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CONSUMER PRICE INDEX AUGUST 2019

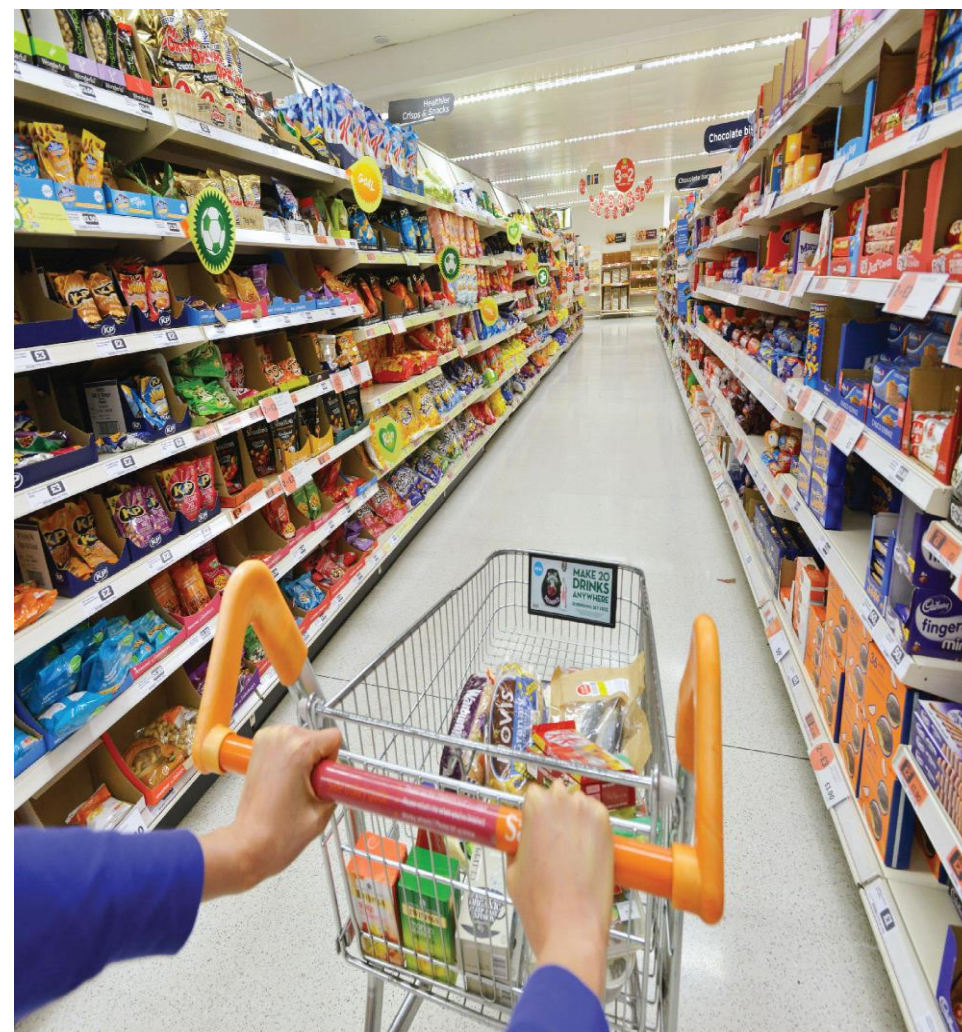
Mild rise in CPI inflation in August 2019, driven by food and beverages

SEPTEMBER 2019



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation rose mildly to 3.21% in August 2019 from 3.15% in the previous month, undershooting the Monetary Policy Committee's (MPC's) medium-term inflation target of 4% for the thirteenth month in a row.
- The uptick in the CPI inflation in August 2019 relative to the previous month was primarily driven by a sharp increase in the inflation for food and beverages, as well as a mild uptick in the same for pan, tobacco and intoxicants.
- In contrast, the YoY inflation for fuel and light, clothing and footwear and housing recorded a sequential easing in August 2019.
- The core-CPI inflation (CPI excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles), eased by only 2 bps to 4.35% in August 2019 from 4.37% in July 2019.
- While the urban CPI inflation rose to 4.5% in August 2019 from 4.2% in July 2019, the YoY print for the rural CPI inflation remained unchanged in these two months at 2.2%. The urban CPI inflation exceeded the rural CPI inflation for the fourteenth month in a row.



