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ICRA

CONSUMER PRICE INDEX NOVEMBER 2019

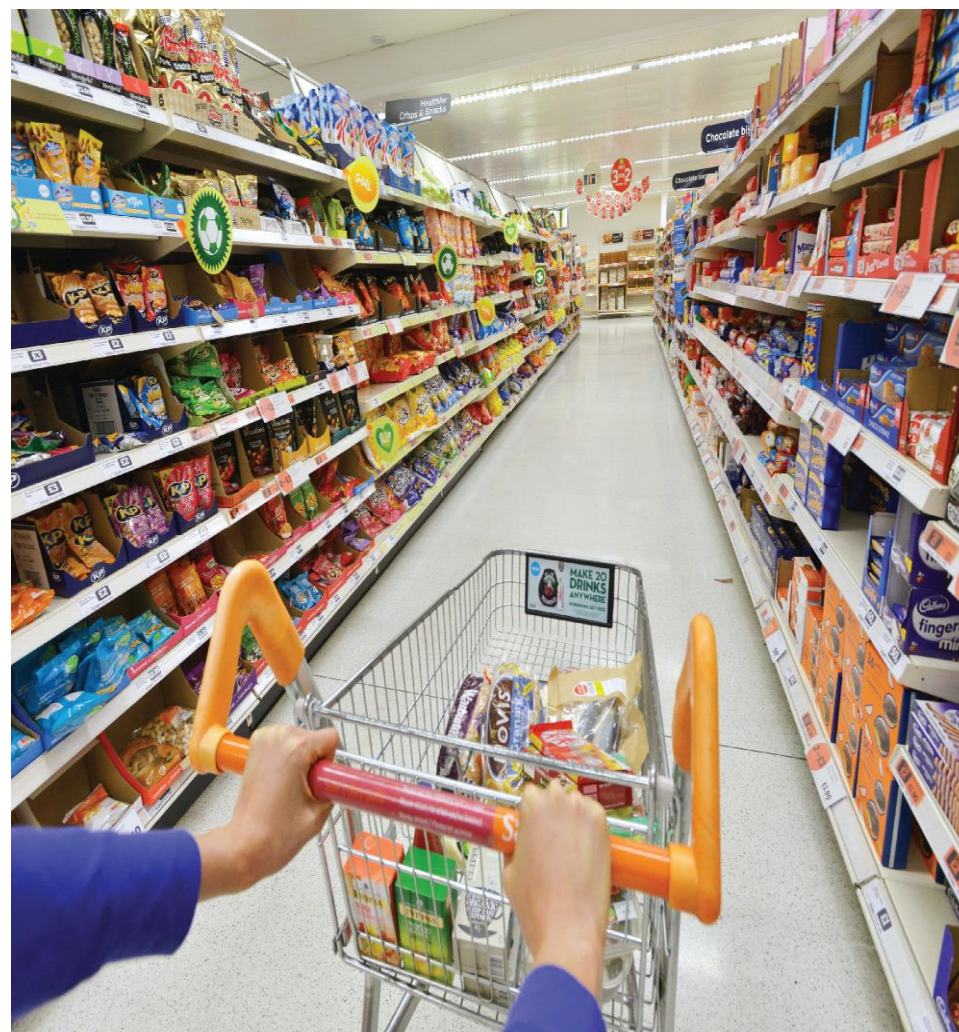
CPI inflation rose to a 40-month high 5.5% in November 2019, driven primarily by food and beverages

DECEMBER 2019



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation hardened to a 40-month high 5.5% in November 2019 from 4.6% in October 2019, breaching the mid-point of the Monetary Policy Committee's (MPC's) medium-term inflation target of 4%+/-2%, for the second consecutive month.
- The sharp uptick in the CPI inflation in November 2019 relative to the previous month was primarily driven by the increase in the inflation for food and beverages (to +8.7% from +6.9%), led by a spike in the YoY inflation for vegetables (to +36.0% from +26.1%), as well as more modest increases in the inflation for pulses and products (to +13.9% from +11.7%) and various other items.
- In addition, the YoY inflation for miscellaneous items recorded a sequential uptick to 3.7% in November 2019 from 3.4% in October 2019, while the YoY disinflation for fuel and light narrowed slightly to 1.9% from 2.0%, respectively.
- In contrast, the YoY inflation for the other sub-indices, namely, clothing and footwear (to +1.3% from +1.6%), pan, tobacco and intoxicants (to +3.3% from +3.9%), and housing (to +4.5% from +4.6%), recorded a sequential easing in November 2019.
- The core-CPI inflation (CPI excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles) remained unchanged at 3.6% in November 2019 relative to previous month, in line with the weak demand conditions prevailing in the economy.



