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ICRA

CONSUMER PRICE INDEX SEPTEMBER 2019

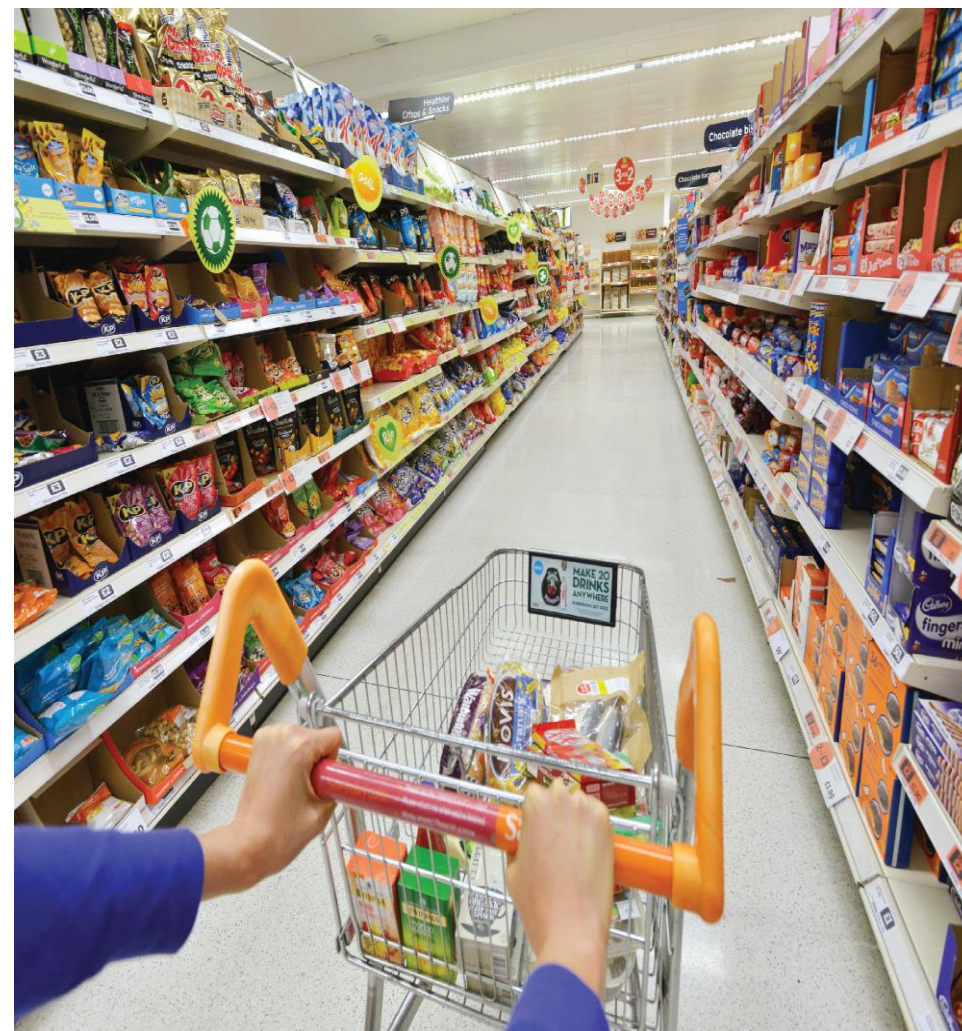
CPI inflation rose to 3.99% in September 2019, in line with the mid-point of the MPC's medium-term inflation target

OCTOBER 2019



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation rose considerably to 3.99% in September 2019 from 3.3% in August 2019, in line with the mid-point of the Monetary Policy Committee's (MPC's) medium-term inflation target of 4%+/-2%.
- The uptick in the CPI inflation in September 2019 relative to the previous month was driven by a sharp increase in the inflation for food and beverages. While this increase was broad-based, the primary driver of the rise in food inflation was vegetables, a fallout of the flooding in various states, which is likely to prove temporary.
- In contrast, the YoY inflation for the other sub-indices, namely, pan, tobacco and intoxicants, fuel and light, clothing and footwear, miscellaneous items and housing recorded a sequential easing in September 2019.
- Accordingly, the core-CPI inflation (CPI excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles), eased to a 26-month low 4.2% in September 2019 from 4.4% in August 2019, offering some relief in light of the rise in the headline inflation rate.
- The urban CPI inflation rose to 4.8% in September 2019 from 4.5% in August 2019 while the rural CPI inflation increased considerably to 3.2% from 2.2%, respectively, narrowing the wedge between these two sub-indices.
- The sharp pickup in CPI inflation in September 2019 was at odds with the sequential slide in the YoY WPI inflation to 0.3% in September 2019 from 1.1% in August 2019. This was led by the difference in the composition of the two baskets, with food products accounting for a considerably higher weight at the retail level than the wholesale level, as well as the divergent trend displayed by food inflation in the two indices.



