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ICRA

CONSUMER PRICE INDEX OCTOBER 2019

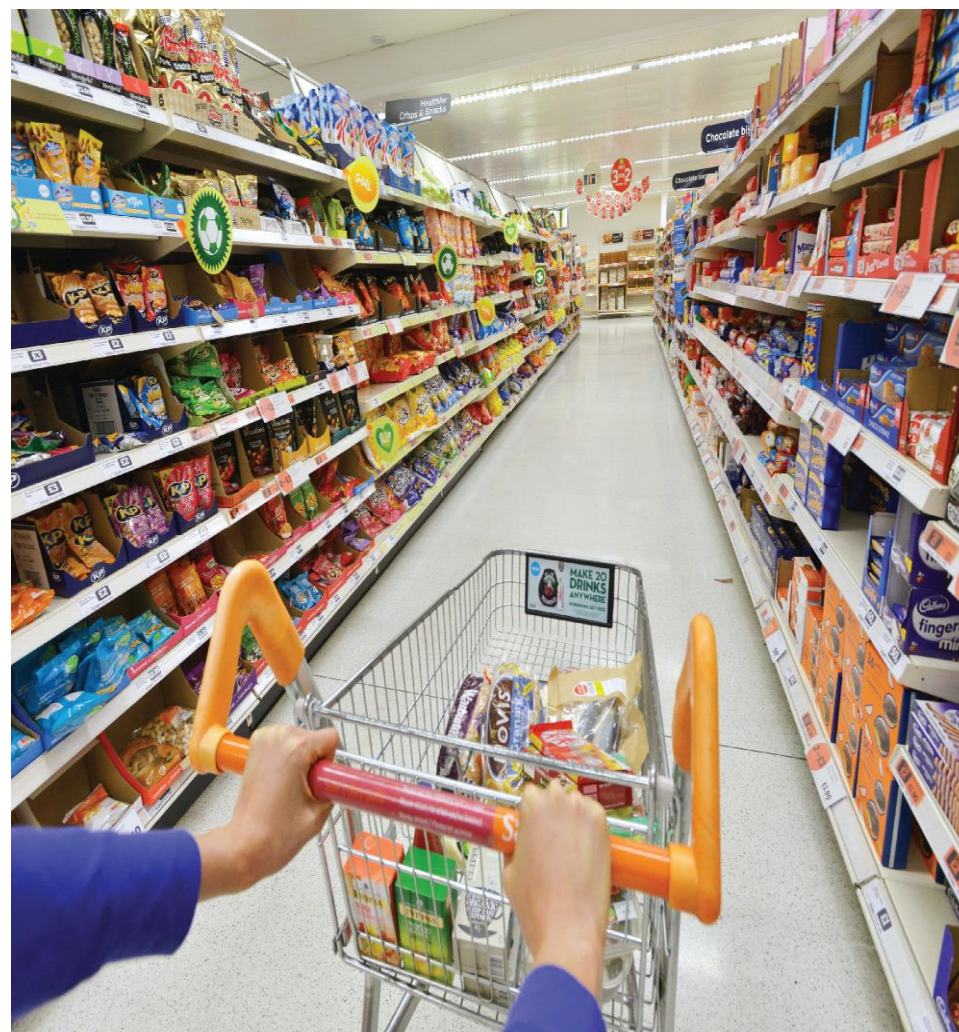
CPI inflation rose to a 16-month high 4.6% in October 2019, led by food and beverages

NOVEMBER 2019



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation hardened to a 16-month high 4.6% in October 2019 from 3.99% in September 2019, breaching the mid-point of the Monetary Policy Committee's (MPC's) medium-term inflation target of 4%+/-2% after a gap of 14 months.
- The uptick in the CPI inflation in October 2019 relative to the previous month was primarily driven by a sharp increase in the inflation for food and beverages to 6.9% from 4.7%, respectively, led by a rise in the YoY inflation for vegetables (to +26.1% from +15.5%).
- In addition, the YoY inflation for clothing and footwear recorded a sequential uptick to 1.6% in October 2019 from 1.0% in September 2019, while the YoY disinflation for fuel and light narrowed to 2.0% from 2.2%, respectively.
- In contrast, the YoY inflation for the other sub-indices, namely, miscellaneous items (to +3.4% from +4.5%), pan, tobacco and intoxicants (to +3.9% from +4.6%), and housing (to +4.6% from +4.7%), recorded a sequential easing in October 2019.
- Driven partly by a favourable base effect, the core-CPI inflation (CPI excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles), eased to a series-low 3.6% in October 2019 from 4.2% in September 2019. The headline CPI inflation exceeded the core-CPI inflation (by a considerable 100 bps) in October 2019, after a gap of 37 months.
- The urban CPI inflation rose to a 39-month high 5.1% in October 2019 from 4.8% in September 2019 while the rural CPI inflation increased considerably to a 16-month 4.3% from 3.2%, respectively, narrowing the wedge between these two sub-indices.