OVERVIEW

- The YoY CPI inflation hardened for the fourth consecutive month, to a 40-month high 5.5% in November 2019 (+2.3% in November 2018) from 4.6% in October 2019 (+3.4% in October 2018; refer Exhibit 1 and 2), largely driven by a rise in food inflation (to +10.0% from +7.9%). Moreover, the headline CPI inflation exceeded the midpoint of the MPC's medium-term inflation target of 4% \pm 2% in November 2019, for the second consecutive month. The CPI inflation in November 2019 exceeded our forecast (+5.2%), on account of a higher-than-expected print for food and beverages.
- The sequential uptick in the YoY CPI inflation in November 2019 was primarily driven by a sharp rise in the inflation for food and beverages, led by vegetables. In addition, the YoY inflation for miscellaneous items recorded an uptick in November 2019 relative to October 2019, while the YoY disinflation for fuel and light narrowed mildly. In contrast, the YoY inflation for the other sub-indices, namely, pan, tobacco and intoxicants, clothing and footwear, and housing recorded a sequential easing in November 2019.
- Reflecting the base effect as well as the spike in the prices of vegetables, the YoY inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) rose for the fourth month in a row to a 64-month high 8.7% in November 2019 (-1.7% in November 2018) from 6.9% in October 2019 (-0.1% in October 2018), and outpaced the inflation recorded by the other sub-categories. The sequential uptick in the YoY inflation for food and beverages in November 2019 relative to October 2019, was primarily driven by a sharp rise in the inflation for vegetables (to a 71-month high +36.0% from +26.1%; refer Exhibit 3). Moreover, the YoY inflation for pulses and products (to +13.9% from +11.7%), spices (to +4.3% from +3.9%), cereals and products (to +3.7% from +2.2%), milk and products (to +3.5% from +3.1%), oils and fats (to +2.6% from +2.0%), and sugar and confectionery (to +2.1% from +1.3%) recorded a sequential uptick in November 2019. In contrast, the YoY inflation eased for meat and fish (to +9.4% from +9.7%), eggs (to +6.2% from +6.3%), prepared meals, snacks, sweets (to +1.9% from +2.2%), fruits (to +3.3% from +4.1%) as well as non-alcoholic beverages (to +1.3% from +2.6%) in November 2019 relative to October 2019. In month-on-month (MoM) terms, the food and beverages sub-index rose by a substantial 1.5% in November 2019, in contrast to the mild MoM decline of 0.1% in November 2018 (refer Exhibit 4), led chiefly by vegetables (+5.9% in November 2019; -1.8% in November 2018), as well as few other items.
- Further, the inflation for miscellaneous items (with a weight of 28.3% in the CPI) rose to 3.7% in November 2019 (+6.2% in November 2018) from a 27-month low 3.4% in October 2019 (+6.7% in October 2018), partly on account of the base effect. There was a considerable rise in the YoY inflation for personal care and effects (to +6.3% from +5.5%), and transport and communication (to +0.9% from -0.5%) in November 2019 relative to the previous month, in contrast to the sequential downticks in the same for healthcare (to +5.5% from +5.6%), household goods and services (to +2.2% from +2.4%), recreation and amusement activities (to +4.1% from +5.1%), and education (to +5.2% from +6.1%). On an MoM basis, the sub-index for miscellaneous items rose by a mild 0.2% in November 2019, while it had remained unchanged in November 2018.
- Moreover, the YoY disinflation for fuel and light (with a weight of 6.8% in the CPI) narrowed mildly to 1.9% in November 2019 (+7.2% in November 2018) from 2.0% in October 2019 (+8.5% in October 2018). The fuel and light sub-index increased by 1.2% in MoM terms in November 2019, slightly higher than the MoM uptick of 1.1% recorded in November 2018.

- In contrast, the inflation for clothing and footwear (with a weight of 6.5% in the CPI) eased to 1.3% in November 2019 from 1.6% in October 2019. In MoM terms, the sub-index for clothing and footwear rose by 0.3% in November 2019, considerably lower than the 0.6% rise in November 2018.
- In addition, the inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) moderated substantially to a series-low 3.3% in November 2019 from 3.9% in October 2019. This sub-index rose by 0.5% in MoM terms in November 2019, sharply lower than 1.1% increase in November 2018.
- Inflation for housing (with a weight of 10.1% in the CPI Index) softened to 4.5% in November 2019 (+6.0% in November 2018) from 4.6% in October 2019 (+6.6% in October 2018). In MoM terms, this sub-index rose by 0.3% in November 2019, slightly lower than the same in November 2018 (+0.4%).
- The core-CPI inflation remained unchanged at 3.6% in November 2019 (+5.7% in November 2018) relative to print recorded in October 2019 (+6.0% in October 2018; refer Exhibit 5), in line with the weak demand conditions prevailing in the economy. On an MoM basis, this sub-index rose by 0.3% in November 2019, in line with the trend in November 2018. The headline CPI inflation exceeded the core-CPI inflation for the second month in a row, by a considerable 199 bps, in November 2019.
- The urban CPI inflation hardened to a 63-month high 5.8% in November 2019 from 5.1% in October 2019, driven by a significant uptick in food and beverages (to +10.4% from +9.0%), and modest increases in miscellaneous items (to +3.1% from +2.6%), pan, tobacco and intoxicants (to +3.3% from +3.2%), and fuel and light (to -3.3% from -3.4%). In contrast, the YoY inflation eased in urban areas in November 2019 relative to the previous month in the case of housing (to +4.5% from +4.6%), and clothing and footwear (to +2.6% from +3.0%).
- Moreover, the rural CPI inflation increased considerably to 5.3% (a 23-month high) in November 2019 from 4.3% in October 2019, led chiefly by food and beverages (to +7.7% from +5.8%) and to a mild extent, miscellaneous items (to +4.3% from +4.2%). In contrast, the YoY inflation eased in rural areas in the case of clothing and footwear (to +0.5% from +0.8%) and pan, tobacco and intoxicants (to +3.3% from +4.2%) in November 2019 in sequential terms. In addition, the YoY disinflation for fuel and light (-1.3%) remained unchanged in November 2019 at the level recorded in the previous month.
- The urban CPI inflation exceeded rural CPI inflation for the seventeenth month in a row in November 2019, although the gap between the two narrowed considerably.
- The buildup in the CPI inflation up to November 2019 stood at 5.8%, significantly higher than the buildup of 3.2% recorded up to November 2018.
- The final headline CPI inflation for October 2019 was retained at the initial level of 4.6%.

