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CONSUMER PRICE INDEX JULY 2019

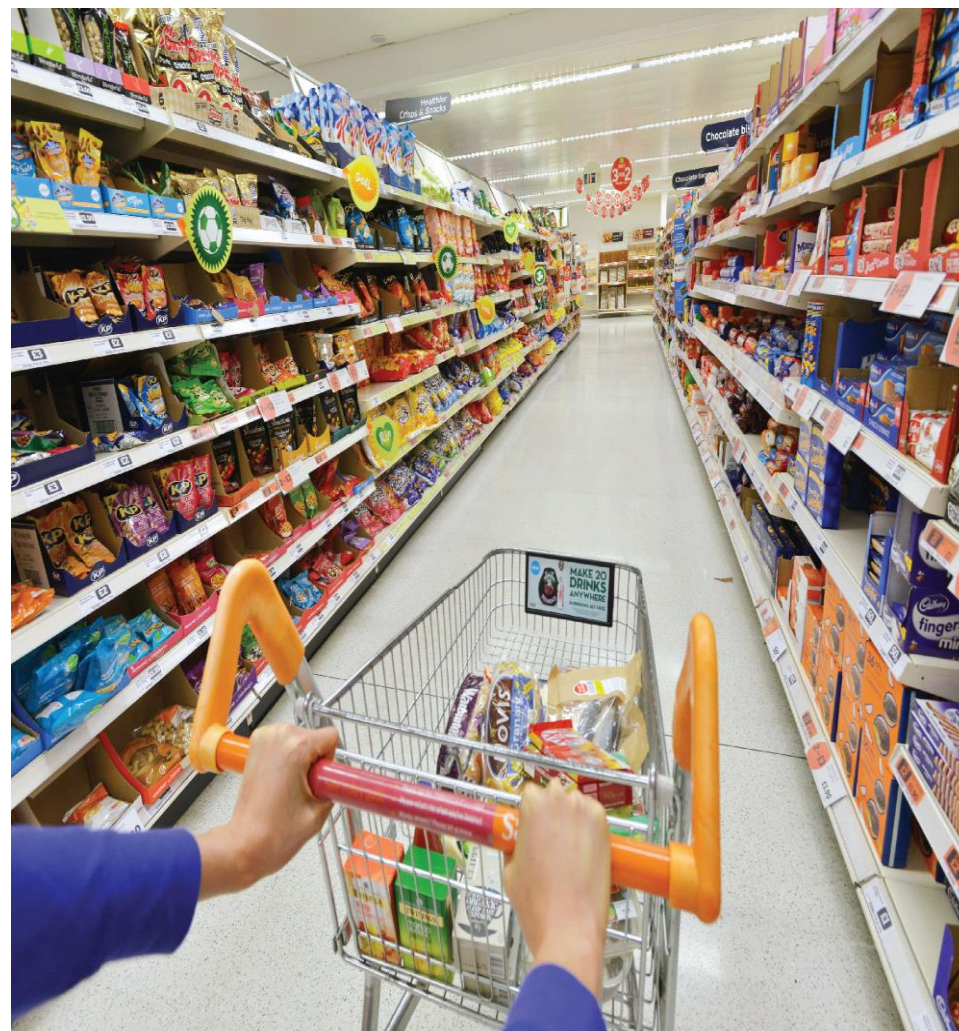
Mild downtick in CPI inflation, driven by disinflation in fuel and light

AUGUST 2019



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation dipped mildly to 3.1% in July 2019 from an 8-month high 3.2% in the previous month, while also undershooting the Monetary Policy Committee's (MPC's) medium-term inflation target of 4% for the twelfth month in a row.
- The mild downtick in CPI inflation was driven primarily by the disinflation of 0.4% in fuel and light (a series-low) in July 2019.
- However, consumer food price inflation or CFPI (food and beverages sub-index excl. non-alcoholic beverages and prepared meals, snacks and sweets), and core-CPI inflation (CPI excl. food and beverages, fuel and light, as well as petrol and diesel prices for vehicles), recorded an uptick in July 2019, raising concerns regarding the trajectory of CPI inflation, going forward.
- The rural and urban CPI inflation softened to 2.19% and 4.2%, respectively, in July 2019 from 2.21% and 4.3%, respectively, in June 2019. Notably, urban inflation exceeded rural inflation for the thirteenth month in a row.