OVERVIEW

- The YoY CPI inflation rose considerably to a 14-month high 3.99% in September 2019 (+3.7% in September 2018) from 3.3% in August 2019 (+3.7% in August 2018; refer Exhibit 1 and 2), printing higher than our forecast (+3.4%). Moreover, the headline CPI inflation rose to the midpoint of the MPC's medium-term inflation target of 4%+/-2% in September 2019.
- The uptick in the CPI inflation in September 2019 relative to the previous month was driven by a sharp increase in the inflation for food and beverages, particularly vegetables. In contrast, the YoY inflation for other sub-indices, namely, pan, tobacco and intoxicants, fuel and light, clothing and footwear, miscellaneous items and housing recorded a sequential easing in September 2019.
- The YoY inflation for the food and beverages sub-index rose considerably to a 21-month high 4.7% in September 2019 (+1.0% in September 2018) from 3.0% in August 2019 (+0.8% in August 2018). This was led by a sharp increase in the inflation for vegetables (to +15.4% from +6.9%; led by the flooding in various states), which is likely to prove temporary, as well as more modest upticks in the same for eggs (to +3.3% from +0.3%), sugar and confectionery (to -0.4% from -2.4%), fruits (to +0.8% from -0.8%), pulses and products (to +8.4% from +6.9%), meat and fish (to +10.3% from +8.5%), spices (to +3.3% from +2.3%), non-alcoholic beverages (to +3.2% from +2.9%), cereals and products (to +1.7% from +1.3%), milk and products (to +1.7% from +1.5%) and oil and fats (to +1.1% from +0.6%; refer Exhibit 3). In contrast, the YoY inflation for prepared meals, snacks, sweets moderated to 2.0% in September 2019 from 2.4% in August 2019. In month-on-month (MoM) terms, the sub-index rose by a substantial 0.8% in September 2019, in sharp contrast to the MoM decline of 0.9% in September 2018 (refer Exhibit 4).
- In contrast, the disinflation for fuel and light widened to 2.2% in September 2019 (+8.6% in September 2018) from 1.7% in August 2019 (+8.6% in August 2018). The fuel and light sub-index rose by 0.5% in MoM terms in September 2019, lower than the increase of 1.0% recorded in September 2018.
- Moreover, the inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) eased to 4.6% in September 2019 from the six-month high 5.0% in August 2019. This sub-index increased by 0.4% in MoM terms in September 2019, lower than the 0.8% rise in September 2018.
- Housing inflation (with a weight of 10.1% in the CPI Index) eased to 4.7% in September 2019 (+7.1% in September 2018) from 4.8% in August 2019 (+7.6% in August 2018), despite an unfavourable base effect. In MoM terms, the sub-index increased by 0.4% in September 2019, mildly lower than the 0.5% rise in September 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 clothing and footwear (with a weight of 6.5% in the CPI) eased to 1.0% in September 2019 from 1.2% in August 2019. In MoM terms, the sub-index for clothing and footwear remained unchanged in September 2019, in contrast to the 0.3% rise in September 2018, highlighting weak domestic demand.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) softened to 4.5% in September 2019 from 4.7% in August 2019. The YoY CPI inflation eased for recreation and amusement activities (to +5.1% from +5.5%), transport and communication (to +0.1% from +1.2%), household goods and services (to +3.5% from +3.7%),

and healthcare (to +7.7% from +7.8%), the impact of which was partly offset by the uptick in the inflation for education (to +6.2% from +6.1%), and personal care and effects (to +6.7% from 6.4%). On an MoM basis, the sub-index for miscellaneous items rose by 0.4% in September 2019, lower than the 0.6% uptick in September 2018.

- The YoY print for the core-CPI inflation eased to a 26-month low 4.2% in September 2019 (+5.7% in September 2018) from 4.4% in August 2019 (+5.9% in August 2018; refer Exhibit 5). On an MoM basis, this sub-index rose by 0.3% in September 2019, lower than the rise in September 2018 (+0.5%). Notably, the wedge between the headline and core-CPI inflation narrowed considerably to 17 bps in September 2019 from 108 bps in August 2019, led by the sharp uptick in food inflation.
- The urban CPI inflation rose to 4.8% in September 2019 from 4.5% in August 2019, driven by a significant uptick in food and beverages (to +7.6% from +6.4%; refer Exhibit 6). In contrast, the YoY inflation recorded a downtick in September 2019 relative to the previous month for fuel and light (to -3.5% from -3.3%), housing (to +4.7% from +4.8%), clothing and footwear (to +3.0% from +3.4%), pan, tobacco and intoxicants (to +3.2% from +3.6%) and miscellaneous items (to +2.9% from +3.3%).
- The YoY print for rural CPI inflation increased sharply to 3.2% in September 2019 from 2.2% in August 2019 led by food and beverages (to +3.0% from +0.9%), and despite the softening in fuel and light (to -1.4% from -0.9%), clothing and footwear (to -0.2% from -0.1%), pan, tobacco and intoxicants (to +5.1% from +5.6%) and miscellaneous items (to +5.8% from +6.1%). Nevertheless, the urban CPI inflation exceeded the rural CPI inflation for the fifteenth month in a row.
- The buildup in the CPI inflation up to September 2019 stood at 3.8%, higher than the buildup of 2.7% recorded up to September 2018.
- The final headline CPI inflation for August 2019 was revised upwards to 3.3% from the initial print of 3.2% reflecting the trend for milk and products (to +1.5% from +1.4%).
- The CPI inflation sharply exceeded the WPI inflation for the fifth month in a row in September 2019. Moreover, the wedge between the two widened considerably in the month, with the CPI inflation recording a significant rise in September 2019 driven by food prices, whereas the wholesale inflation recorded a fairly broad-based fall (to +0.3% from +1.1%; refer Exhibit 7).

