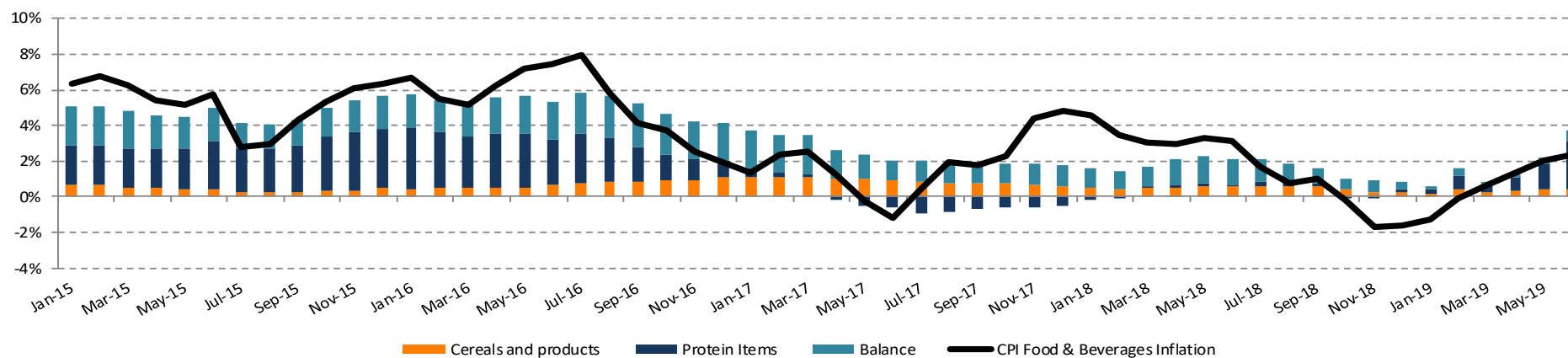
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		Apr-19	May-19	May-19	Jun-19	Jun-19	Jun-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
<b>CPI (combined)</b>	<b>100.00</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>0.6%</b>	<b>1.8%</b>
<b>Food and beverages</b>	<b>45.86</b>	<b>1.4%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.4%</b>	<b>1.3%</b>	<b>3.3%</b>
Cereals and products	9.67	1.2%	1.2%	1.2%	1.3%	0.3%	0.7%
Meat and fish	3.61	7.5%	8.1%	8.1%	9.0%	2.3%	5.9%
Egg	0.43	1.9%	1.8%	1.8%	1.6%	1.3%	-1.8%
Milk and products	6.61	0.4%	0.4%	0.3%	0.6%	0.5%	0.6%
Oils and fats	3.56	0.7%	0.9%	0.8%	0.7%	0.2%	0.2%
Fruits	2.89	-4.9%	-5.2%	-5.2%	-4.2%	0.2%	6.7%
Vegetables	6.04	2.9%	5.5%	5.5%	4.7%	5.2%	13.4%
Pulses and products	2.38	-0.8%	2.1%	2.1%	5.7%	2.7%	5.3%
Sugar and confectionary	1.36	-4.0%	0.3%	0.3%	-0.1%	1.0%	1.8%
Spices	2.50	0.8%	1.2%	1.3%	1.6%	0.5%	0.8%
<b>Pan, tobacco and intoxicants</b>	<b>2.38</b>	<b>4.3%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>4.1%</b>	<b>0.4%</b>	<b>0.8%</b>
<b>Clothing and footwear</b>	<b>6.53</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>0.1%</b>	<b>0.5%</b>
<b>Housing</b>	<b>10.07</b>	<b>4.8%</b>	<b>4.8%</b>	<b>4.8%</b>	<b>4.8%</b>	<b>-0.5%</b>	<b>0.3%</b>
<b>Fuel and light</b>	<b>6.84</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.3%</b>	<b>0.7%</b>	<b>1.1%</b>
<b>Miscellaneous</b>	<b>28.32</b>	<b>5.1%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.4%</b>	<b>0.2%</b>	<b>0.6%</b>
Household goods and services	3.80	5.1%	4.6%	4.6%	4.3%	0.1%	0.0%
Health	5.89	8.4%	8.0%	8.0%	8.2%	0.3%	0.8%
Transport and communication	8.59	2.5%	1.6%	1.6%	0.7%	-0.2%	0.0%
Recreation and amusement	1.68	5.6%	5.6%	5.6%	5.2%	0.2%	1.3%
Education	4.46	7.0%	6.7%	6.7%	6.8%	0.6%	1.5%
Personal care and effects	3.89	3.1%	2.7%	2.7%	3.2%	0.7%	0.7%
<b>CPI-Food</b>	<b>36.55</b>	<b>0.9%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>2.2%</b>	<b>1.4%</b>	<b>3.8%</b>
<b>CPI-Core</b>	<b>44.97</b>	<b>4.6%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.2%</b>	<b>0.1%</b>	<b>0.5%</b>
<b>CPI Rural</b>		<b>1.9%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>2.2%</b>	<b>0.8%</b>	<b>1.7%</b>
<b>CPI Urban</b>		<b>4.3%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.3%</b>	<b>0.4%</b>	<b>1.9%</b>