OVERVIEW

- The YoY CPI inflation dipped mildly to 3.1% in July 2019 (+4.2% in July 2018) from an 8-month high of 3.2% in June 2019 (+4.9% in June 2018; refer Exhibit 1 and 2), while also undershooting the Monetary Policy Committee's (MPC's) medium-term inflation target of 4% for the twelfth month in a row. The CPI inflation for July 2019 was lower than our forecast (+3.3%), following an unexpectedly sharp softening in the fuel and light sub-index (led by LPG), even as food and core inflation printed along anticipated lines.
- The mild downtick in the CPI inflation was led by the series-low disinflation of 0.4% for the fuel and light sub-index, even as there was a pickup in food inflation (CFPI) and core-CPI inflation in July 2019. In particular, the YoY CPI inflation print witnessed an uptick for pan, tobacco and intoxicants, clothing and footwear, housing, and miscellaneous items in July 2019 relative to the previous month. However, the print for the wider food and beverage sub-index stood at 2.33% in July 2019, similar to the print in June 2019 (+2.37%).
- Fuel and light recorded a series-low disinflation of 0.4% in July 2019 (+8.0% in July 2018), in contrast to the inflation of 2.2% in June 2019 (+7.2% in June 2018; refer Exhibit 3), partly led by the base effect, as well as the sharp downtick in the YoY inflation for LPG (excluding conveyance; to -4.6% from +8.4%). Moreover, the fuel and light sub-index declined by a considerable 1.4% in MoM terms in July 2019, in contrast to the increase of 1.3% recorded in July 2018.
- The inflation for the food and beverages sub-index stood at 2.33% in July 2019 (+1.7% in July 2018), similar to the print of 2.37% in June 2019 (+3.1% in June 2019). In terms of the composition, the YoY CPI inflation print decreased in July 2019 in comparison to June 2019, for vegetables (to +2.8% from +4.7%), eggs (to +0.6% from +1.6%), prepared meals, snacks, sweets (to +2.6% from +2.7%), and sugar and confectionery (to -2.1% from -0.1%). In contrast, the YoY inflation rose in July 2019 relative to June 2019 in the case of fruits (to -0.9% from -4.2%), pulses and products (to +6.8% from +5.7%), non-alcoholic beverages (to +3.4% from +3.0%), oil and fats (to +0.9% from +0.7%), milk and products (to +1.0% from +0.7%), and spices (to +2.0% from +1.6%). In month-on-month (MoM) terms, the sub-index rose a substantial 1.4% in July 2019, in line with the uptick in July 2018 (refer Exhibit 4).
- In contrast to the trend for the wider food and beverages sub-index, food inflation or CFPI (food and beverages excl. non-alcoholic beverages, prepared meals, snacks and sweets; with a weight of 39.1% in the CPI), hardened to 2.4% in July 2019 from 2.2% in June 2019. Moreover, CFPI inflation witnessed a higher MoM uptick of 1.6% in July 2019 (+1.5% in July 2018).
- The core-CPI inflation recorded a broad-based uptick to 4.4% in July 2019 (+6.2% in July 2018) from the 23-month low of 4.3% in June 2019 (+6.3% in June 2018; refer Exhibit 5), driven by miscellaneous items, housing, pan, tobacco and intoxicants and clothing and footwear. On an MoM basis, this sub-index rose by 0.6% in July 2019, higher than the uptick of 0.4% registered in July 2018. Notably, the wedge between the headline and core-CPI inflation widened to 123 bps in July 2019 from 103 bps in June 2019.

- The inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) rose sharply to a five-month high 4.9% in July 2019 from 4.2% in June 2019. Moreover, this sub-index increased by 0.2% in MoM terms in July 2019, in contrast to the considerable MoM decline of 0.5% in July 2018.
- Housing inflation (with a weight of 10.1% in the CPI Index) inched up to 4.9% in July 2019 (+8.3% in July 2018) from 4.8% in June 2019 (+8.3% in June 2018). In MoM terms, the sub-index rose by 0.8% in July 2019, in line with the rise in July 2018. The recent revision in house rent allowance (HRA) by some states may keep the inflation for this sub-index high in the near-term.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) hardened to 4.7% in July 2019 from the 15-month low of 4.5% in June 2019. The YoY CPI inflation rose in July 2019 relative to the previous month for personal care and effects (to +4.3% from +3.2%), recreation and amusement activities (to +5.5% from +5.3%) and transport and communication (to +1.6% from +0.7%), whereas the same eased for household goods and services (to +4.0% from +4.3%), healthcare (to +7.9% from +8.2%), and education (to +6.4% from +6.8%). On an MoM basis, miscellaneous items rose by 0.6% in July 2019, higher than the 0.5% uptick in July 2018.
- The inflation for clothing and footwear (with a weight of 6.5% in the CPI) inched up to 1.6% in July 2019 from the series-low 1.5% in June 2019. In MoM terms, the sub-index for clothing and footwear rose by 0.4% in July 2019, higher than the uptick registered in July 2018 (+0.3%).
- The urban CPI inflation declined to 4.2% in July 2019 from 4.3% in June 2019, driven primarily by the sharp downtick in the prices of fuel and light (to -0.9% from +3.2%), even as the remaining sub-indices recorded an uptick, namely pan, tobacco and intoxicants (to +3.6% from +3.5%), clothing and footwear (to +4.1% from +3.6%), food and beverages (to +5.3% from +5.2%), and miscellaneous items (to +3.3% from +3.2%).
- Moreover, the rural CPI inflation dipped mildly to 2.19% in July 2019 from 2.21% in June 2019, led by fuel and light (to -0.1% from +1.9%), even as there was an uptick in pan, tobacco and intoxicants (to +5.4% from +4.4%), and miscellaneous items (to +6.0% from +5.7%). Nevertheless, urban inflation exceeded rural inflation for the thirteenth month in a row.
- The buildup in the CPI inflation up to July 2019 stood at 2.7%, higher than the buildup of 2.4% recorded up to July 2018.
- The final headline CPI inflation for June 2019 stood at 3.2%, in line with the initial print.