OVERVIEW

- The YoY CPI inflation hardened for the third month in a row to a 16-month high 4.6% in October 2019 (+3.4% in October 2018) from 3.99% in September 2019 (+3.7% in September 2018; refer Exhibit 1 and 2), led by the base effect as well as a sharp rise in food inflation. Moreover, the headline CPI inflation exceeded the midpoint of the MPC's medium-term inflation target of 4%+/-2% in October 2019, after a gap of 14 months, as well as our forecast (+4.0%).
- The uptick in the YoY CPI inflation in October 2019 relative to the previous month was primarily driven by a sharp increase in the inflation for food and beverages, led by vegetables. In addition, the YoY inflation for clothing and footwear recorded an uptick in October 2019 relative to September 2019, while the YoY disinflation for fuel and light narrowed during the month in sequential terms. In contrast, the YoY inflation for other sub-indices, namely, pan, tobacco and intoxicants, miscellaneous items and housing, recorded a sequential easing in October 2019.
- Partly reflecting the base effect, the YoY inflation for the food and beverages sub-index rose for the third month in a row to a 39-month high 6.9% in October 2019 (-0.1% in October 2018) from 4.7% in September 2019 (+1.0% in September 2018), outpacing the inflation recorded by the other sub-categories. The sequential uptick in the YoY inflation for food and beverages in October 2019 relative to September 2019 was primarily driven by a sharp rise in the inflation for vegetables (to +26.1% from +15.5%; refer Exhibit 3), and other perishables such as fruits (to +4.1% from +0.8%), as well as protein items such as pulses and products (to +11.7% from +8.4%), eggs (to +6.3% from +3.3%), and milk and products (to +3.1% from +1.7%). Moreover, other items such as spices (to +3.9% from +3.3%), cereals and products (to +2.2% from +1.7%), prepared meals, snacks, sweets (to +2.2% from +2.0%), oil and fats (to +2.0% from +1.1%), and sugar and confectionery (to +1.3% from -0.4%) recorded a rise in the YoY inflation in October 2019 relative to September 2019. In contrast, the YoY inflation for meat and fish, and non-alcoholic beverages moderated to 9.7% and 2.6%, respectively, in October 2019 from 10.3% and 3.2%, respectively, in September 2019. In month-on-month (MoM) terms, the food and beverages sub-index rose by a substantial 1.8% in October 2019, in sharp contrast to the MoM decline of 0.4% in October 2018 (refer Exhibit 4), led primarily by vegetables (+8.8% in October 2019; -0.4% in October 2018), as well as various other items.
- Further, the inflation for clothing and footwear (with a weight of 6.5% in the CPI) increased to 1.6% in October 2019 from 1.0% in September 2019, while remaining subdued. In MoM terms, the sub-index for clothing and footwear rose by 0.2% in October 2019, in contrast to the 0.5% dip in October 2018.
- Moreover, the YoY disinflation for fuel and light narrowed to 2.0% in October 2019 (+8.5% in October 2018) from 2.2% in September 2019 (+8.6% in September 2018). The fuel and light sub-index rose by 1.0% in MoM terms in October 2019, higher than the increase of 0.8% recorded in October 2018.
- In contrast, the inflation for miscellaneous items (with a weight of 28.3% in the CPI) recorded a broad-based and considerable easing to 3.4% in October 2019 (+6.7% in October 2018) from 4.5% in September 2019 (+5.6% in September 2018), partly led by the base effect. There was a sharp decline in the YoY inflation for healthcare (to +5.6% from +7.7%) and personal care and effects (to +5.5% from +6.7%) in October 2019 relative to the previous month, and more modest downticks in the same for transport and communication (to -0.5% from +0.1%), household goods and services (to +2.4% from +3.5%), recreation and amusement activities (to +5.0% from +5.1%),

and education (to +6.1% from +6.2%). On an MoM basis, the sub-index for miscellaneous items rose by a mild 0.2% in October 2019, considerably lower than the sharp 1.2% uptick in October 2018.