OUTLOOK

Vegetable prices have remained elevated in the ongoing month, following the flooding in various states. However, these are likely to witness some easing in the next few months, particularly with the seasonal arrival of winter supplies, which would curtail food inflation to sub-4% by the end of this quarter, in our view.

Crude oil prices have receded to below US\$60/barrel in October 2019, after witnessing a temporary uptick due to supply disruptions in September 2019. We expect the subdued global growth outlook to keep the crude prices in check in the near term, despite the intermittent impact of geo-political developments in West Asia.

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 fall in the core-CPI inflation to below 4% in the immediate term.

While the decline in the core inflation provides some comfort, the unexpectedly sharp jump in the September 2019 CPI inflation has pushed up the likelihood of a pause in the next MPC review, unless the headline retail inflation recedes sharply in the ongoing month.

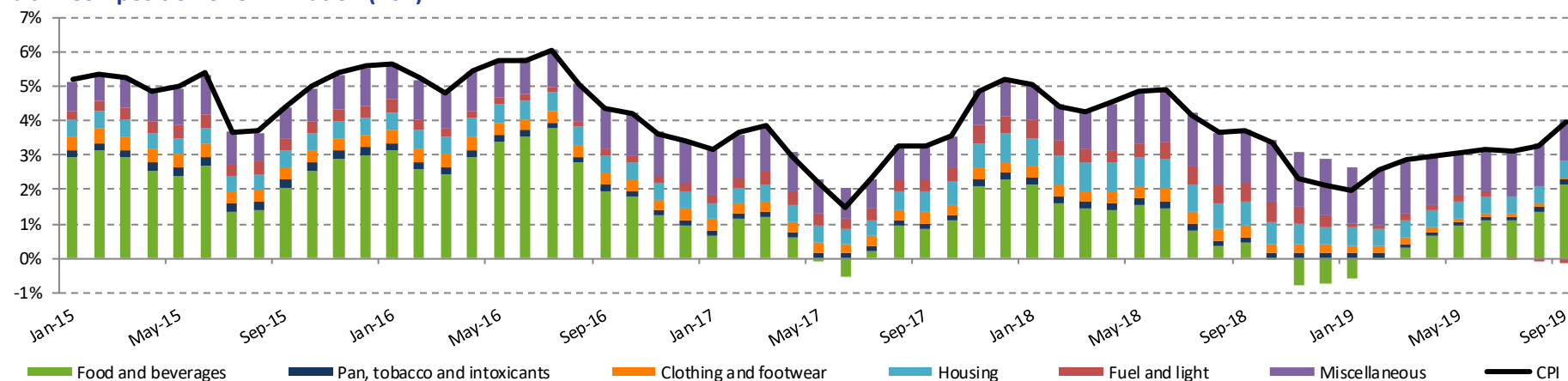


Exhibit 1: Trend in CPI Inflation (YoY)