OUTLOOK

The recent surge in monsoon precipitation has led to flooding in certain areas. While there has been some catch up in kharif sowing, it continues to lag the year-ago levels for all major crops except cotton, clouding the outlook for crop production and food prices. In addition, prices of vegetables, particularly onions and tomatoes, have recorded a sharp uptick in the recent weeks, which may not reverse in the immediate term. Moreover, an unfavourable base effect is likely to contribute to a hardening of food inflation in the ongoing quarter.

Crude oil prices have eased considerably in the ongoing month, which has also translated in a dip in retail fuel prices, despite the recent depreciation of the INR. The subdued global growth outlook and the risks related to trade wars are likely to outweigh geopolitical concerns, and are likely to keep the crude prices in check in the near-term future.

At present, we expect the CPI inflation to inch up in the next two months, while remaining below the MPC's target of 4% during Q2 FY2020. The CPI inflation trajectory may allow for a 15 bps rate cut in October 2019, after monsoon related uncertainties get resolved, especially if crude oil and other commodity prices remain relatively soft.

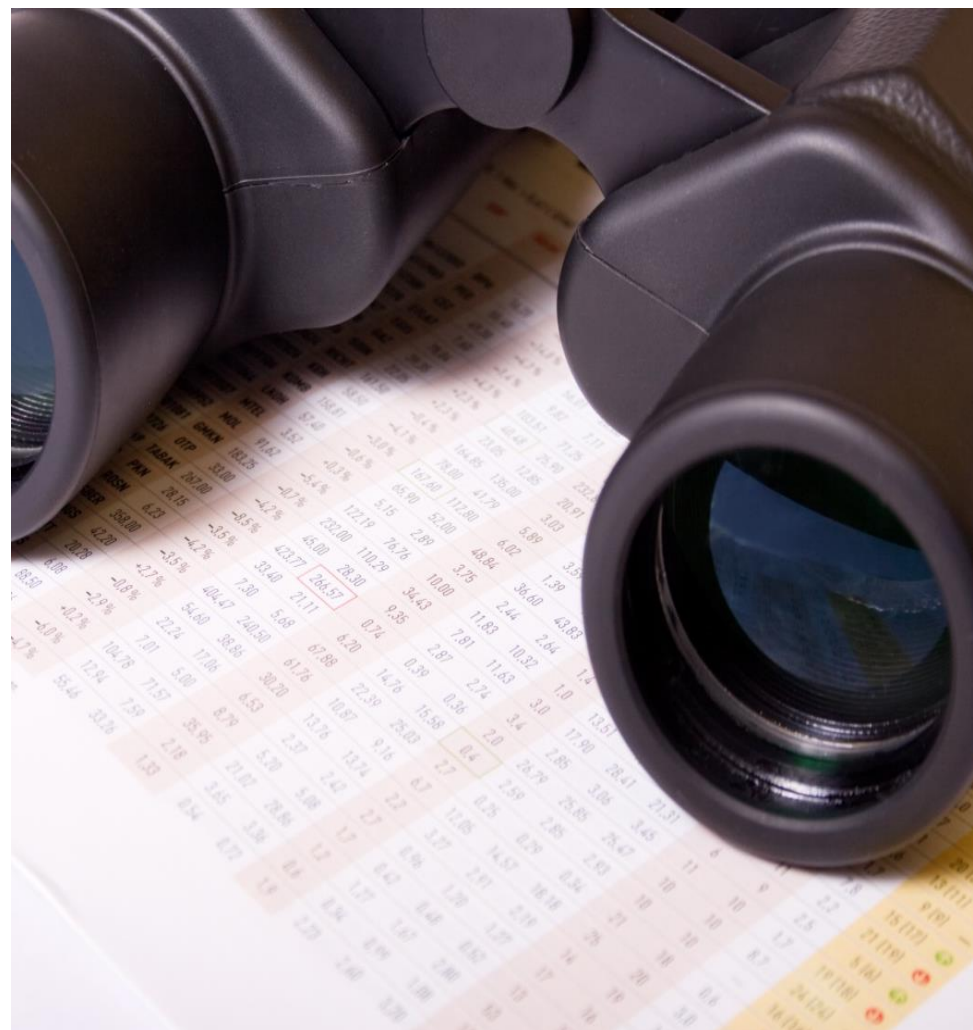
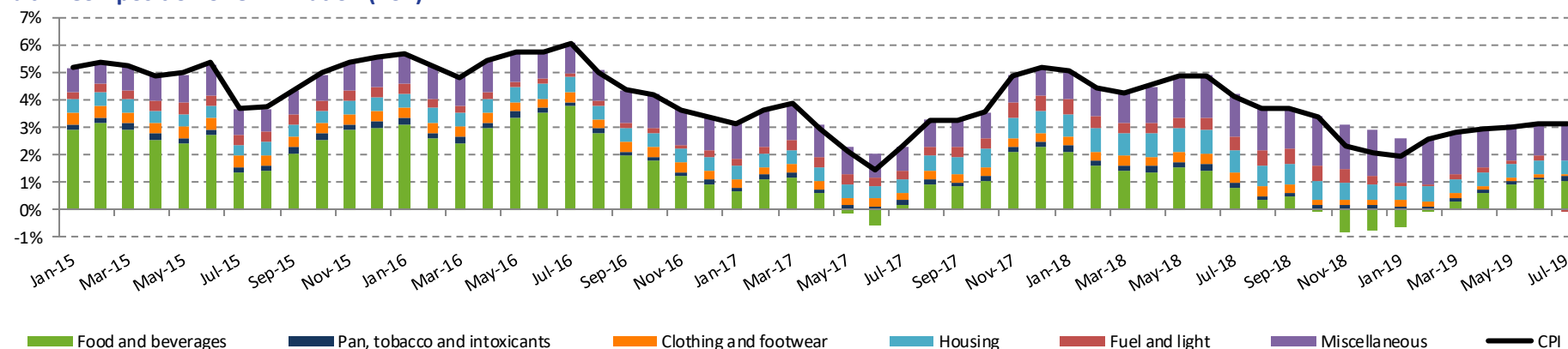