- Moreover, the inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) eased appreciably to 3.9% in October 2019 from 4.6% in September 2019. This sub-index rose by 0.4% in MoM terms in October 2019, lower than the substantial 1.0% increase in October 2018.
- Inflation for housing (with a weight of 10.1% in the CPI Index) softened mildly to 4.6% in October 2019 (+6.6% in October 2018) from 4.7% in September 2019 (+7.1% in September 2018). In MoM terms, the sub-index increased by 0.5% in October 2019, lower than the same in October 2018 (+0.7%).
- The core-CPI inflation dipped to a series-low 3.6% in October 2019 (+6.0% in October 2018) from 4.2% in September 2019 (+5.7% in September 2018; refer Exhibit 5), driven partly by a favourable base effect. On an MoM basis, this sub-index rose by 0.3% in October 2019, lower than the increase of 0.8% in October 2018. Notably, the headline CPI inflation exceeded the core-CPI inflation (by a considerable 100 bps) in October 2019, after a gap of 37 months.
- The urban CPI inflation rose to a 39-month high 5.1% in October 2019 from 4.8% in September 2019, driven by a significant uptick in food and beverages (to +9.0% from +7.6%) and to a mild extent, fuel and light (to -3.4% from -3.5%). In contrast, the YoY inflation eased in October 2019 relative to the previous month for housing (to +4.6% from +4.7%) and miscellaneous items (to +2.6% from +2.9%). In addition, the YoY inflation in October 2019 was in line with the previous month's print in the case of clothing and footwear (+3.0%) and pan, tobacco and intoxicants (+3.2%).
- The rural CPI inflation increased sharply to a 16-month high 4.3% in October 2019 from 3.2% in September 2019, led by food and beverages (to +5.8% from +3.0%). Further, the YoY inflation rose in the case of clothing and footwear (to +0.8% from -0.2%) and fuel and light (to -1.3% from -1.4%) in October 2019 in sequential months. In contrast, the YoY inflation softened for pan, tobacco and intoxicants (to +4.2% from +5.1%) and miscellaneous items (to +4.2% from +5.8%) in October 2019 relative to the previous month.
- The urban CPI inflation exceeded the rural CPI inflation for the sixteenth month in a row in October 2019.
- The buildup in the CPI inflation up to October 2019 stood at 4.8%, considerably higher than the buildup of 3.1% recorded up to October 2018.
- The final headline CPI inflation for September 2019 was retained at the initial level of 3.99%.

OUTLOOK

Retail prices of vegetables such as onions, potatoes and tomatoes have hardened further in the current month, which is likely to keep food inflation at relatively elevated levels in the immediate term. The pace of normalisation in vegetable prices will be the key driver of the trend in food inflation over the next few months. While heavy rainfall in the post-monsoon period seems to have delayed sowing, and led to the 15.0% YoY decline in the area sown under rabi crops as on November 8, 2019, the replenishment of reservoir and groundwater levels should support a pickup in the pace of rabi sowing in the coming weeks. The MSPs for rabi crops have been revised upwards by 4.6-7.3%, which would have a modest impact on the food inflation. At present, we expect the inflation for food and beverages to ease gradually, but remain higher than 4.0% in the remainder of FY2020.

Looking ahead, we expect the core-CPI inflation to inch up modestly from the level recorded in October 2019, as the favourable base effect wanes, but not breach the 4.0% mark in the remainder in this fiscal. Overall, the CPI inflation may continue to print higher than 4.0% in the remainder of FY2020, driven by inflation for food and beverages, and housing.

The sharp uptick in the CPI inflation in October 2019 has contrasted with the industrial contraction recorded in September 2019. In our view, the extent to which the Q2 FY2020 GDP growth reading eases further from the 5.0% recorded in the previous quarter, will influence the MPC's decision on whether to cut rates further, and by how much, in the December 2019 policy review.