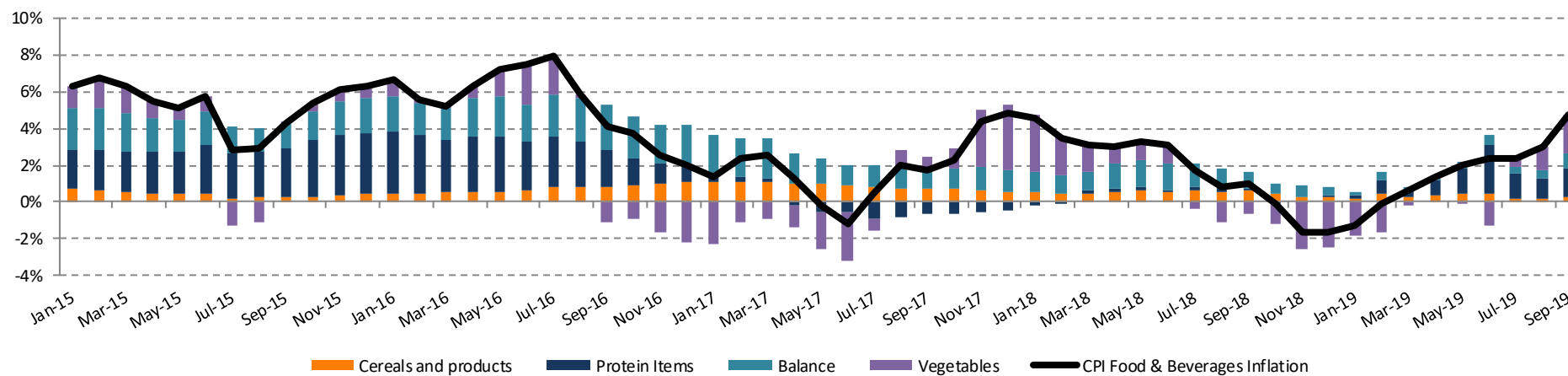
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		July-19	Aug-19	Aug-19	Sep-19	Sep-19	Sep-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	3.1%	3.2%	3.3%	4.0%	0.6%	3.8%
Food and beverages	45.86	2.3%	3.0%	3.0%	4.7%	0.8%	6.4%
Cereals and products	9.67	1.3%	1.3%	1.3%	1.7%	0.6%	2.2%
Meat and fish	3.61	9.1%	8.5%	8.5%	10.3%	0.1%	5.1%
Egg	0.43	0.6%	0.3%	0.3%	3.3%	0.8%	-0.5%
Milk and products	6.61	1.1%	1.4%	1.5%	1.7%	0.5%	2.2%
Oils and fats	3.56	0.9%	0.7%	0.6%	1.1%	0.5%	1.2%
Fruits	2.89	-0.9%	-0.7%	-0.8%	0.8%	-1.9%	6.5%
Vegetables	6.04	2.8%	6.9%	6.9%	15.4%	3.4%	30.5%
Pulses and products	2.38	6.8%	6.9%	6.9%	8.4%	0.5%	8.0%
Sugar and confectionary	1.36	-2.1%	-2.4%	-2.4%	-0.4%	1.2%	3.9%
Spices	2.50	2.0%	2.4%	2.3%	3.3%	1.1%	3.3%
Pan, tobacco and intoxicants	2.38	4.9%	5.0%	5.0%	4.6%	0.4%	1.8%
Clothing and footwear	6.53	1.4%	1.2%	1.2%	1.0%	0.0%	0.8%
Housing	10.07	4.9%	4.8%	4.8%	4.7%	0.4%	2.1%
Fuel and light	6.84	-0.3%	-1.7%	-1.7%	-2.2%	0.5%	-0.4%
Miscellaneous	28.32	4.7%	4.7%	4.7%	4.5%	0.4%	2.2%
Household goods and services	3.80	4.0%	3.7%	3.7%	3.5%	0.1%	0.6%
Health	5.89	8.0%	7.8%	7.8%	7.7%	0.3%	1.9%
Transport and communication	8.59	1.6%	1.2%	1.2%	0.1%	0.2%	1.2%
Recreation and amusement	1.68	5.6%	5.5%	5.5%	5.1%	0.4%	2.7%
Education	4.46	6.4%	6.1%	6.1%	6.2%	0.2%	3.3%
Personal care and effects	3.89	4.3%	6.4%	6.4%	6.7%	0.9%	4.7%
CPI-Food	36.55	2.4%	3.0%	3.0%	5.1%	0.9%	7.4%
CPI-Core	44.97	4.4%	4.4%	4.4%	4.2%	0.3%	2.0%
CPI Rural		2.2%	2.2%	2.2%	3.2%	0.7%	3.9%
CPI Urban		4.2%	4.5%	4.5%	4.8%	0.3%	3.7%