OUTLOOK

Retail prices of vegetables have displayed a mixed trend in the current month, with a further sharp uptick for onions, offset by an MoM decline for tomatoes. The pace of normalisation in vegetable prices will be a key driver of the trend in food inflation over the next few months. The catch up in rabi sowing led by wheat, rice and coarse cereals has brightened the outlook for agricultural output and prices of these crops. Moreover, healthy groundwater and reservoir levels should support a rapid pace of sowing in the rest of this month, and boost crop yields. However, the YoY decline in the area sown under rabi pulses and oilseeds as on December 6, 2019 poses a concern, given the high inflation being recorded by some of these items. At present, we expect the inflation for food and beverages to remain relatively sticky in December 2019, and then ease substantially in January 2020, while remaining higher than 4.0% in H1 CY2020.

The core-CPI inflation is set to rise sharply in December 2019 following the revision in telecom tariffs. Any revision in GST rates to boost revenue collections, could also add to overall inflationary pressures over the next quarter.

ICRA expects the CPI inflation to harden further to 5.8-6.0% in December 2019, close to the upper threshold of the MPC's medium term target, driven by the recent revision in telecom tariffs. As a result, we expect the Committee to remain on hold in its February 2020 monetary policy review.

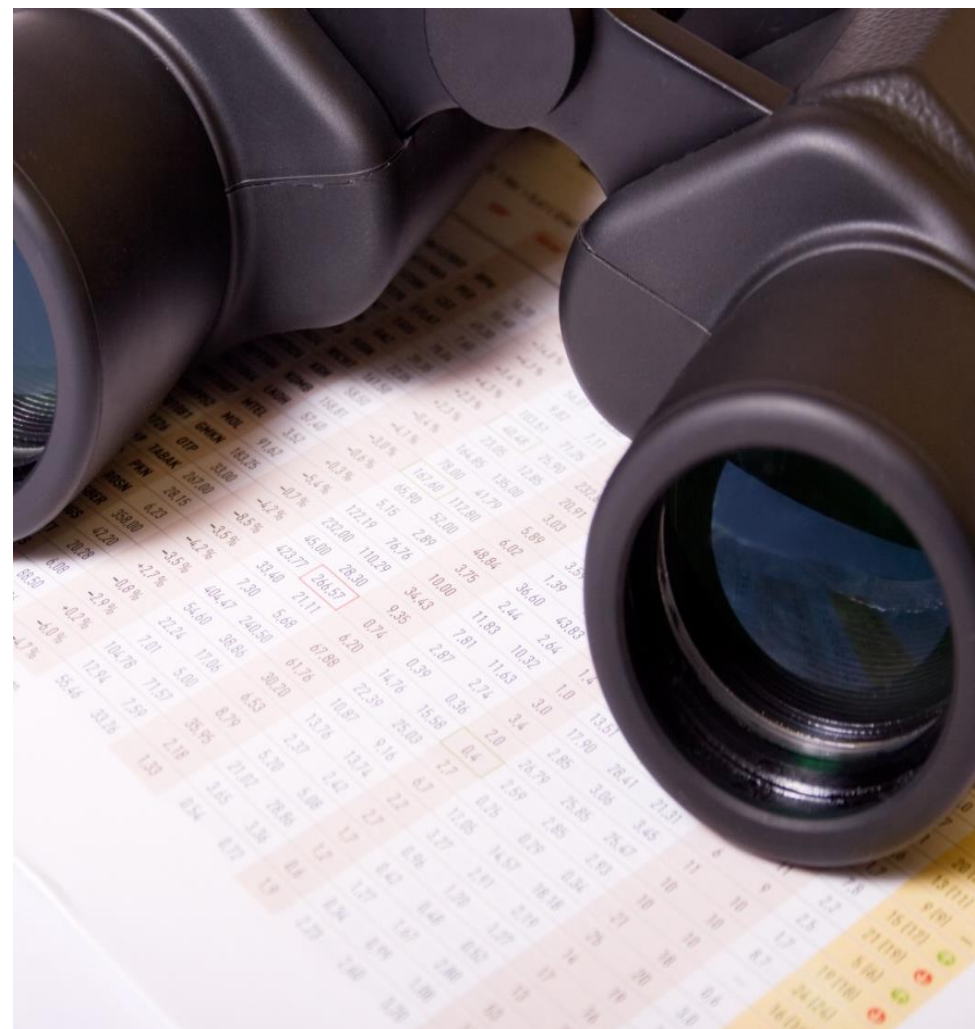
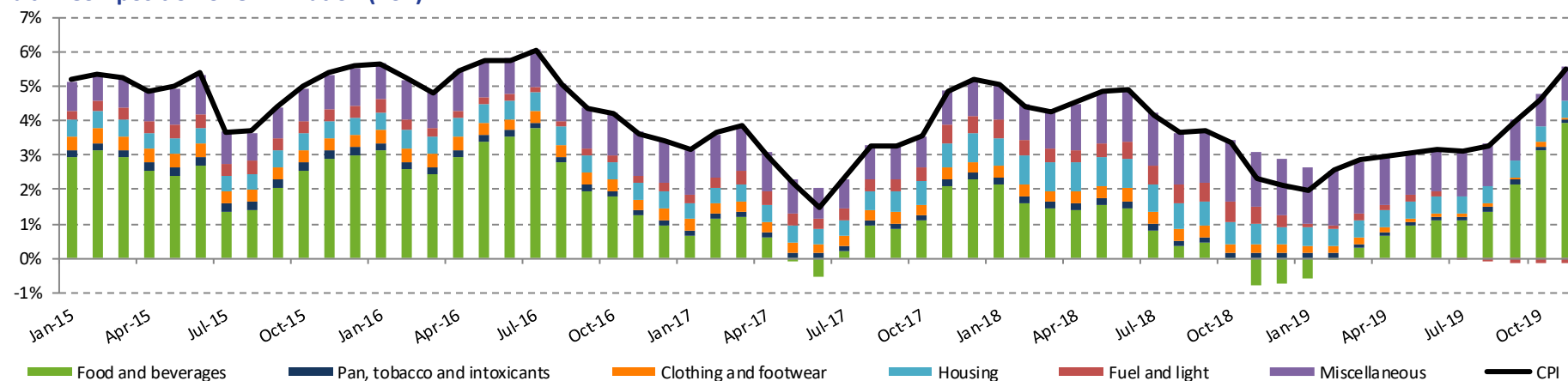


Exhibit 1: Trend in CPI Inflation (YoY)