\*Buildup with reference to March 2019

Source: Central Statistics Office (CSO); CEIC; ICRA research

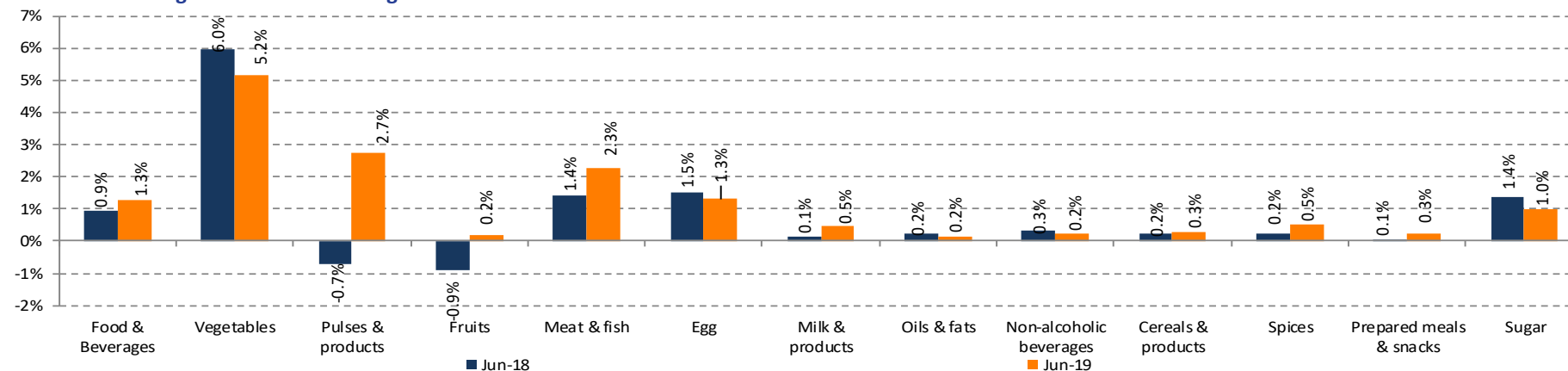
**Exhibit 2: Composition of CPI Inflation (YoY)**