*Buildup with reference to March 2019

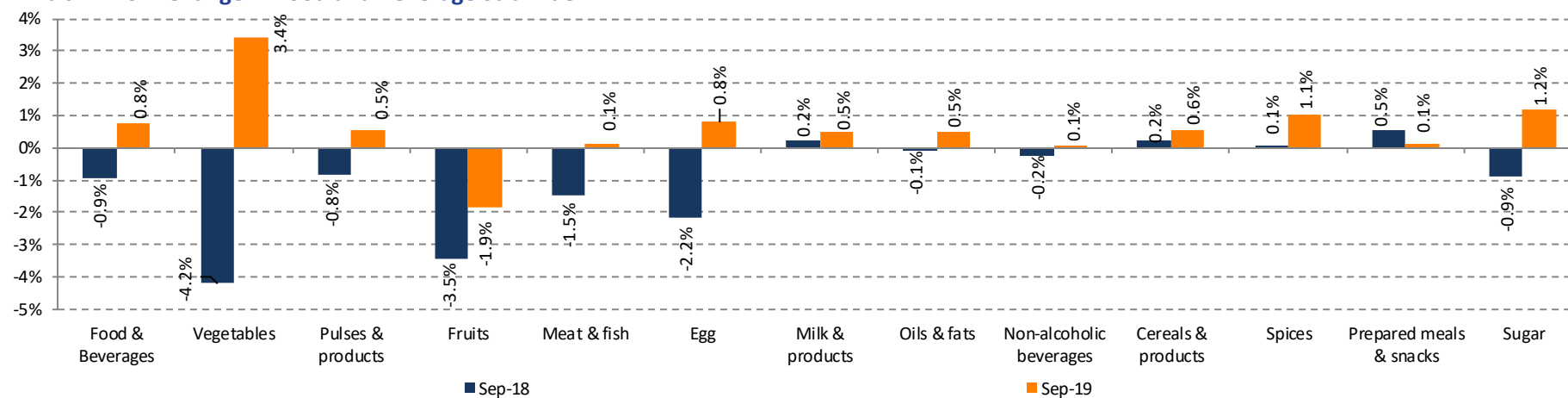
Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

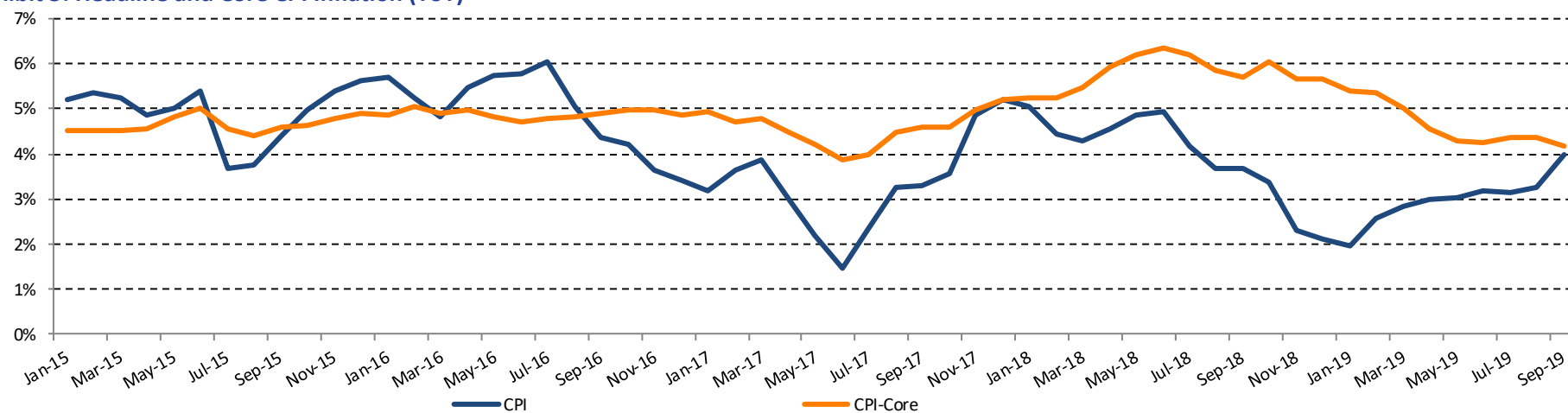
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

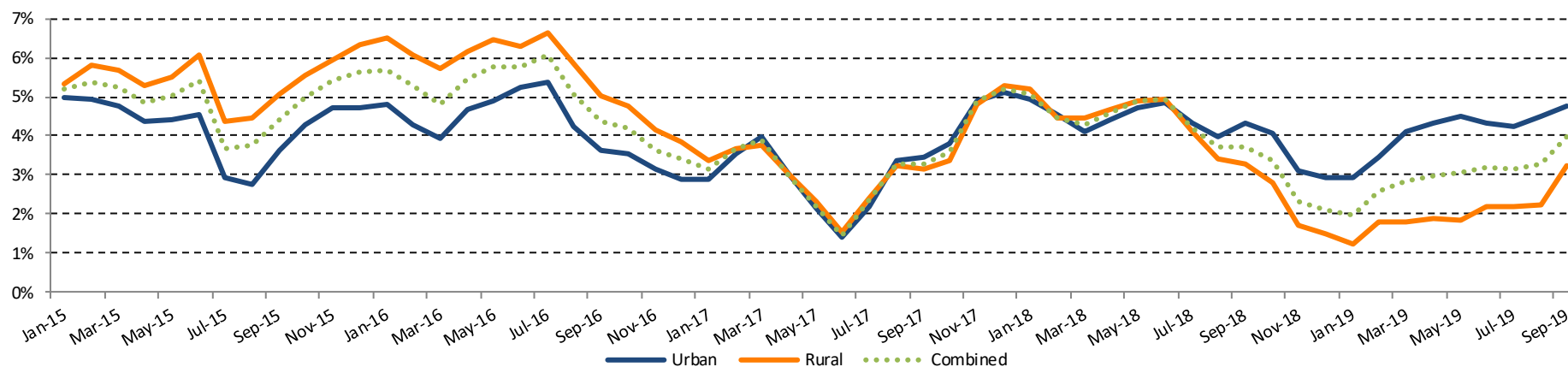
Exhibit 4: MoM Change in Food and Beverage Sub-Index