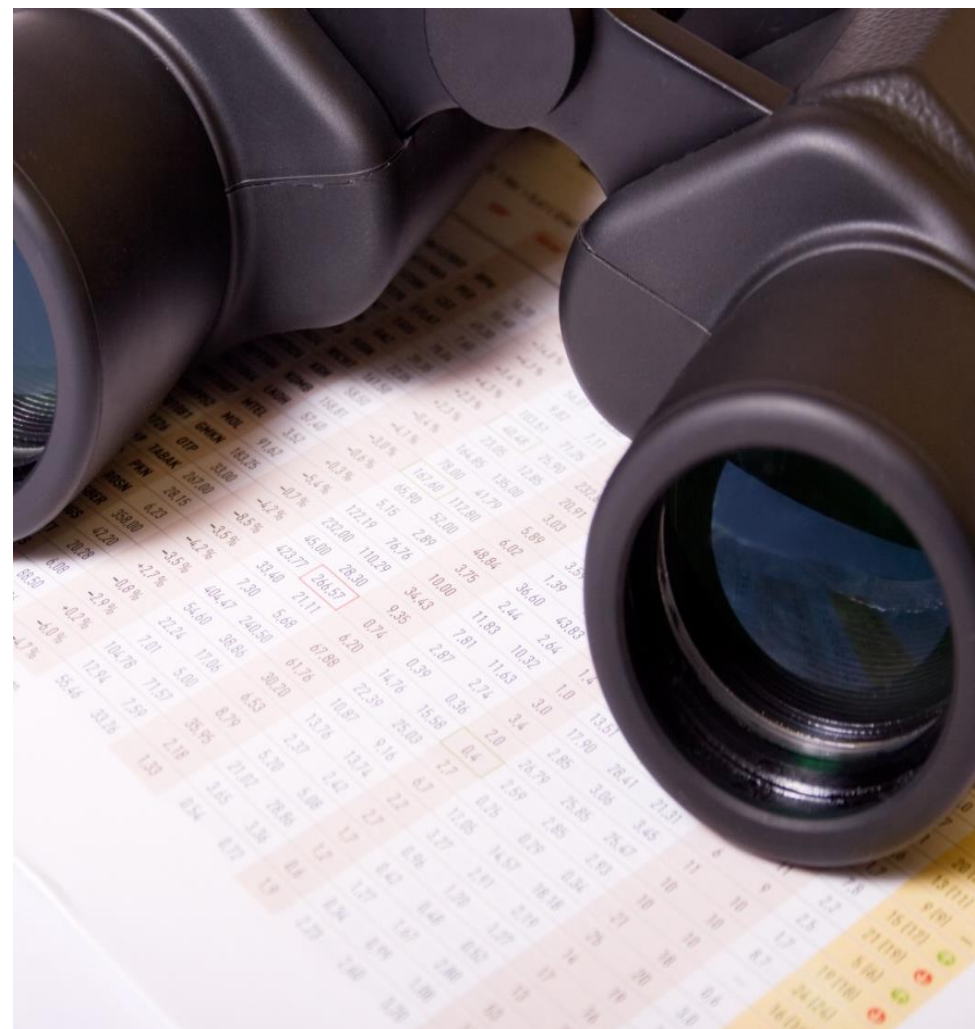
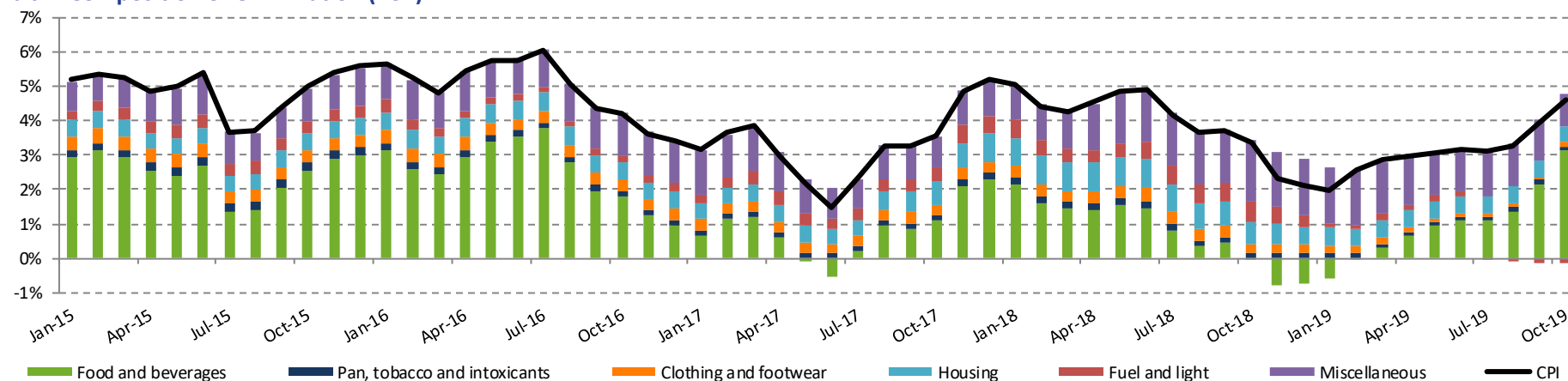


Exhibit 1: Trend in CPI Inflation (YoY)