Exhibit 1: Trend in CPI Inflation (YoY)

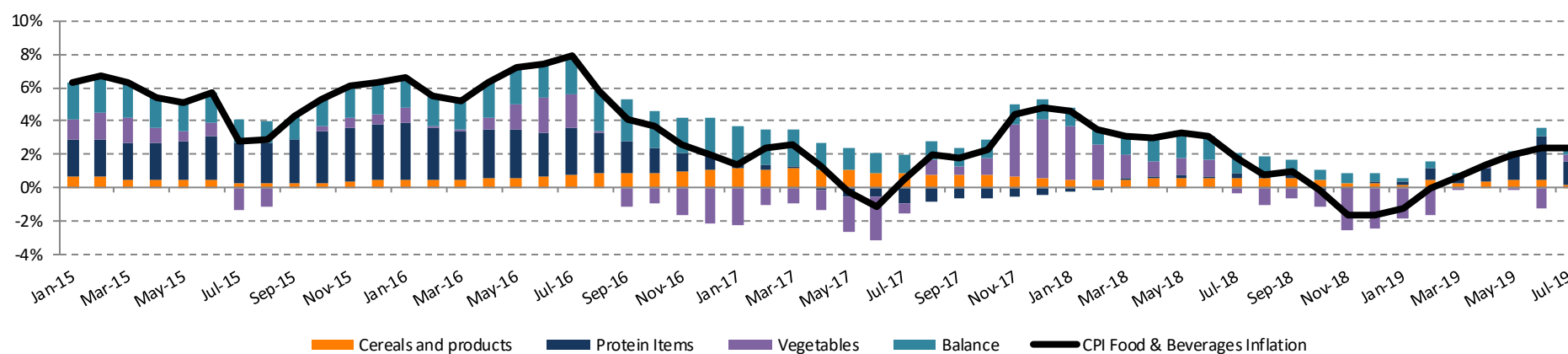
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		May-19	June-19	June-19	July-19	July-19	July-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	3.0%	3.2%	3.2%	3.1%	0.9%	2.7%
Food and beverages	45.86	2.0%	2.4%	2.4%	2.3%	1.4%	4.8%
Cereals and products	9.67	1.2%	1.3%	1.3%	1.3%	0.4%	1.1%
Meat and fish	3.61	8.1%	9.0%	9.0%	9.1%	0.3%	6.3%
Egg	0.43	1.8%	1.6%	1.6%	0.6%	1.6%	-0.2%
Milk and products	6.61	0.3%	0.6%	0.7%	1.0%	0.4%	1.1%
Oils and fats	3.56	0.8%	0.7%	0.7%	0.9%	0.2%	0.4%
Fruits	2.89	-5.2%	-4.2%	-4.2%	-0.9%	2.4%	9.2%
Vegetables	6.04	5.5%	4.7%	4.7%	2.8%	6.5%	20.9%
Pulses and products	2.38	2.1%	5.7%	5.7%	6.8%	1.3%	6.7%
Sugar and confectionary	1.36	0.3%	-0.1%	-0.1%	-2.1%	0.1%	1.9%
Spices	2.50	1.3%	1.6%	1.6%	2.0%	0.8%	1.6%
Pan, tobacco and intoxicants	2.38	3.9%	4.1%	4.2%	4.9%	0.2%	1.0%
Clothing and footwear	6.53	1.8%	1.5%	1.5%	1.6%	0.4%	0.9%
Housing	10.07	4.8%	4.8%	4.8%	4.9%	0.8%	1.1%
Fuel and light	6.84	2.5%	2.3%	2.2%	-0.4%	-1.4%	-0.4%
Miscellaneous	28.32	4.6%	4.4%	4.5%	4.7%	0.6%	1.2%
Household goods and services	3.80	4.6%	4.3%	4.3%	4.0%	0.3%	0.3%
Health	5.89	8.0%	8.2%	8.2%	7.9%	0.3%	1.1%
Transport and communication	8.59	1.6%	0.7%	0.7%	1.6%	0.8%	0.8%
Recreation and amusement	1.68	5.6%	5.2%	5.3%	5.5%	0.6%	2.0%
Education	4.46	6.7%	6.8%	6.8%	6.4%	0.9%	2.4%
Personal care and effects	3.89	2.7%	3.2%	3.2%	4.3%	1.0%	1.7%
CPI-Food	36.55	1.8%	2.2%	2.2%	2.4%	1.6%	5.5%
CPI-Core	44.97	4.3%	4.2%	4.26%	4.37%	0.6%	1.1%
CPI Rural		1.9%	2.2%	2.2%	2.2%	0.9%	2.6%
CPI Urban		4.5%	4.3%	4.3%	4.2%	0.8%	2.7%