Source: CSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

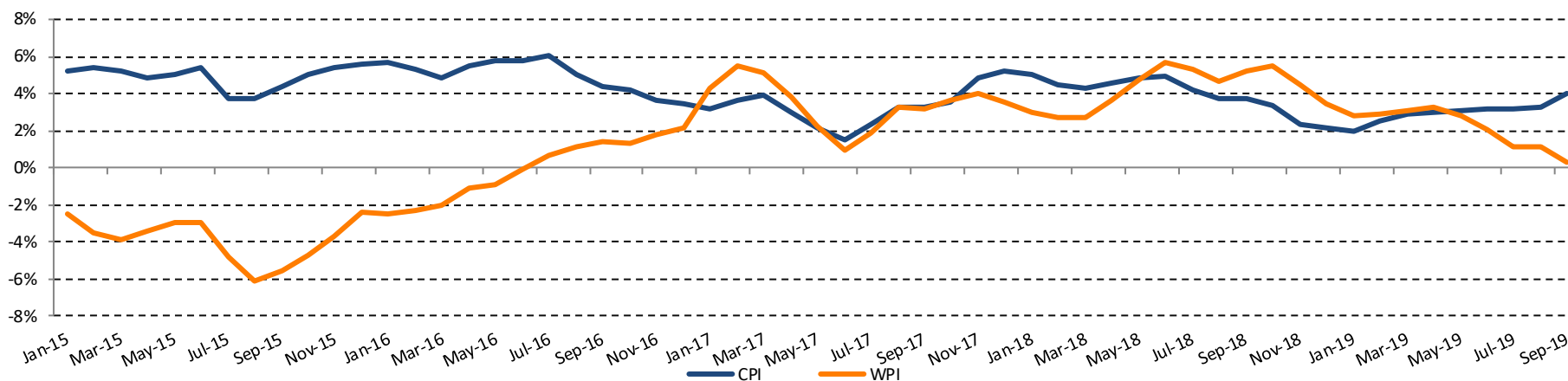
Source: CSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)



Source: CSO; CEIC; ICRA research

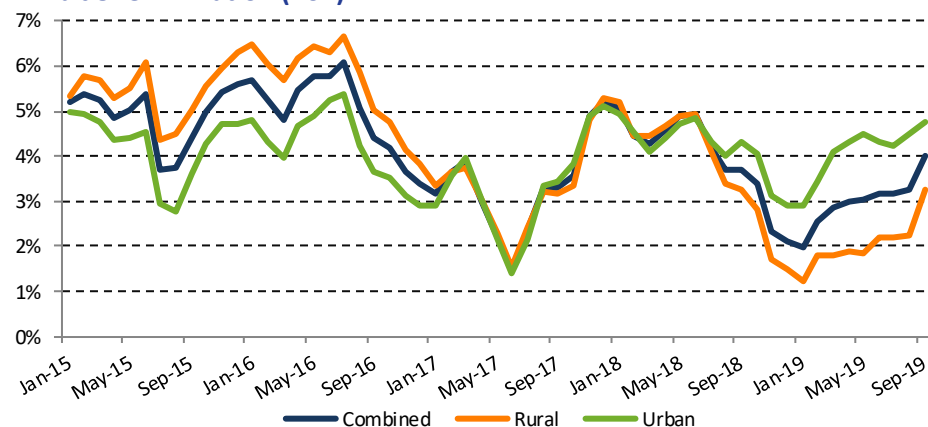
Exhibit 7: CPI and WPI Inflation (YoY)



Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

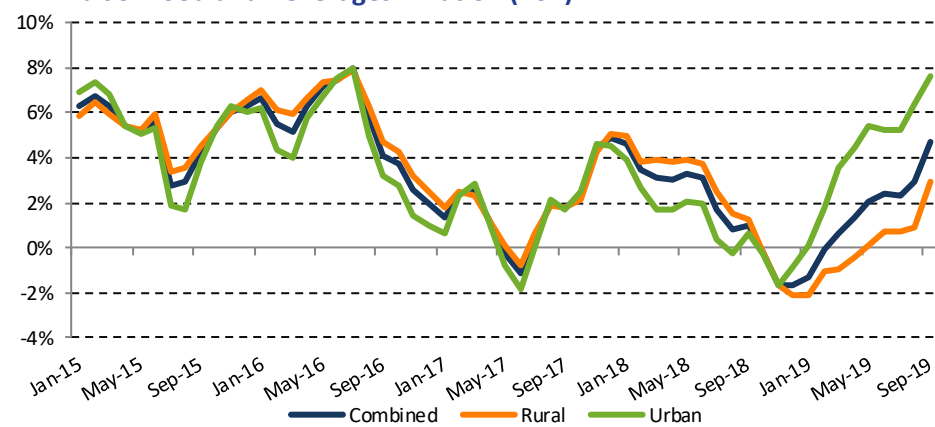
ANNEXURE

Exhibit 8: CPI Inflation (YoY)