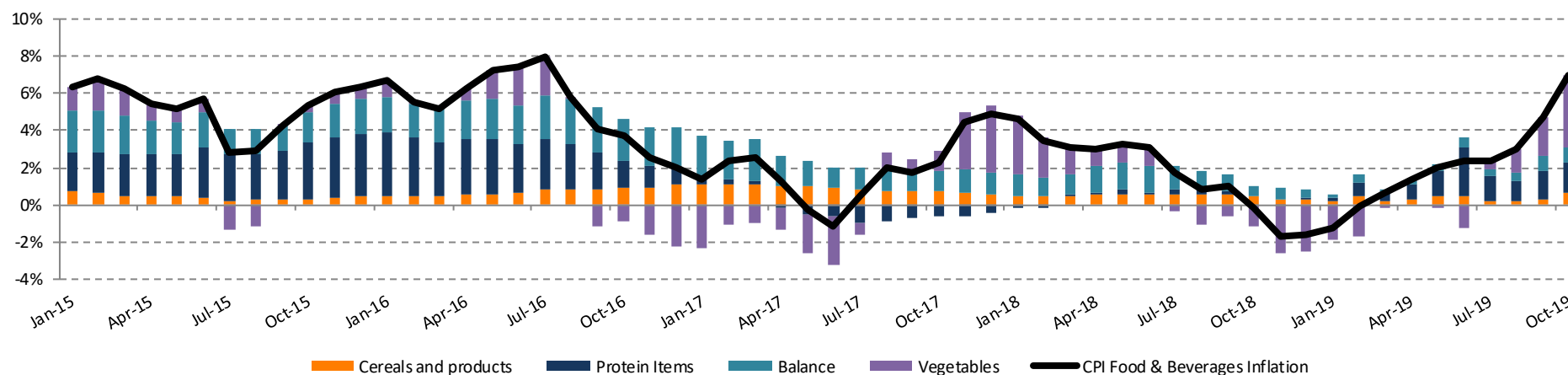
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		Aug -19	Sep-19	Sep-19	Oct-19	Oct-19	Oct-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	3.3%	4.0%	4.0%	4.6%	1.0%	4.8%
Food and beverages	45.86	3.0%	4.7%	4.7%	6.9%	1.8%	8.3%
Cereals and products	9.67	1.3%	1.7%	1.7%	2.2%	0.6%	2.9%
Meat and fish	3.61	8.5%	10.3%	10.3%	9.7%	0.1%	5.2%
Egg	0.43	0.3%	3.3%	3.3%	6.3%	2.1%	1.6%
Milk and products	6.61	1.5%	1.7%	1.7%	3.1%	0.6%	2.7%
Oils and fats	3.56	0.6%	1.1%	1.1%	2.0%	0.3%	1.6%
Fruits	2.89	-0.8%	0.8%	0.8%	4.1%	1.0%	7.6%
Vegetables	6.04	6.9%	15.4%	15.5%	26.1%	8.8%	42.1%
Pulses and products	2.38	6.9%	8.4%	8.4%	11.7%	0.7%	8.8%
Sugar and confectionary	1.36	-2.4%	-0.4%	-0.4%	1.3%	0.7%	4.6%
Spices	2.50	2.3%	3.3%	3.3%	3.9%	0.9%	4.2%
Pan, tobacco and intoxicants	2.38	5.0%	4.6%	4.6%	3.9%	0.4%	2.2%
Clothing and footwear	6.53	1.2%	1.0%	1.0%	1.6%	0.2%	1.0%
Housing	10.07	4.8%	4.7%	4.7%	4.6%	0.5%	2.7%
Fuel and light	6.84	-1.7%	-2.2%	-2.2%	-2.0%	1.0%	0.6%
Miscellaneous	28.32	4.7%	4.5%	4.5%	3.4%	0.2%	2.4%
Household goods and services	3.80	3.7%	3.5%	3.5%	2.4%	0.3%	0.8%
Health	5.89	7.8%	7.7%	7.7%	5.6%	0.3%	2.2%
Transport and communication	8.59	1.2%	0.1%	0.1%	-0.5%	0.2%	1.4%
Recreation and amusement	1.68	5.5%	5.1%	5.1%	5.0%	0.2%	2.8%
Education	4.46	6.1%	6.2%	6.2%	6.1%	0.1%	3.4%
Personal care and effects	3.89	6.4%	6.7%	6.7%	5.5%	0.2%	4.9%
CPI-Food	36.55	3.0%	5.1%	5.1%	7.9%	2.1%	9.7%
CPI-Core	44.97	4.4%	4.2%	4.2%	3.6%	0.3%	2.2%
CPI Rural		2.2%	3.2%	3.2%	4.3%	1.1%	5.0%
CPI Urban		4.5%	4.8%	4.8%	5.1%	0.9%	4.7%

*Buildup with reference to March 2019

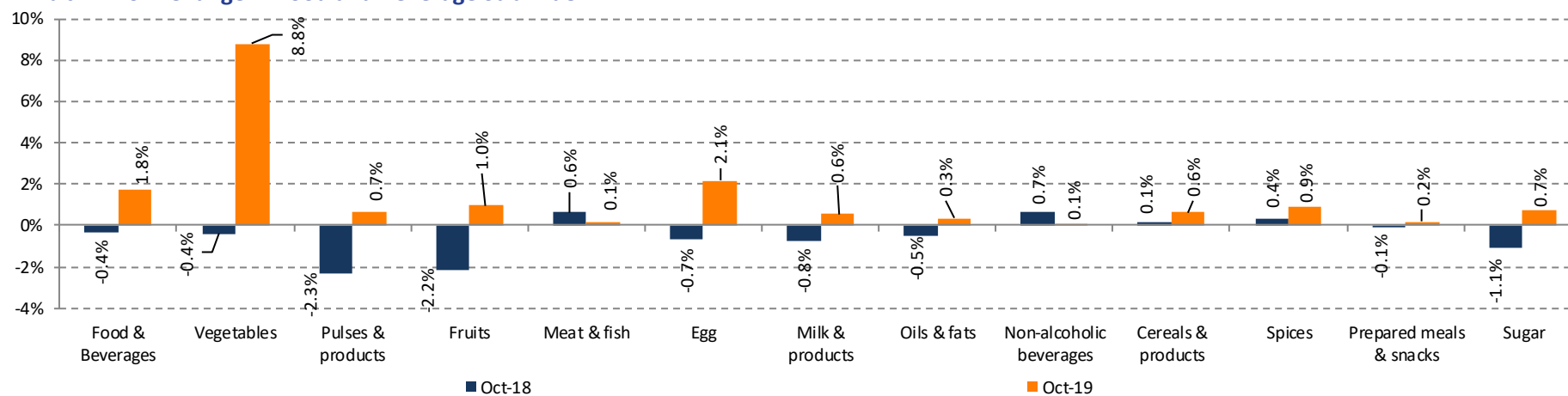
Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