Source: CSO; CEIC; ICRA research

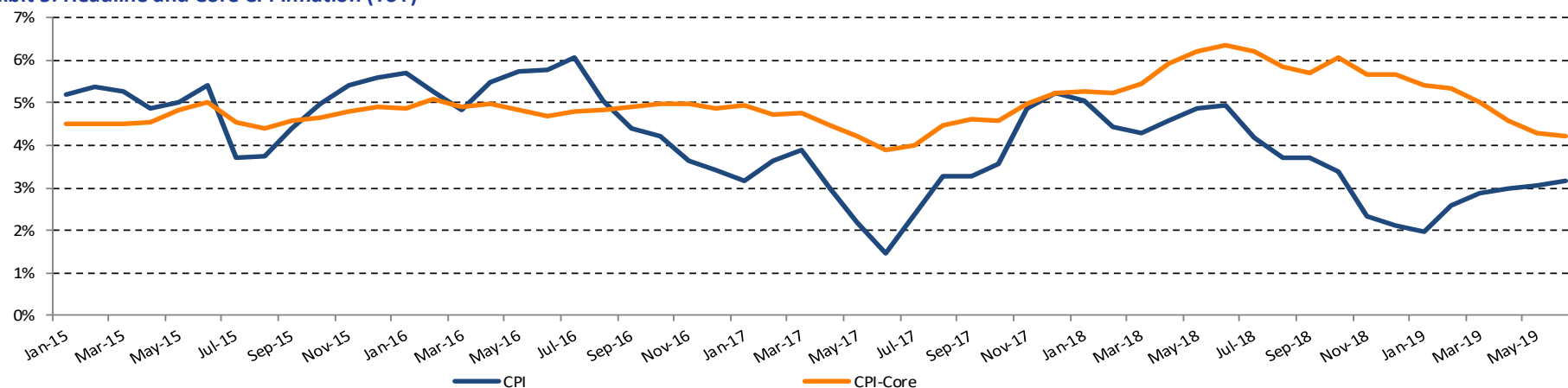
**Exhibit 3: Composition of Food and Beverages Inflation (YoY)**