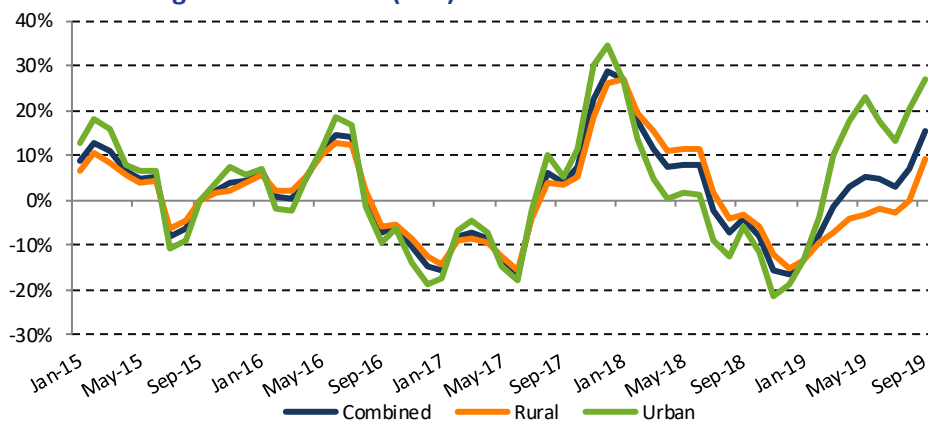
Source: CSO; CEIC; ICRA research

Exhibit 9: Food and Beverages Inflation (YoY)



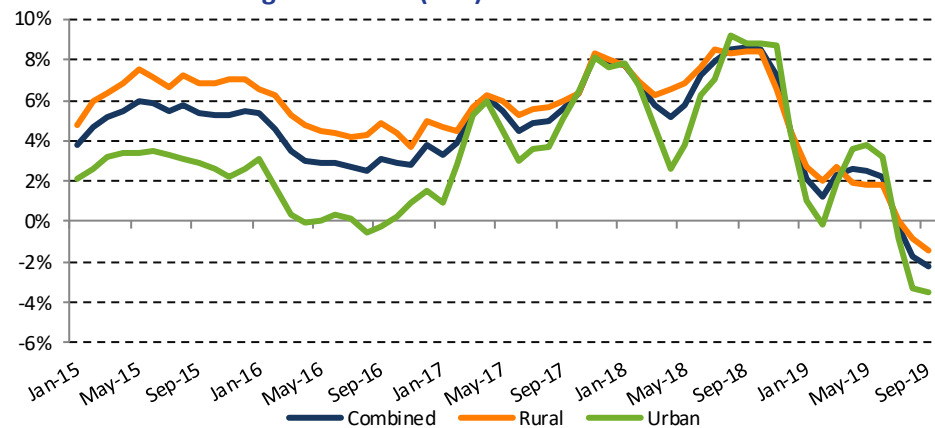
Source: CSO; CEIC; ICRA research

Exhibit 10: Vegetables Inflation (YoY)