*Buildup with reference to March 2019

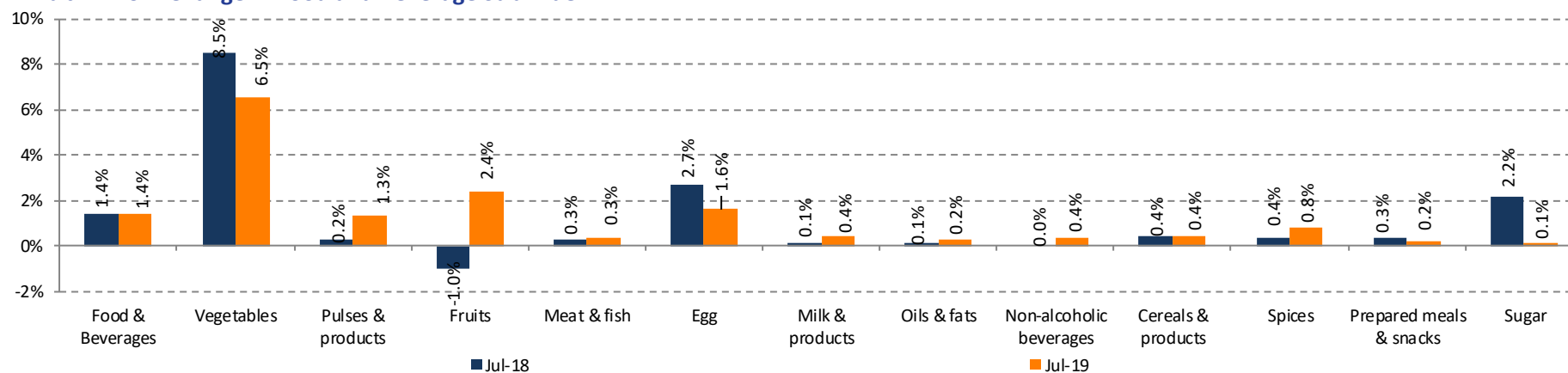
Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