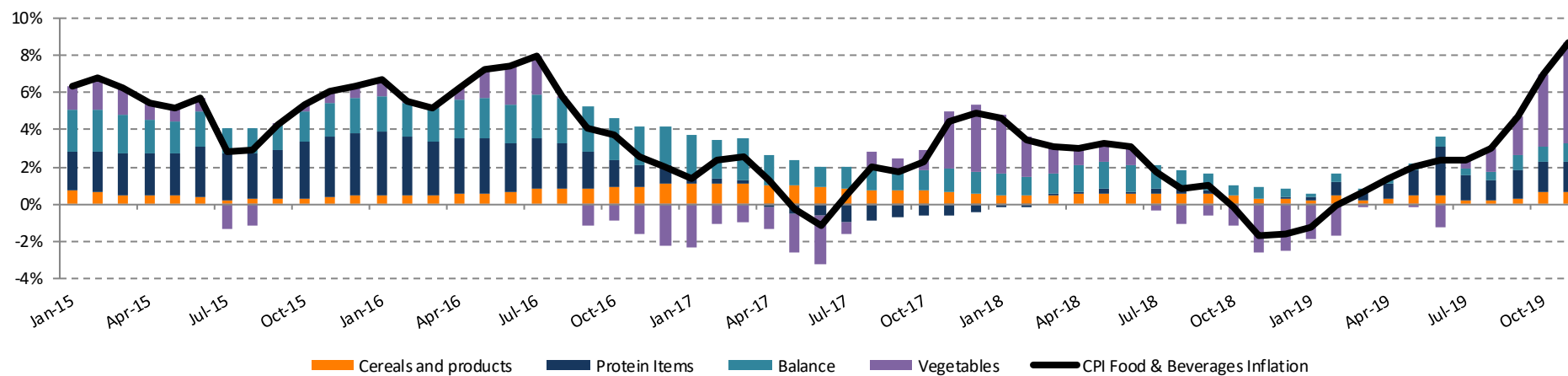
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		Sep-19	Oct-19	Oct-19	Nov-19	Nov-19	Nov-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	4.0%	4.6%	4.6%	5.5%	1.0%	5.8%
Food and beverages	45.86	4.7%	6.9%	6.9%	8.7%	1.5%	9.9%
Cereals and products	9.67	1.7%	2.2%	2.2%	3.7%	0.5%	3.4%
Meat and fish	3.61	10.3%	9.7%	9.7%	9.4%	1.4%	6.7%
Egg	0.43	3.3%	6.3%	6.3%	6.2%	2.1%	3.8%
Milk and products	6.61	1.7%	3.1%	3.1%	3.5%	0.3%	3.1%
Oils and fats	3.56	1.1%	2.0%	2.0%	2.6%	0.3%	1.9%
Fruits	2.89	0.8%	4.1%	4.1%	3.3%	-0.3%	7.2%
Vegetables	6.04	15.5%	26.1%	26.1%	36.0%	5.9%	50.5%
Pulses and products	2.38	8.4%	11.7%	11.7%	13.9%	2.4%	11.4%
Sugar and confectionary	1.36	-0.4%	1.3%	1.3%	2.1%	0.2%	4.8%
Spices	2.50	3.3%	3.9%	3.9%	4.3%	1.1%	5.4%
Pan, tobacco and intoxicants	2.38	4.6%	3.9%	3.9%	3.3%	0.5%	2.7%