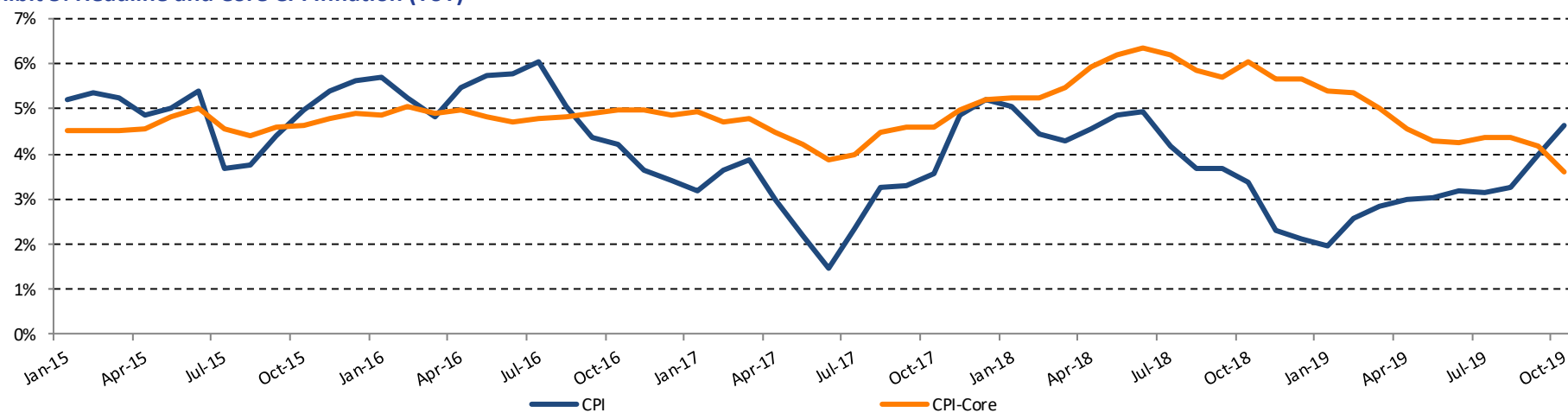
Source: CSO; CEIC; ICRA research

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

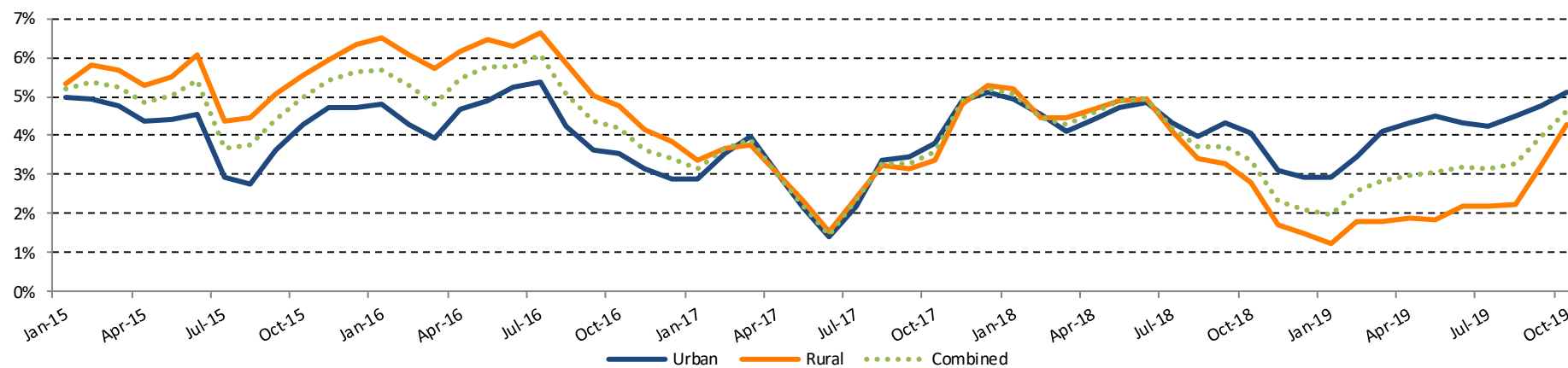
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

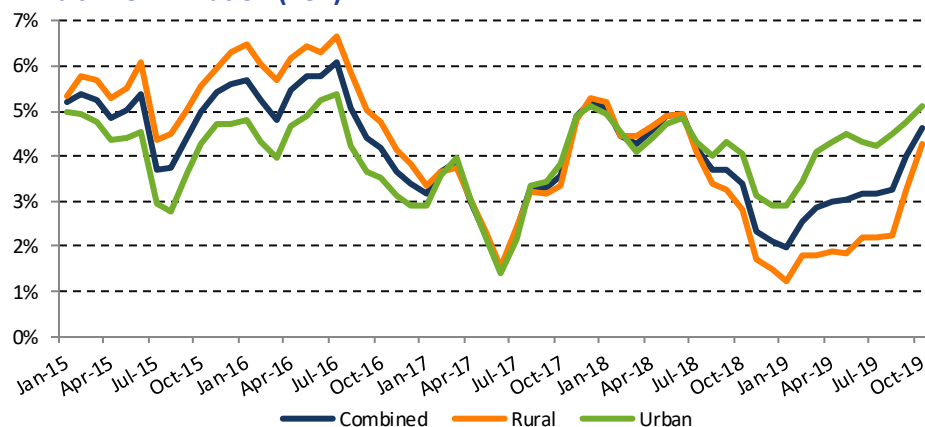
Source: CSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)