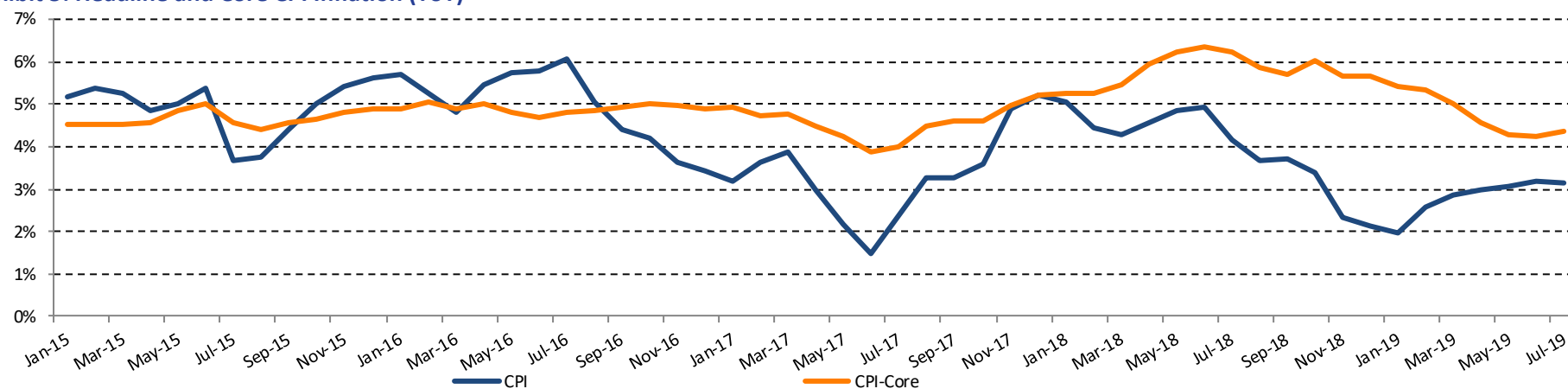
Source: CSO; CEIC; ICRA research

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

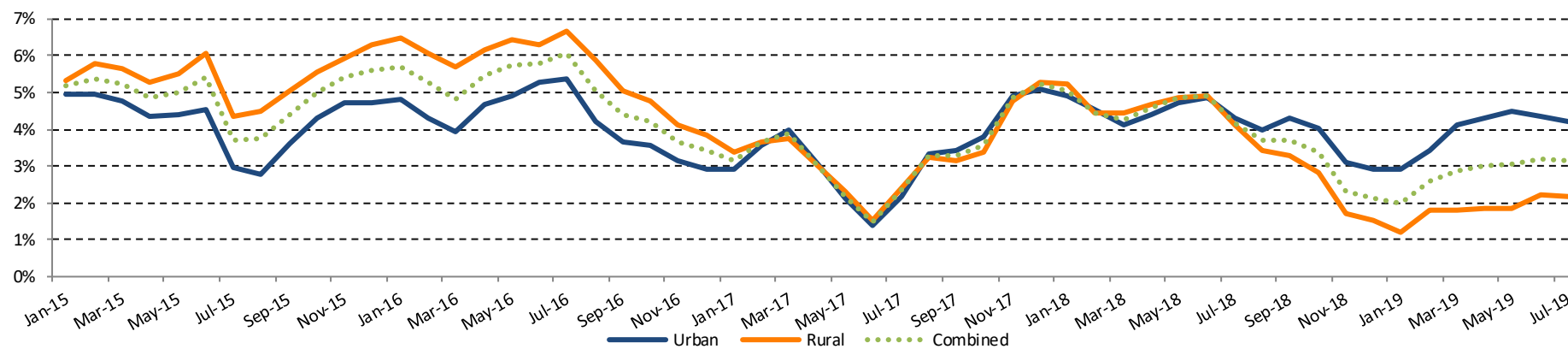
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

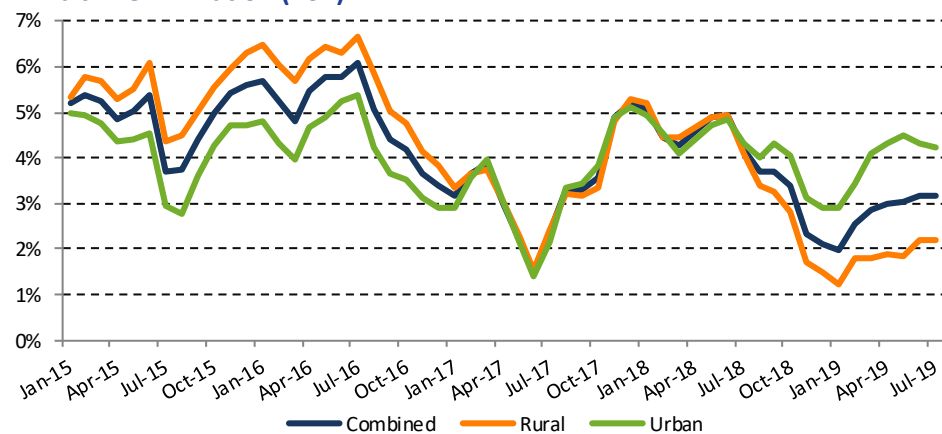
Source: CSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)