Clothing and footwear	6.53	1.0%	1.6%	1.6%	1.3%	0.3%	1.3%
Housing	10.07	4.7%	4.6%	4.6%	4.5%	0.3%	3.0%
Fuel and light	6.84	-2.2%	-2.0%	-2.0%	-1.9%	1.2%	1.9%
Miscellaneous	28.32	4.5%	3.4%	3.4%	3.7%	0.2%	2.6%
Household goods and services	3.80	3.5%	2.4%	2.4%	2.2%	0.2%	1.0%
Health	5.89	7.7%	5.6%	5.6%	5.5%	0.3%	2.5%
Transport and communication	8.59	0.1%	-0.5%	-0.5%	0.9%	0.2%	1.6%
Recreation and amusement	1.68	5.1%	5.0%	5.1%	4.1%	0.3%	3.2%
Education	4.46	6.2%	6.1%	6.1%	5.2%	0.1%	3.5%
Personal care and effects	3.89	6.7%	5.5%	5.5%	6.3%	0.2%	5.2%
CPI-Food	36.55	5.1%	7.9%	7.9%	10.0%	1.7%	11.6%
CPI-Core	44.97	4.2%	3.6%	3.6%	3.6%	0.3%	2.5%
CPI Rural		3.2%	4.3%	4.3%	5.3%	1.1%	6.2%
CPI Urban		4.8%	5.1%	5.1%	5.8%	0.7%	5.4%

*Buildup with reference to March 2019

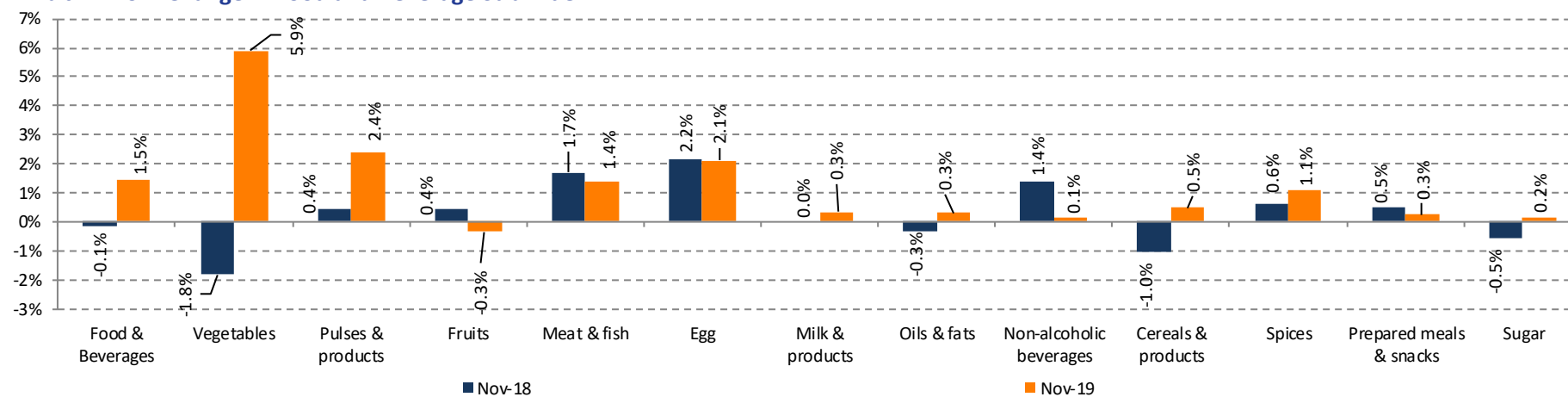
Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