Source: CSO; CEIC; ICRA research

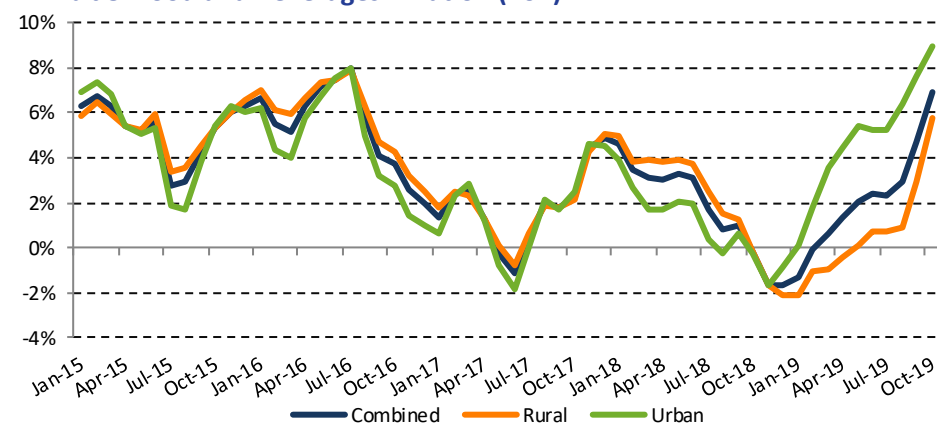
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



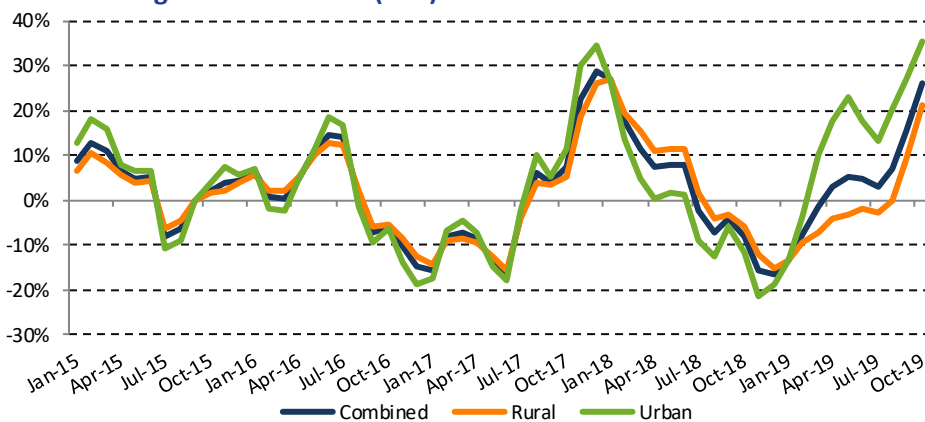
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



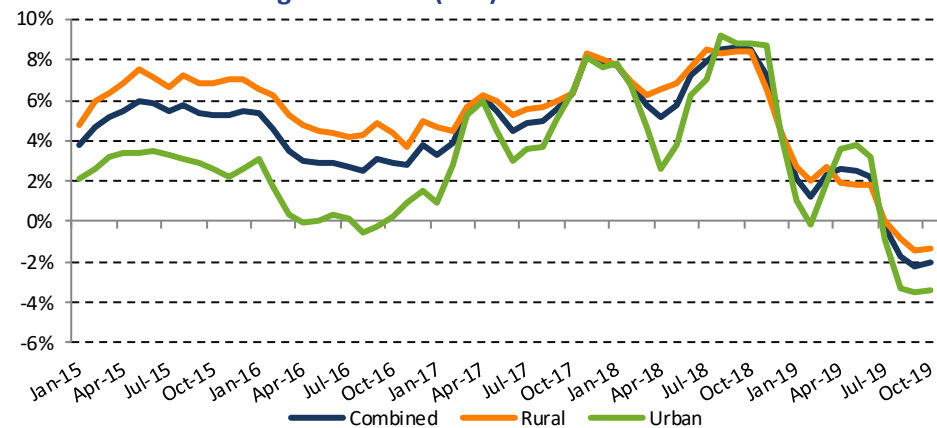
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