Source: CSO; CEIC; ICRA research

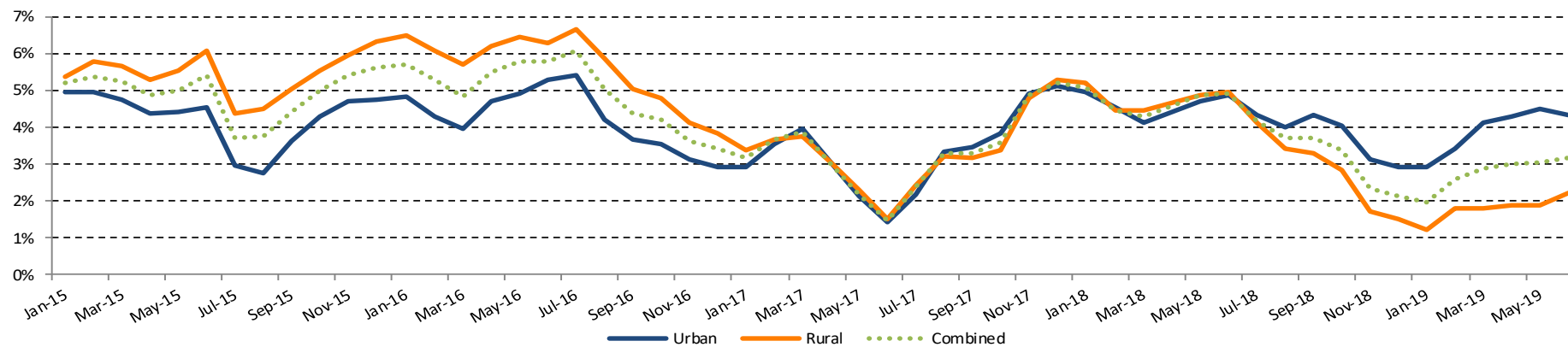


**Exhibit 4: MoM Change in Food and Beverage Sub-Index**

Source: CSO; CEIC; ICRA research

**Exhibit 5: Headline and Core CPI Inflation (YoY)**

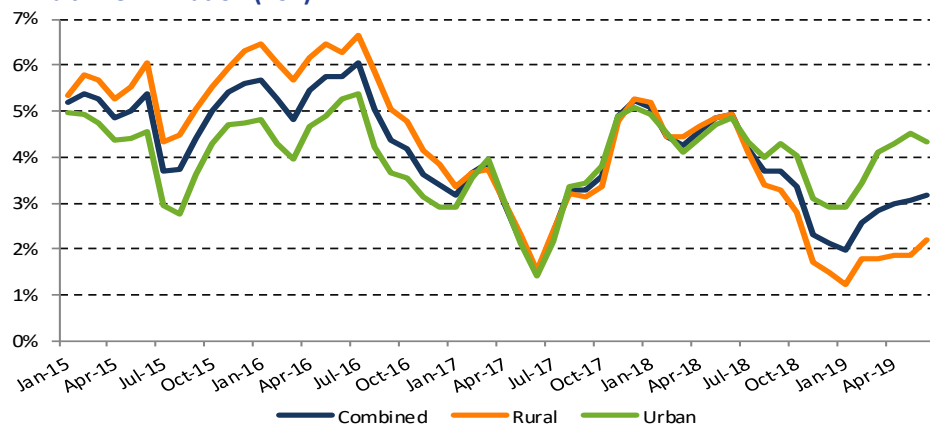
Source: CSO; CEIC; ICRA research

**Exhibit 6: Rural and Urban CPI Inflation (YoY)**

Source: CSO; CEIC; ICRA research

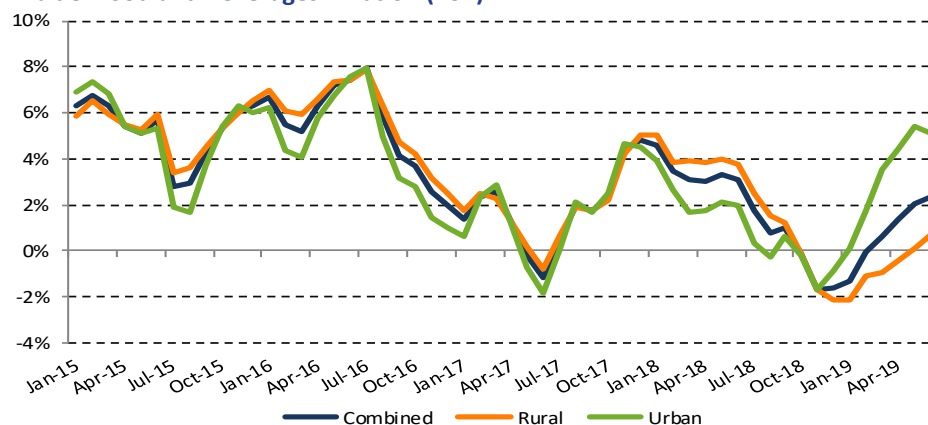
## ANNEXURE

Exhibit 7: CPI Inflation (YoY)



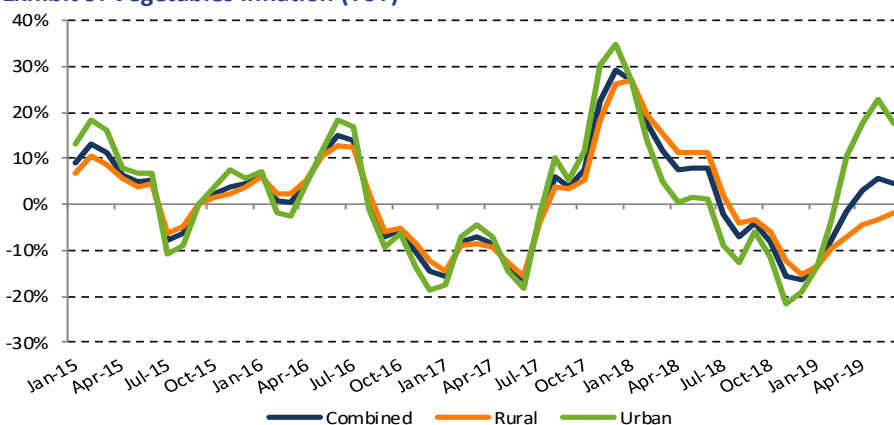
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