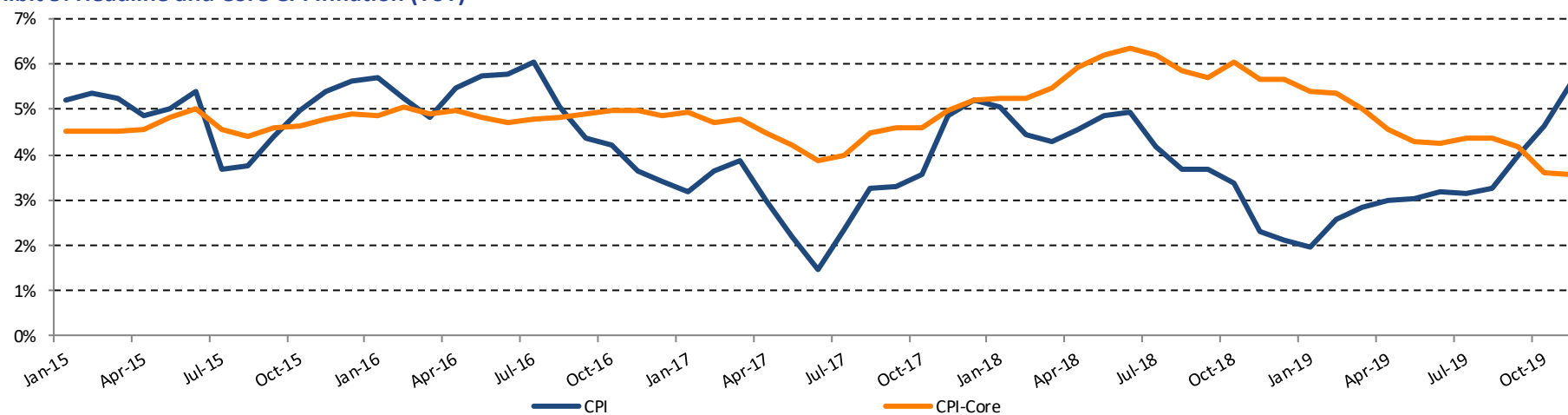
Source: CSO; CEIC; ICRA research

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

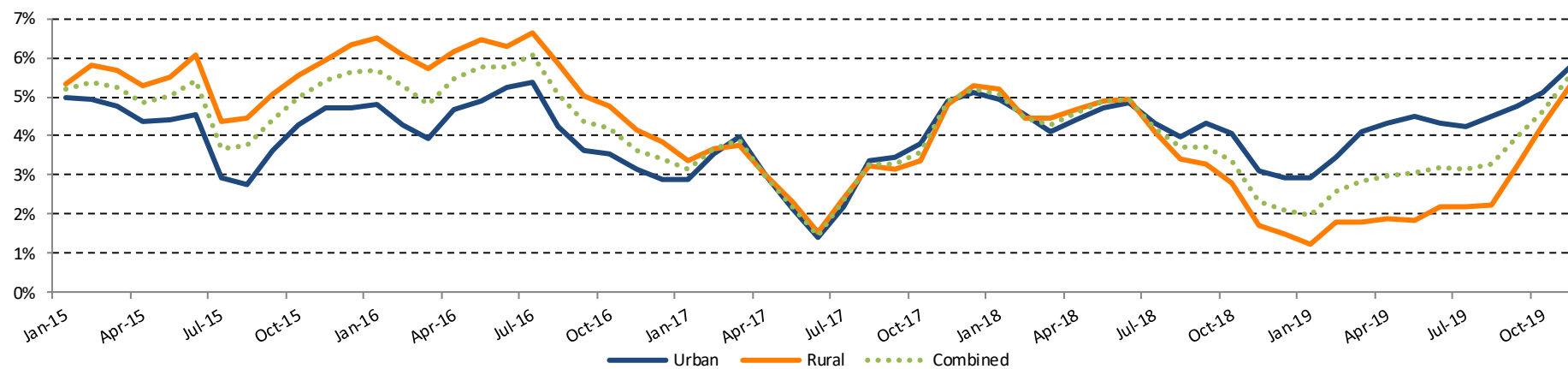
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

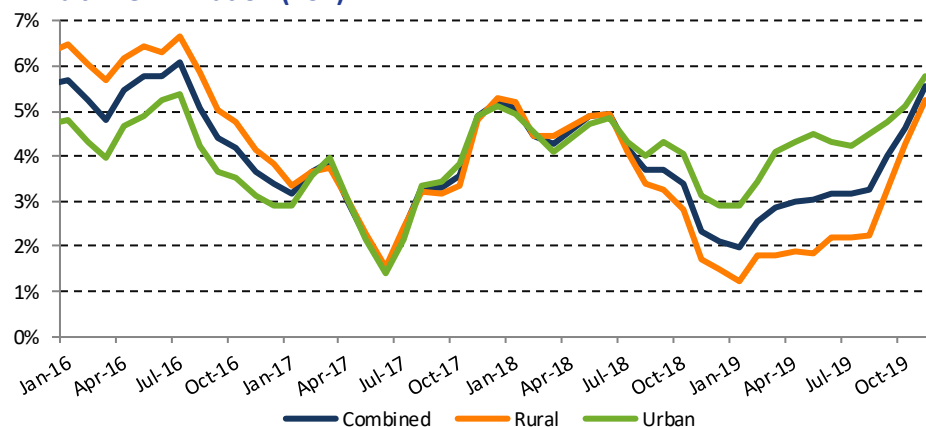
Source: CSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)