OVERVIEW

- The YoY CPI inflation inched up to a 10-month high 3.21% in August 2019 (+3.7% in August 2018) from 3.15% in July 2019 (+4.2% in July 2018; refer Exhibit 1 and 2), printing lower than our forecast (+3.4%). Moreover, the headline CPI inflation remained lower than the MPC's medium-term inflation target of 4% for the thirteenth month in a row.
- The uptick in the CPI inflation in August 2019 relative to the previous month was primarily driven by a sharp increase in the inflation for food and beverages, as well as a mild uptick in the same for pan, tobacco and intoxicants, whereas the YoY inflation for fuel and light, clothing and footwear and housing recorded a sequential easing in August 2019.
- Partly led by an unfavourable base effect, the inflation for food and beverages (with a weight of 45.9% in the CPI) increased considerably to a 14-month high 3.0% in August 2019 (+0.8% in August 2018) from 2.3% in July 2019 (+1.7% in July 2018). This was led by a sharp increase in the inflation for vegetables (to +6.9% from +2.8%), as well as more modest upticks in the same for pulses and products (to +6.9% from +6.8%), spices (to +2.4% from +2.0%), milk and products (to +1.4% from +1.1%) and fruits (to -0.7% from -0.9%; refer Exhibit 3). In contrast, the YoY inflation declined in August 2019 relative to July 2019 in the case of meat and fish (to +8.5% from +9.1%), eggs (to +0.3% from +0.6%), prepared meals, snacks, sweets (to +2.4% from +2.6%), sugar and confectionery (to -2.4% from -2.1%), non-alcoholic beverages (to +2.9% from +3.4%), and oil and fats (to +0.7% from +0.9%). In addition, the YoY inflation in August 2019 remained unchanged relative to previous month in the case of cereals and products (+1.3%). In month-on-month (MoM) terms, the sub-index rose by a substantial 0.8% in August 2019, significantly higher than the uptick of 0.2% in August 2018 (refer Exhibit 4).
- The inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) rose to a six-month high 5.0% in August 2019 from 4.9% in July 2019. In addition, this sub-index increased by 0.4% in MoM terms in August 2019, higher than the 0.3% rise in August 2018.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) stood at 4.7% in August 2019, in line with the print for July 2019. The YoY CPI inflation for personal care and effects increased sharply to 6.4% in August 2019 from 4.3% in July 2019, the impact of which was offset by the easing in the inflation for recreation and amusement activities (to +5.5% from +5.6%), healthcare (to +7.8% from +8.0%), household goods and services (to +3.7% from +4.0%), education (to +6.1% from +6.4%), and transport and communication (to +1.2% from +1.6%). On an MoM basis, the sub-index for miscellaneous items rose by 0.5% in August 2019, in line with the 0.5% uptick in August 2018.

- In contrast, the disinflation for fuel and light (with a weight of 6.8% in the CPI Index) deepened to 1.7% in August 2019 (+8.6% in August 2018) from 0.3% in July 2019 (+8.0% in July 2018). Moreover, the fuel and light sub-index declined by a considerable 0.6% in MoM terms in August 2019, in contrast to the increase of 0.9% recorded in August 2018.
- Inflation for housing (with a weight of 10.1% in the CPI Index) eased to 4.8% in August 2019 (+7.6% in August 2018) from 4.9% in July 2019 (+8.3% in July 2018). In MoM terms, the sub-index increased by 0.7% in August 2019, largely in line with the rise in August 2018. The recent revision in house rent allowance by some states may keep the inflation for this sub-index high in the near-term.
- The inflation for clothing and footwear (with a weight of 6.5% in the CPI) declined to 1.2% in August 2019 from 1.4% in July 2019. In MoM terms, the sub-index for clothing and footwear increased by 0.2% in August 2019, somewhat lower than the rise in August 2018 (+0.3%).
- The YoY print for the core-CPI inflation eased by only 2 bps to 4.35% in August 2019 (+5.9% in August 2018) from 4.37% in July 2019 (+6.2% in July 2018; refer Exhibit 5). On an MoM basis, this sub-index rose by 0.5% in August 2019, in line with the same in August 2018. Notably, the wedge between the headline and core-CPI inflation narrowed somewhat to 115 bps in August 2019 from 122 bps in July 2019.
- The urban CPI inflation rose appreciably to 4.5% in August 2019 from 4.2% in July 2019, driven by a significant uptick in the inflation for food and beverages (to +6.4% from +5.3%). In contrast, the YoY inflation for fuel and light (to -3.3% from -0.9%), housing (to +4.8% from +4.9%) and clothing and footwear (to +3.4% from +3.5%) recorded a downtick, whereas the inflation points remained unchanged in the case of pan, tobacco and intoxicants (+3.6%) and miscellaneous items (+3.3%).
- In the case of the rural CPI inflation, the YoY print remained unchanged at 2.2% in July 2019 and August 2019. Notably, the urban CPI inflation exceeded the rural CPI inflation for the fourteenth month in a row.
- The buildup in the CPI inflation up to August 2019 stood at 3.2%, higher than the buildup of 2.9% recorded up to August 2018.
- The final headline CPI inflation for July 2019 stood at 3.15%, largely in line with the initial print.