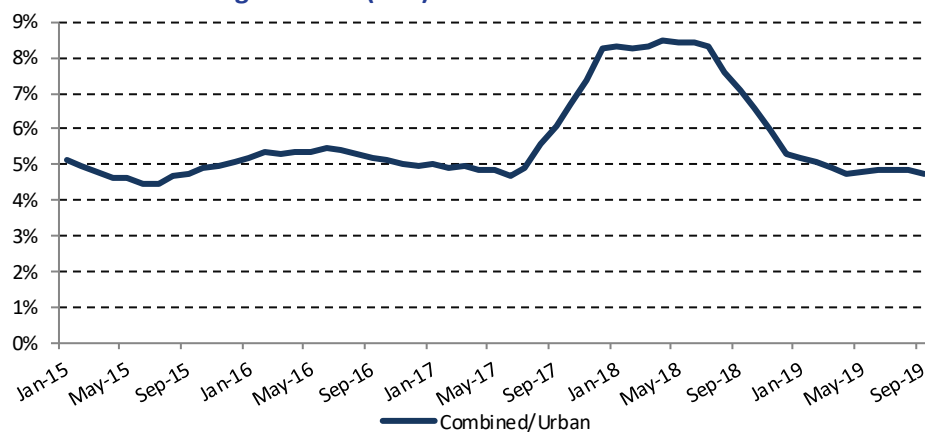


Source: CSO; CEIC; ICRA research

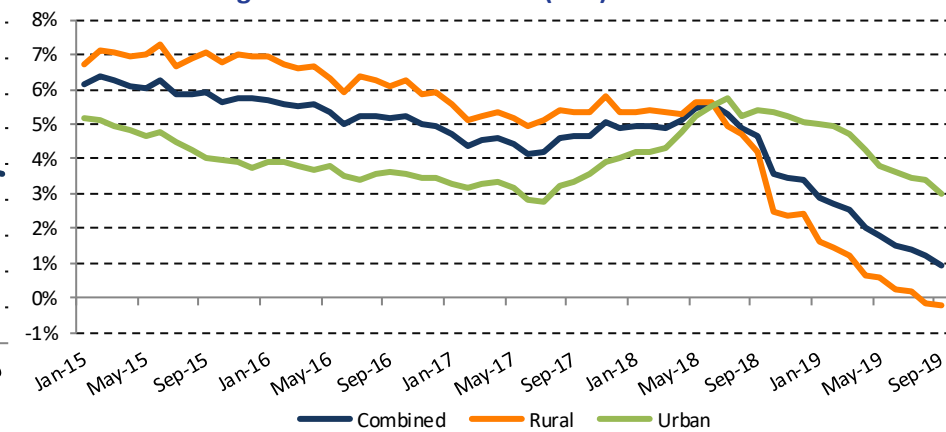
Exhibit 11: Fuel and Light Inflation (YoY)



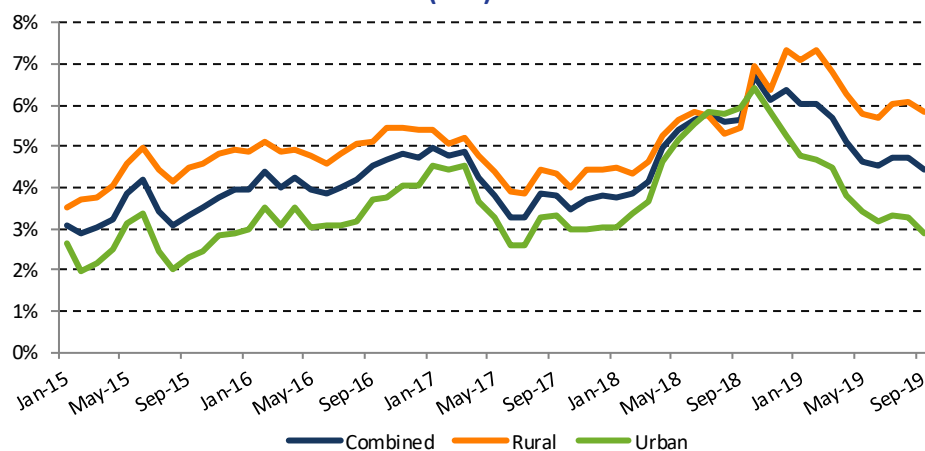
Source: CSO; CEIC; ICRA research

Exhibit 12: Housing Inflation (YoY)

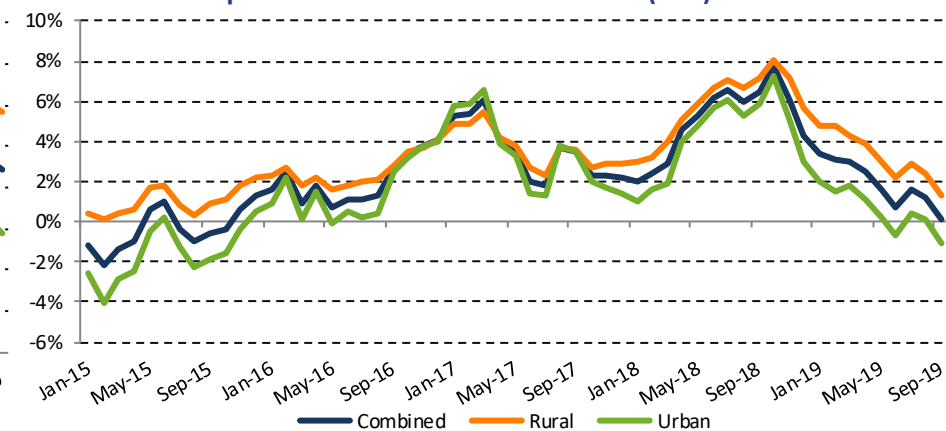
Source: CSO; CEIC; ICRA research

Exhibit 13: Clothing and Footwear Inflation (YoY)

Source: CSO; CEIC; ICRA research

Exhibit 14: Miscellaneous Inflation (YoY)

Source: CSO; CEIC; ICRA research

Exhibit 15: 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 ICRA Factor

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- 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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