Source: CSO; CEIC; ICRA research

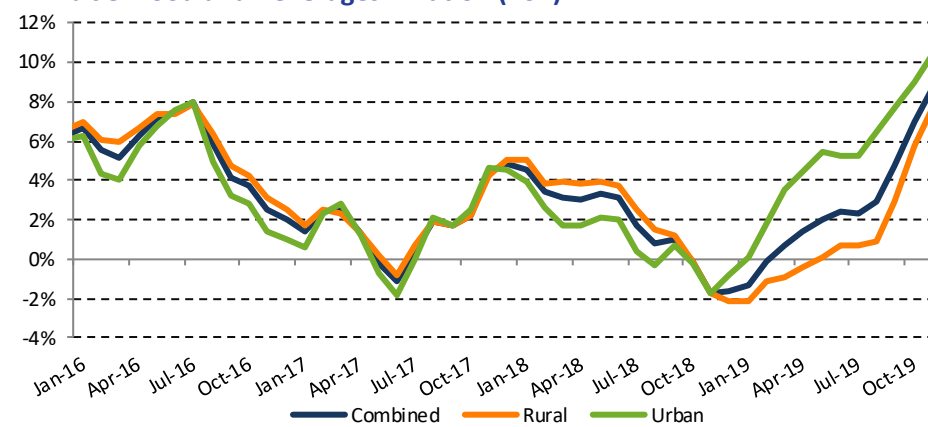
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



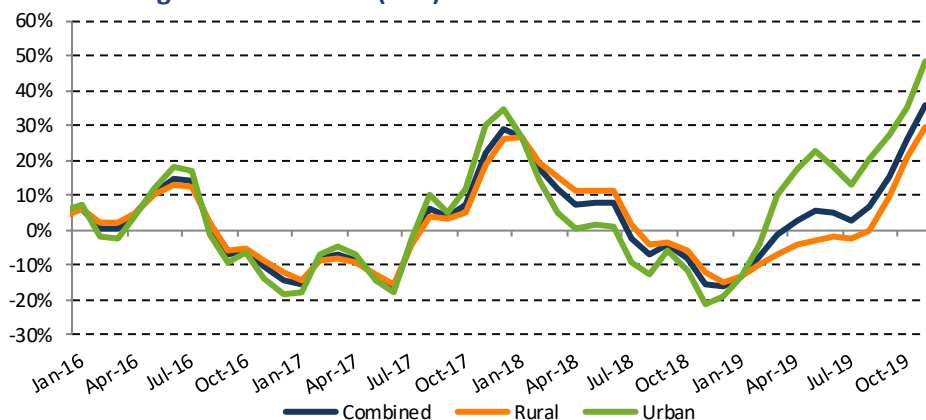
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



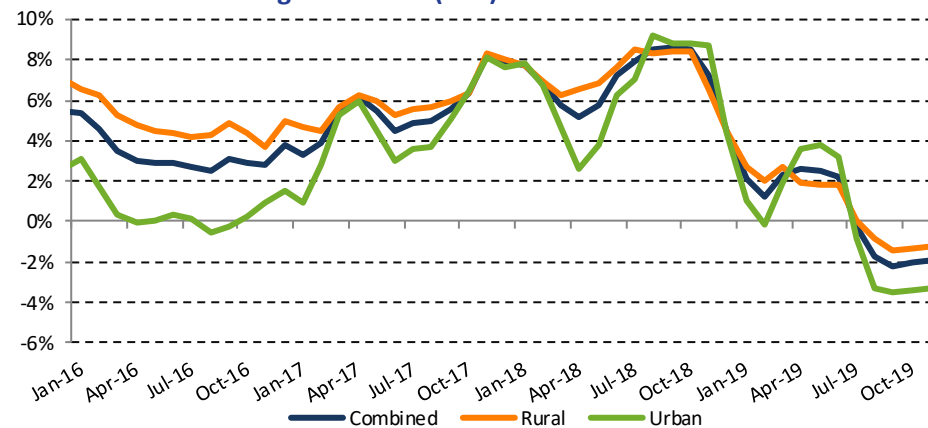
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