OUTLOOK

While the late surge in monsoon rains has narrowed the YoY gap in kharif sowing to a mild 0.6% as on September 6, 2019, the flooding in certain areas has led to a continued rise in the prices of vegetables such as onions. This is likely to contribute to a further hardening of food inflation in the ongoing month.

Crude oil prices had risen in the recent sessions, before recording some reversal. The subdued global growth outlook is likely to keep the crude prices range-bound in the near term, even if the concerns related to trade wars ease to some extent. Moreover, the INR has displayed a mixed trend, tracking the USD-CNY cross rate.

Around half of the core-CPI is made up of services, the demand for which is likely to be somewhat sticky in a downturn and prices relatively inelastic to changes in commodity prices. We do not expect a substantial fall in the core-CPI inflation going ahead.

At present, we expect the CPI inflation to rise in the next print, while remaining below the MPC's target of 4%. Given the continuing concerns related to economic growth, the MPC may reduce the Repo rate by 25 bps rate in the October 2019 policy review.

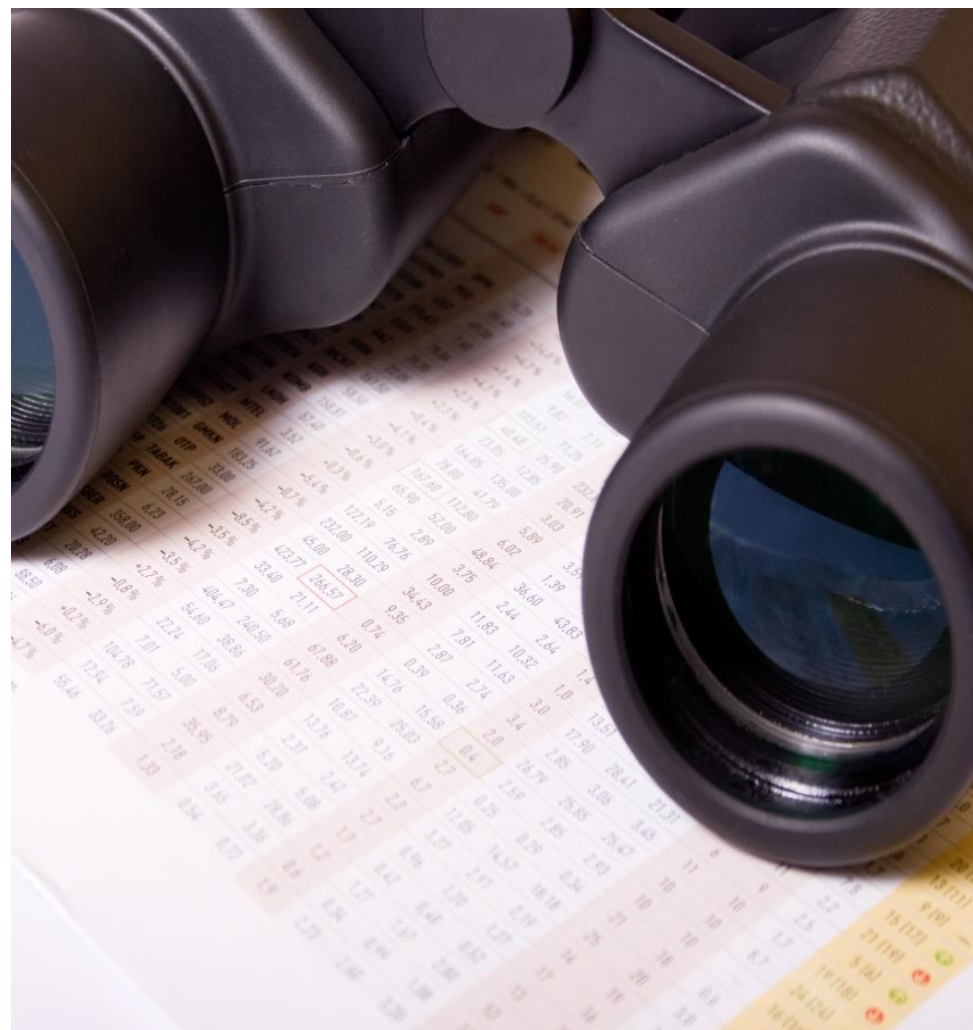
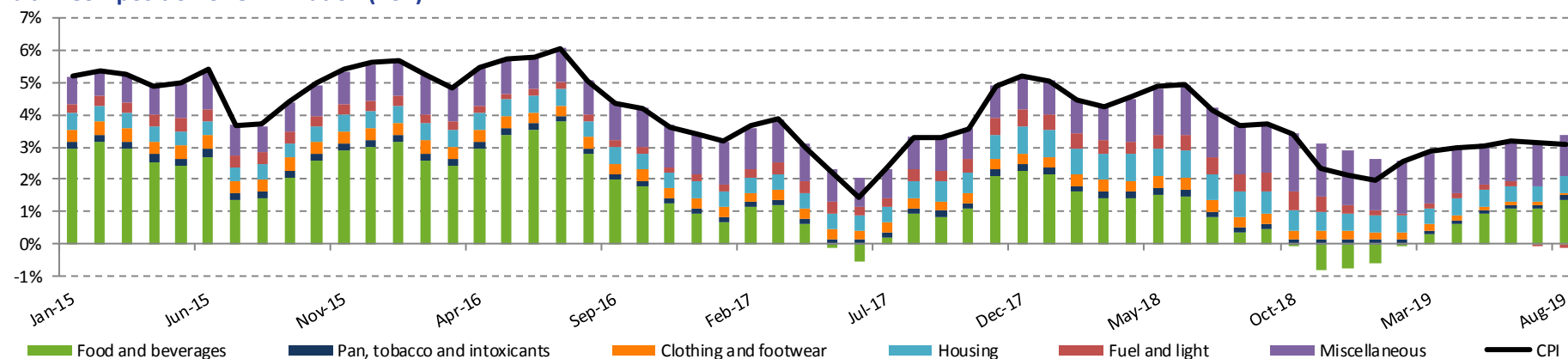