Source: CSO; CEIC; ICRA research

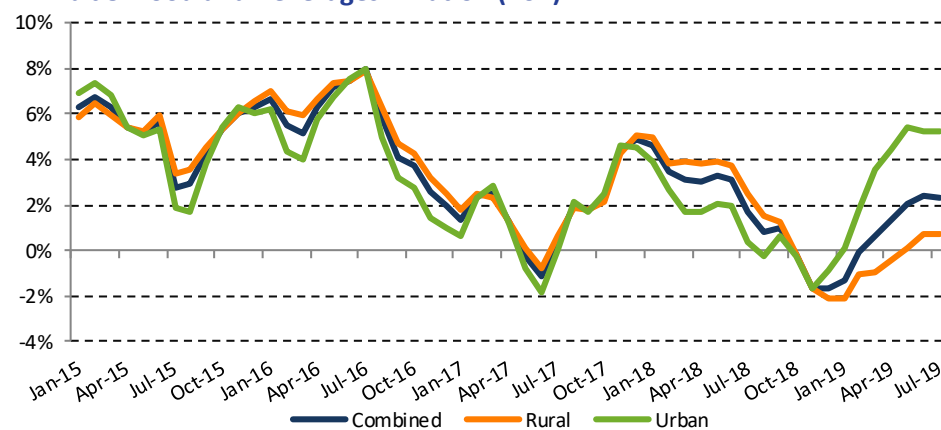
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



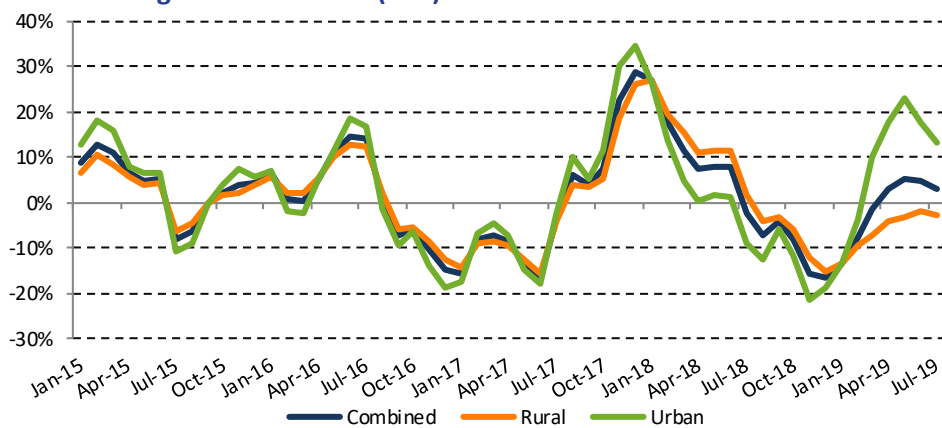
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



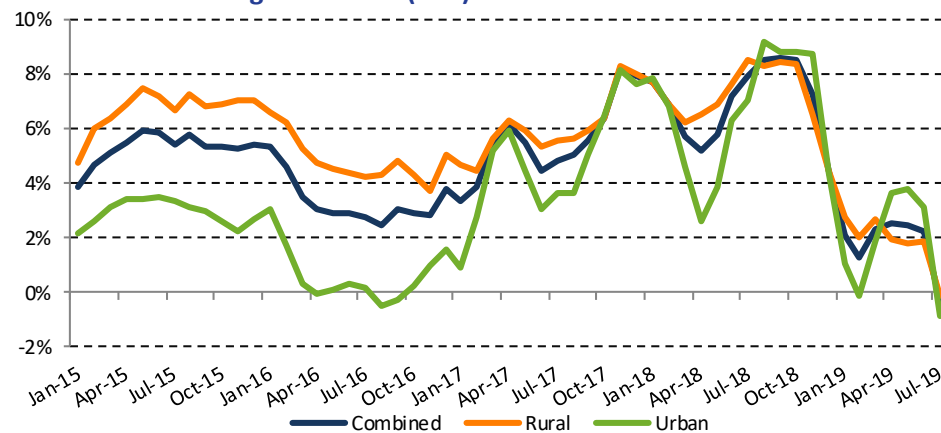
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