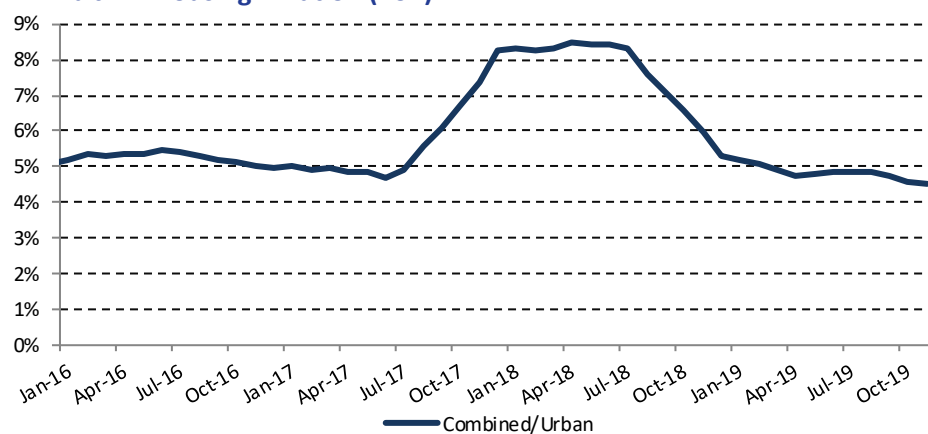


Source: CSO; CEIC; ICRA research

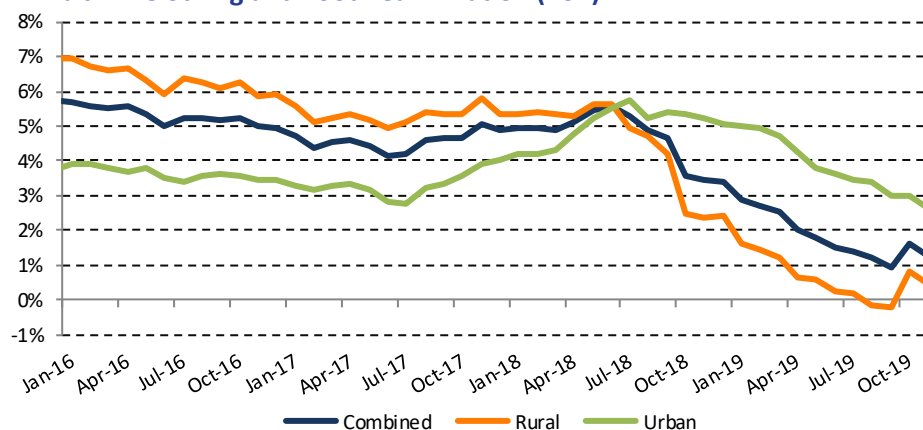
Exhibit 10: Fuel and Light Inflation (YoY)



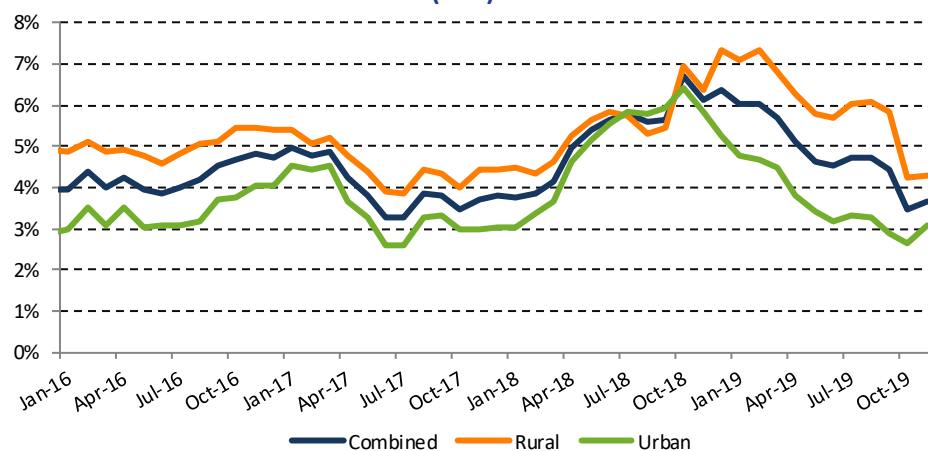
Source: CSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)

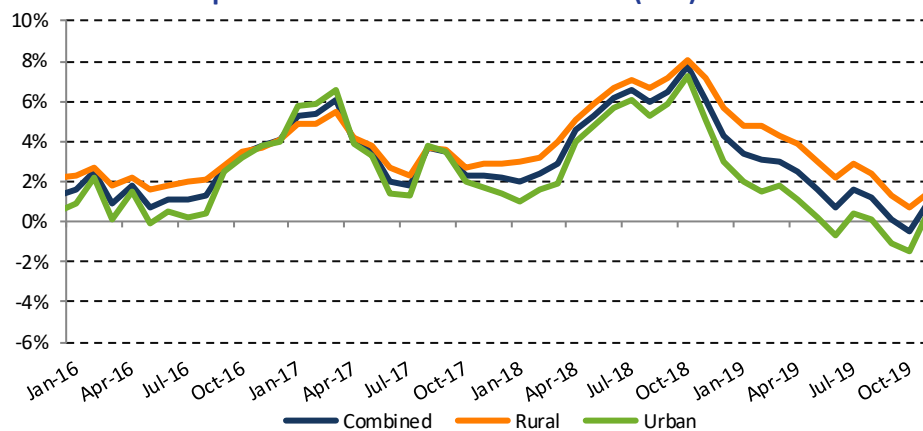
Source: CSO; CEIC; ICRA research

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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- 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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