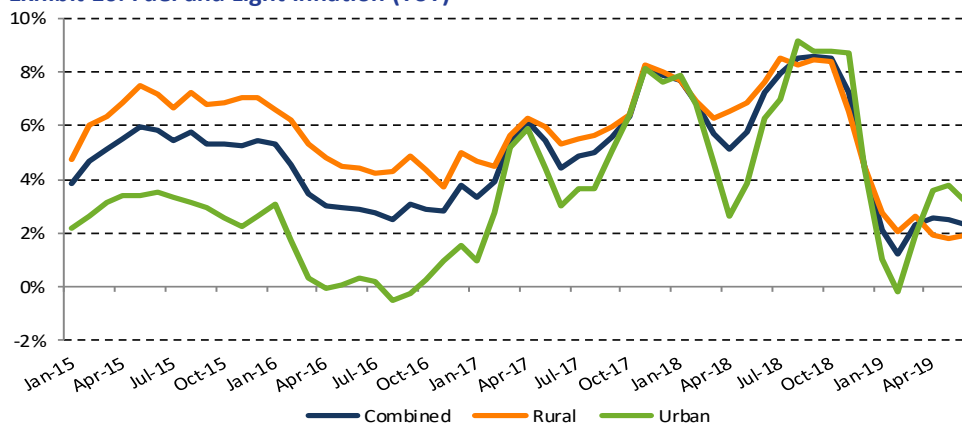
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

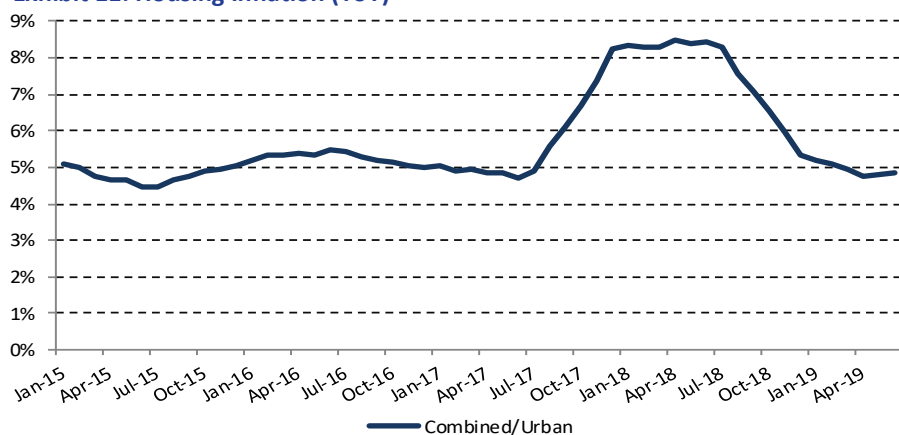


Source: CSO; CEIC; ICRA research

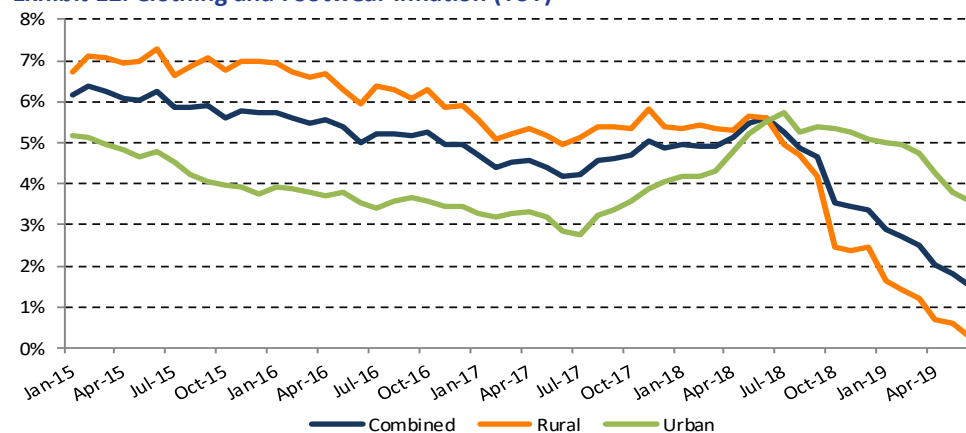
Exhibit 10: Fuel and Light Inflation (YoY)