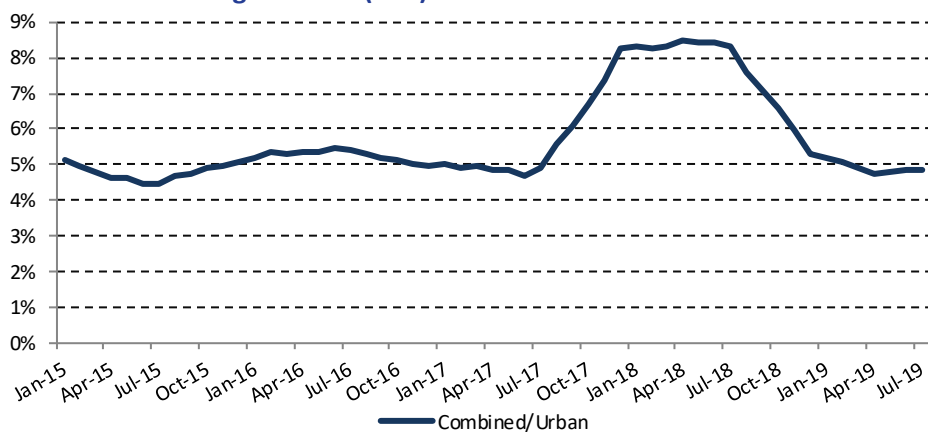


Source: CSO; CEIC; ICRA research

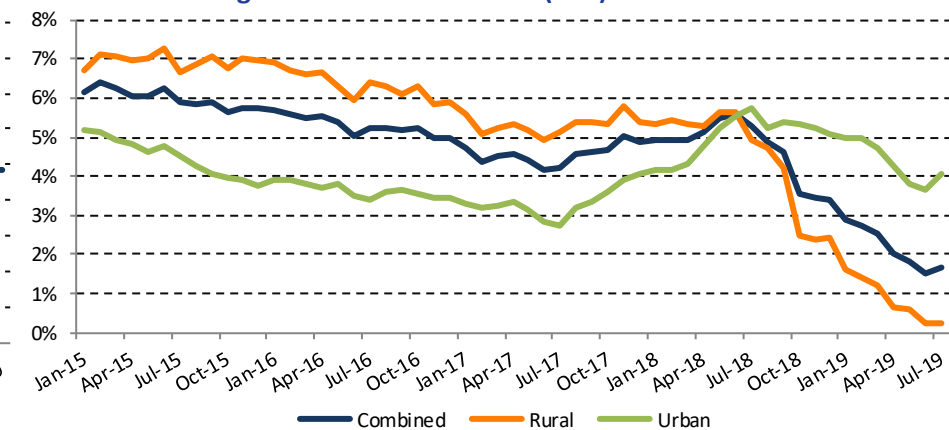
Exhibit 10: Fuel and Light Inflation (YoY)



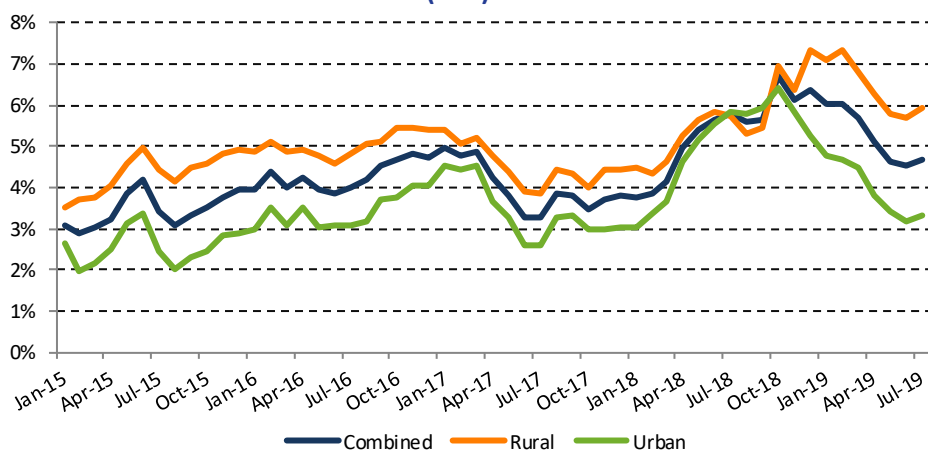
Source: CSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)

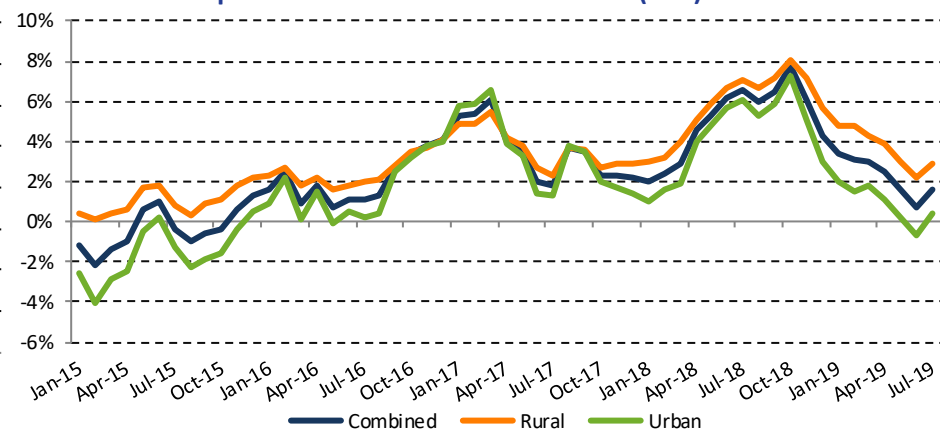
Source: CSO; CEIC; ICRA research

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



ABOUT ICRA

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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