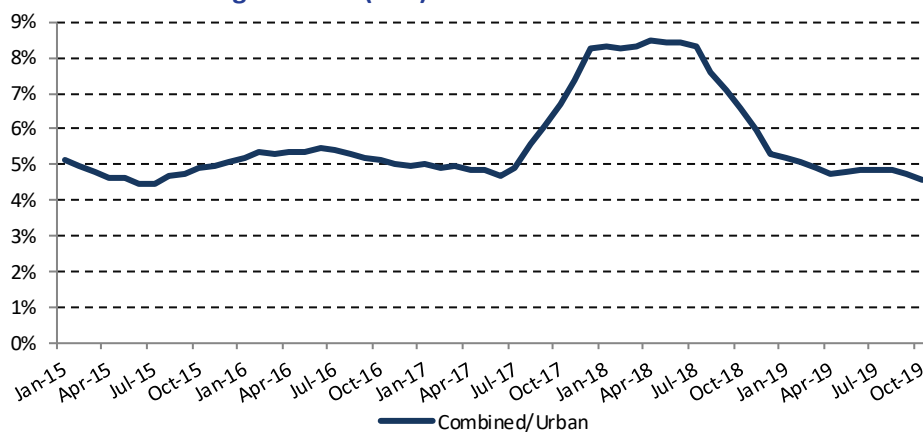


Source: CSO; CEIC; ICRA research

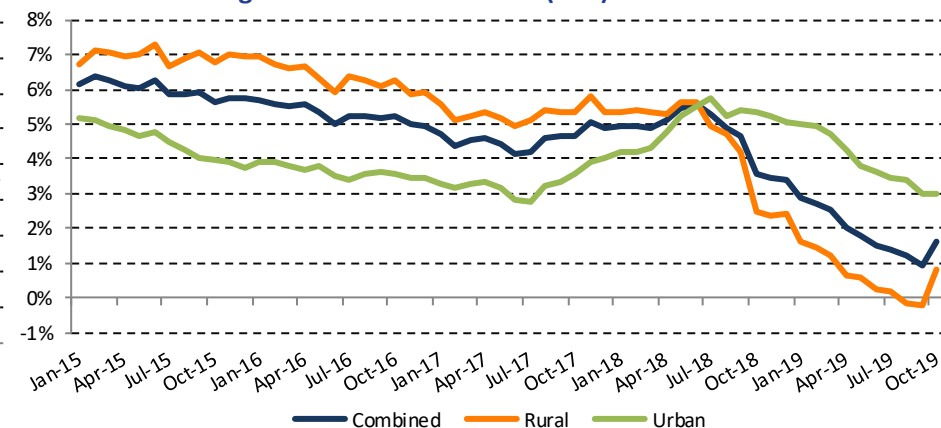
Exhibit 10: Fuel and Light Inflation (YoY)



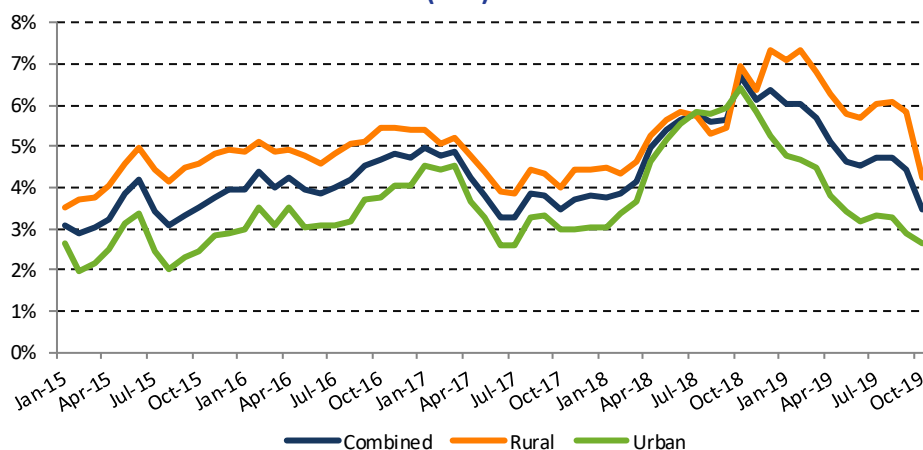
Source: CSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)

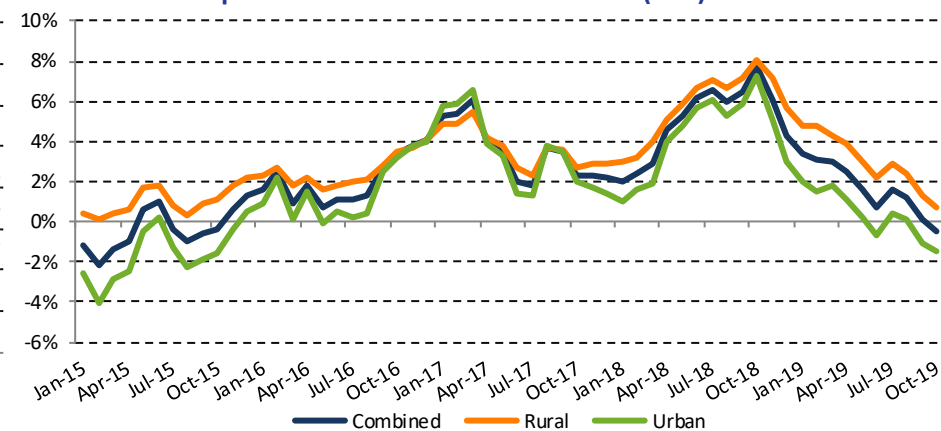
Source: CSO; CEIC; ICRA research

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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- 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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