Exhibit 1: Trend in CPI Inflation (YoY)

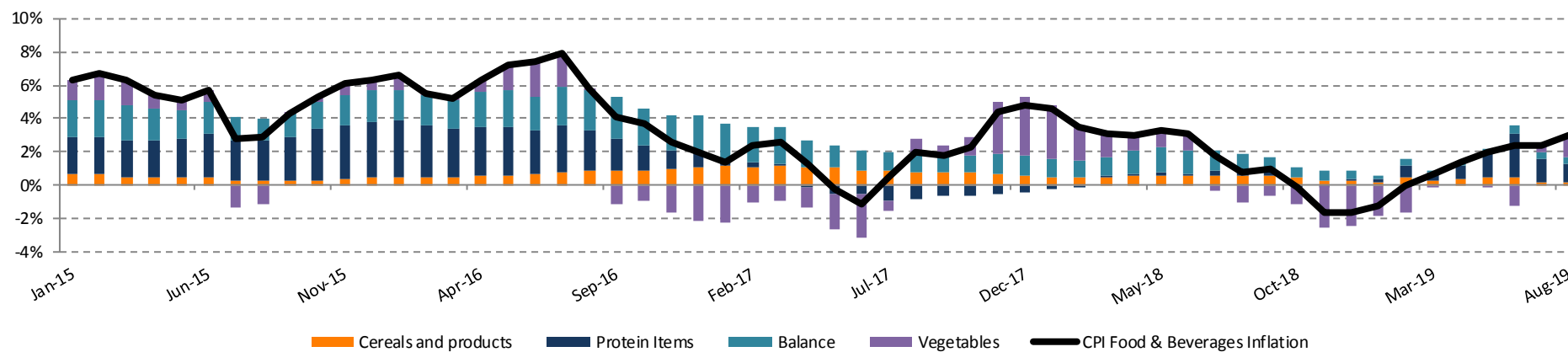
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		June-19	July-19	July-19	August-19	August-19	August-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	3.18%	3.15%	3.15%	3.21%	0.5%	3.2%
Food and beverages	45.86	2.4%	2.3%	2.3%	3.0%	0.8%	5.6%
Cereals and products	9.67	1.3%	1.3%	1.3%	1.3%	0.6%	1.7%
Meat and fish	3.61	9.0%	9.1%	9.1%	8.5%	-1.3%	5.0%
Egg	0.43	1.6%	0.6%	0.6%	0.3%	-1.1%	-1.3%
Milk and products	6.61	0.7%	1.0%	1.1%	1.4%	0.4%	1.6%
Oils and fats	3.56	0.7%	0.9%	0.9%	0.7%	0.4%	0.8%
Fruits	2.89	-4.2%	-0.9%	-0.9%	-0.7%	-0.5%	8.6%
Vegetables	6.04	4.7%	2.8%	2.8%	6.9%	4.4%	26.2%
Pulses and products	2.38	5.7%	6.8%	6.8%	6.9%	0.7%	7.5%
Sugar and confectionary	1.36	-0.1%	-2.1%	-2.1%	-2.4%	0.8%	2.8%
Spices	2.50	1.6%	2.0%	2.0%	2.4%	0.7%	2.3%
Pan, tobacco and intoxicants	2.38	4.2%	4.9%	4.9%	5.0%	0.4%	1.4%
Clothing and footwear	6.53	1.5%	1.6%	1.4%	1.2%	0.2%	0.8%
Housing	10.07	4.8%	4.9%	4.9%	4.8%	0.7%	1.7%
Fuel and light	6.84	2.2%	-0.4%	-0.3%	-1.7%	-0.6%	-0.9%
Miscellaneous	28.32	4.5%	4.7%	4.7%	4.7%	0.5%	1.8%
Household goods and services	3.80	4.3%	4.0%	4.0%	3.7%	0.2%	0.5%
Health	5.89	8.2%	7.9%	8.0%	7.8%	0.4%	1.6%
Transport and communication	8.59	0.7%	1.6%	1.6%	1.2%	0.2%	1.0%
Recreation and amusement	1.68	5.3%	5.5%	5.6%	5.5%	0.4%	2.4%
Education	4.46	6.8%	6.4%	6.4%	6.1%	0.6%	3.1%
Personal care and effects	3.89	3.2%	4.3%	4.3%	6.4%	2.0%	3.7%
CPI-Food	36.55	2.2%	2.4%	2.4%	3.0%	0.9%	6.5%
CPI-Core	44.97	4.26%	4.37%	4.37%	4.35%	0.5%	1.6%
CPI Rural		2.2%	2.2%	2.2%	2.2%	0.5%	3.1%
CPI Urban		4.3%	4.2%	4.2%	4.5%	0.6%	3.4%