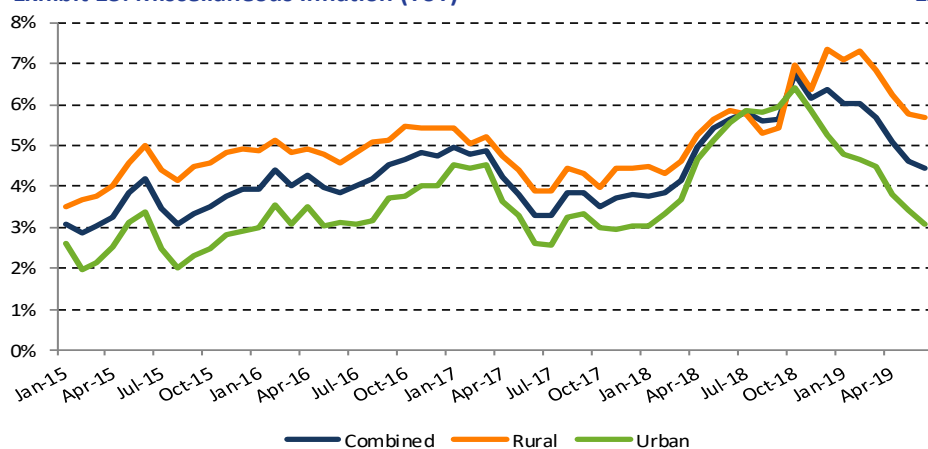
Source: CSO; CEIC; ICRA research

**Exhibit 11: Housing Inflation (YoY)**

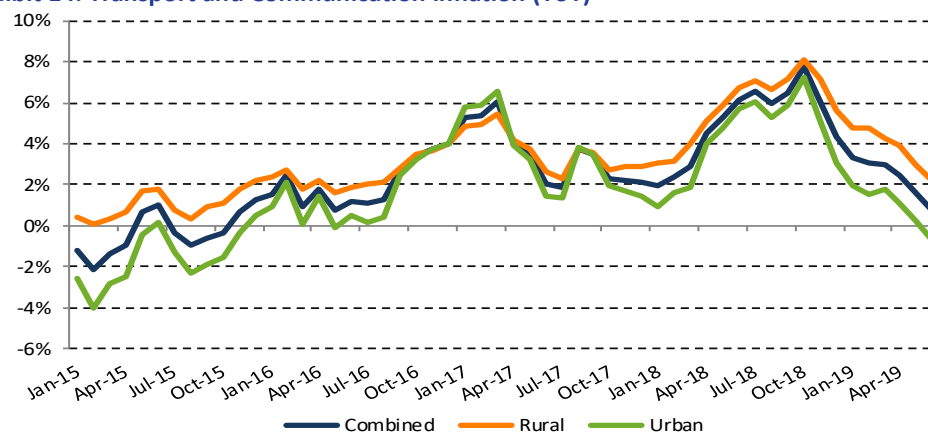
Source: CSO; CEIC; ICRA research

**Exhibit 12: Clothing and Footwear Inflation (YoY)**

Source: CSO; CEIC; ICRA research

**Exhibit 13: Miscellaneous Inflation (YoY)**

Source: CSO; CEIC; ICRA research

**Exhibit 14: Transport and Communication Inflation (YoY)**

Source: CSO; CEIC; ICRA research





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ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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