*Buildup with reference to March 2019

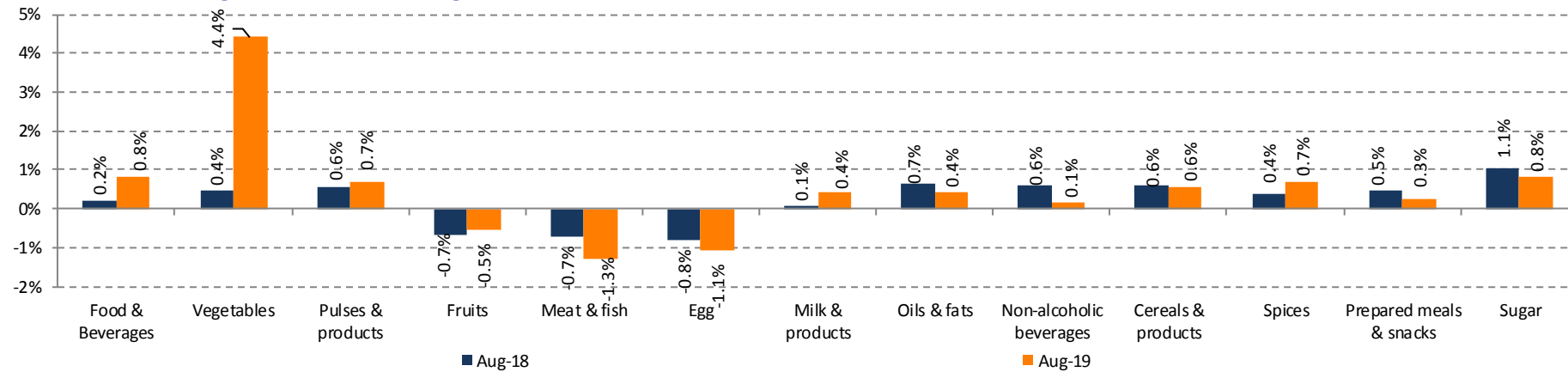
Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

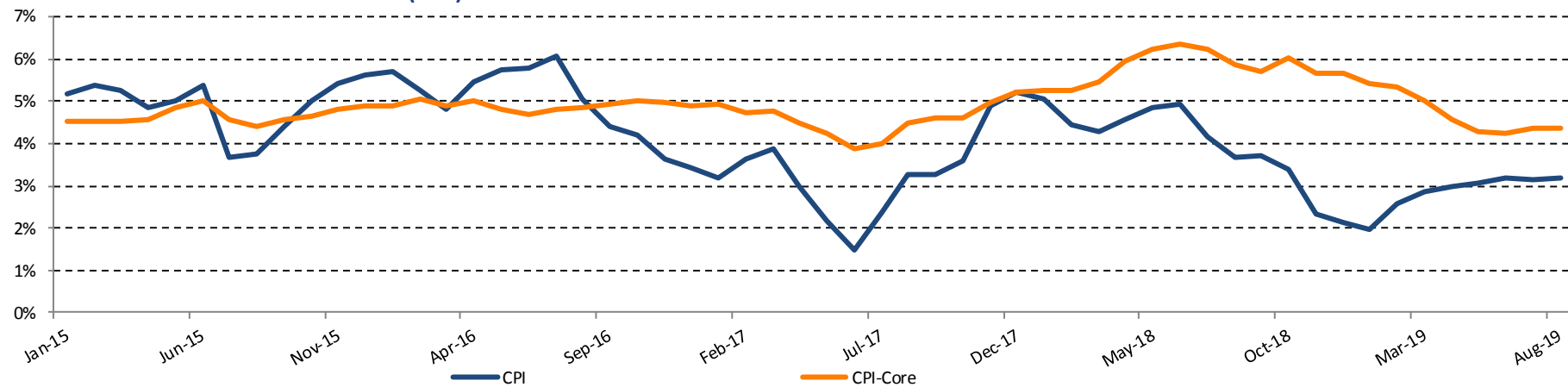
Source: CSO; CEIC; ICRA research

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

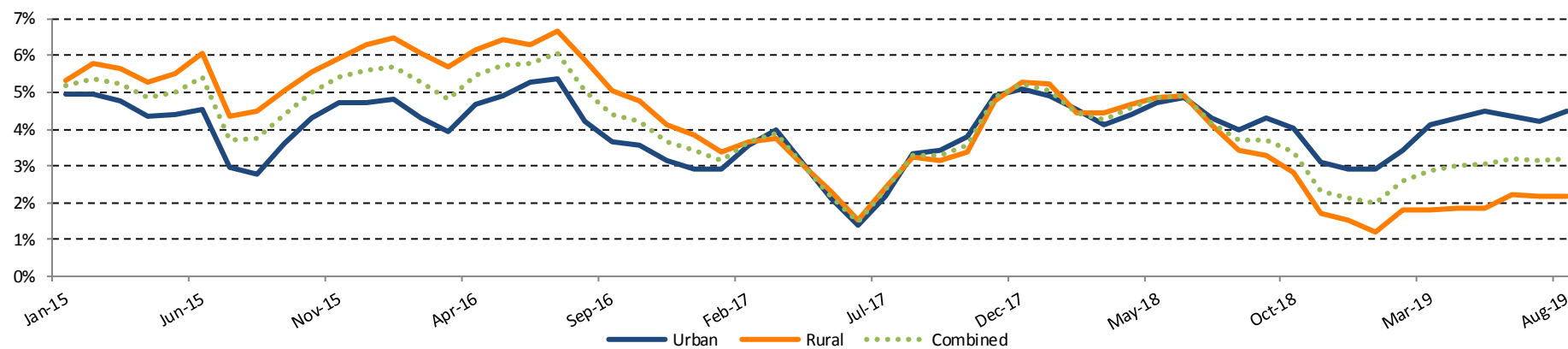
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

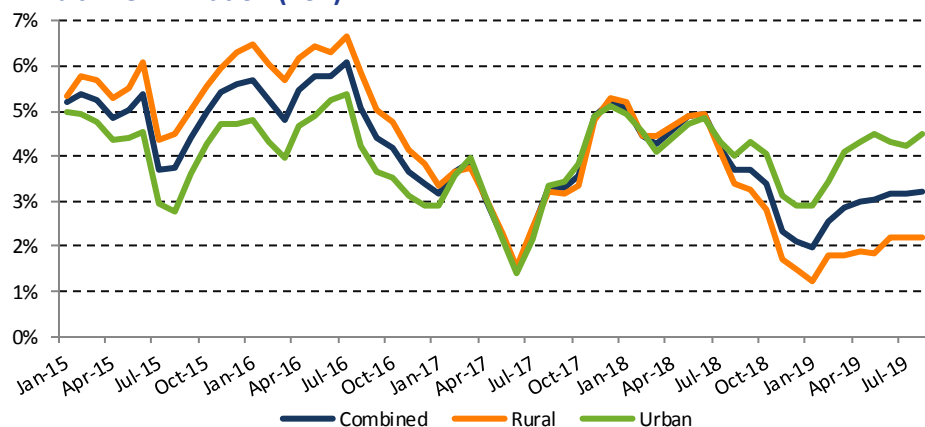
Source: CSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)

Source: CSO; CEIC; ICRA research

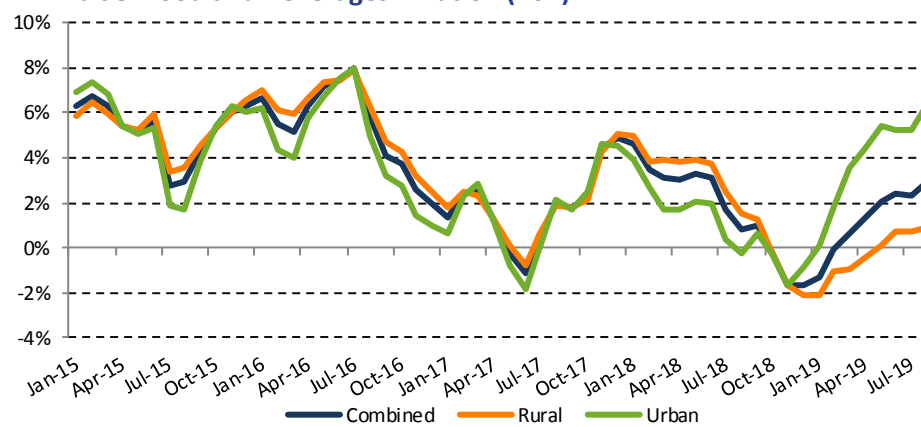
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



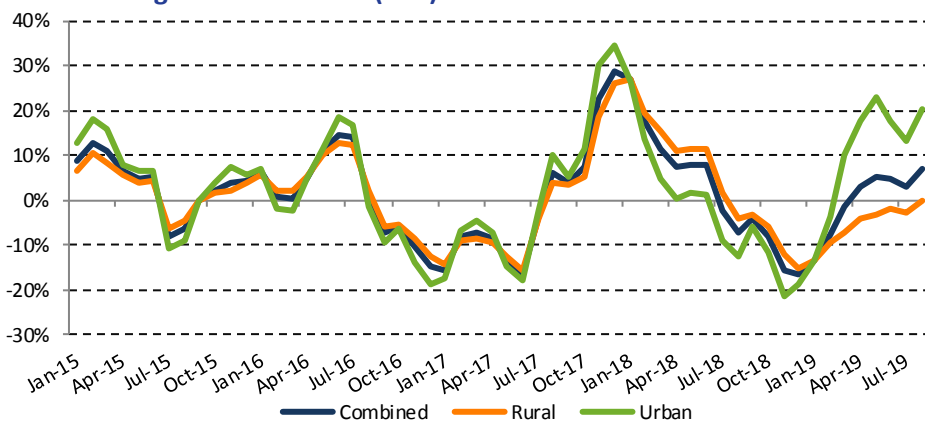
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



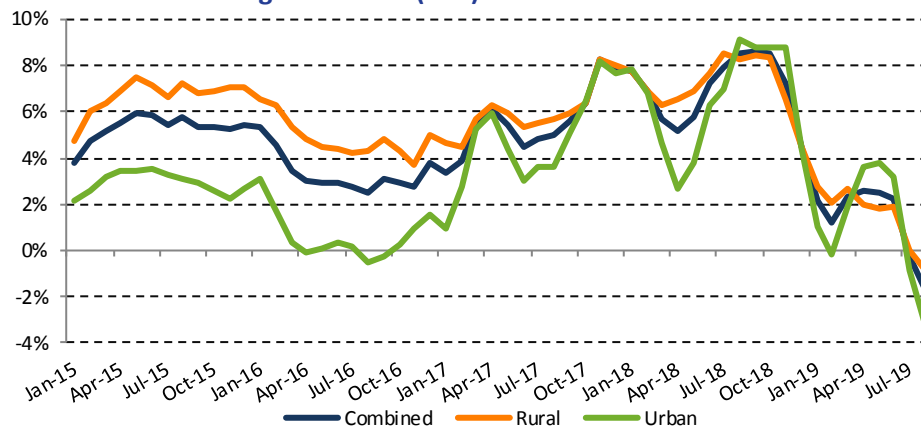
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

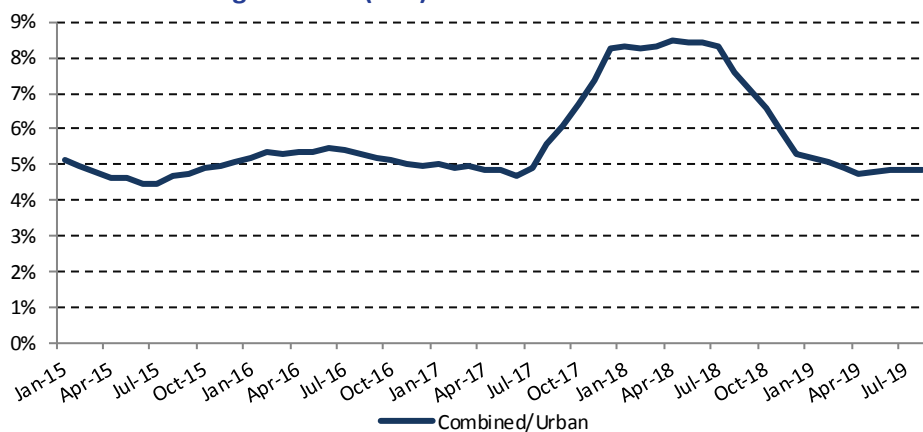


Source: CSO; CEIC; ICRA research

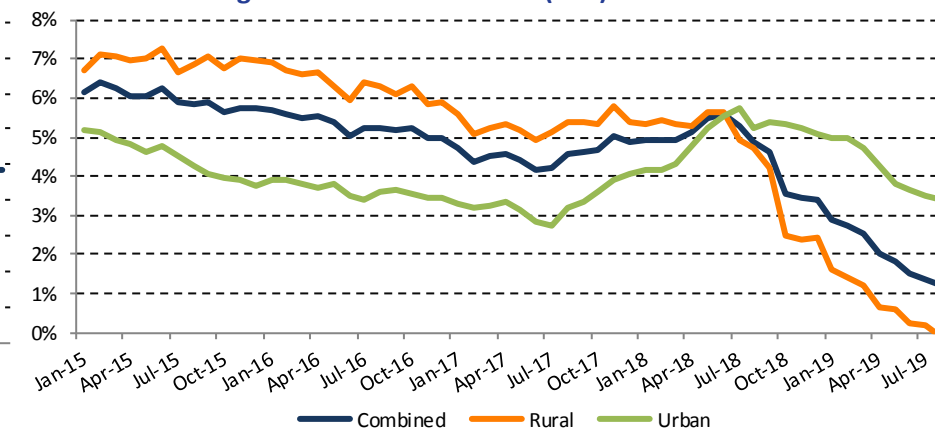
Exhibit 10: Fuel and Light Inflation (YoY)



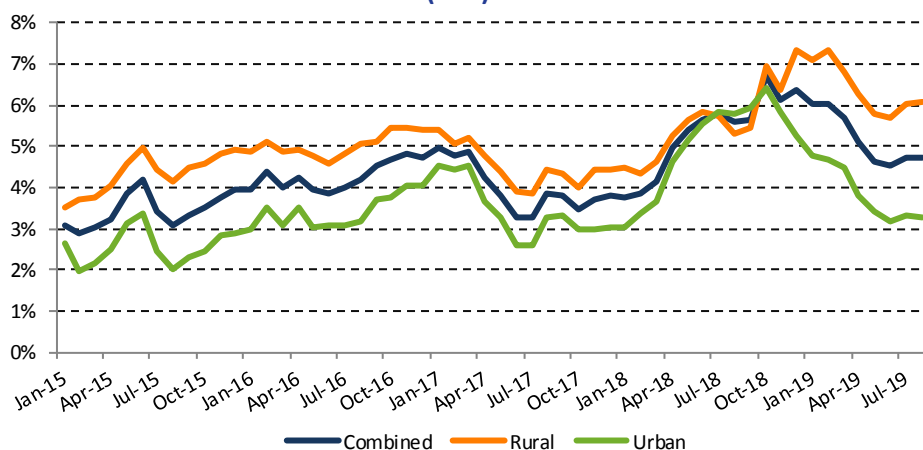
Source: CSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)

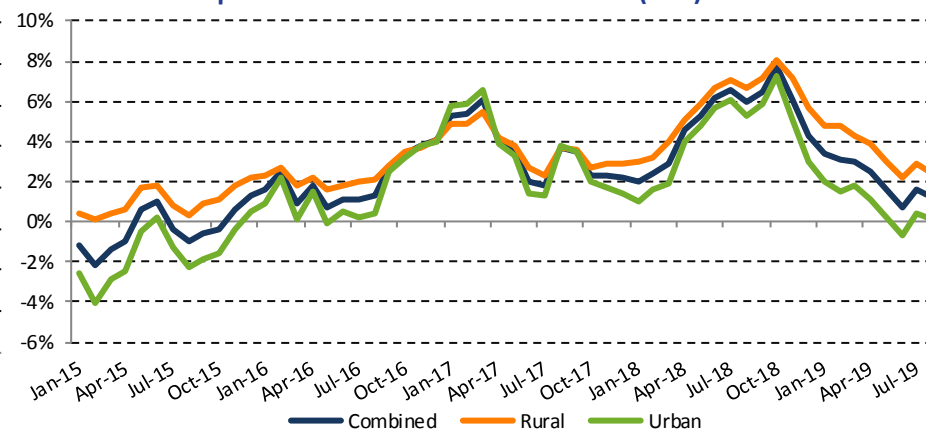
Source: CSO; CEIC; ICRA research

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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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- 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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