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CONSUMER PRICE INDEX DECEMBER 2019

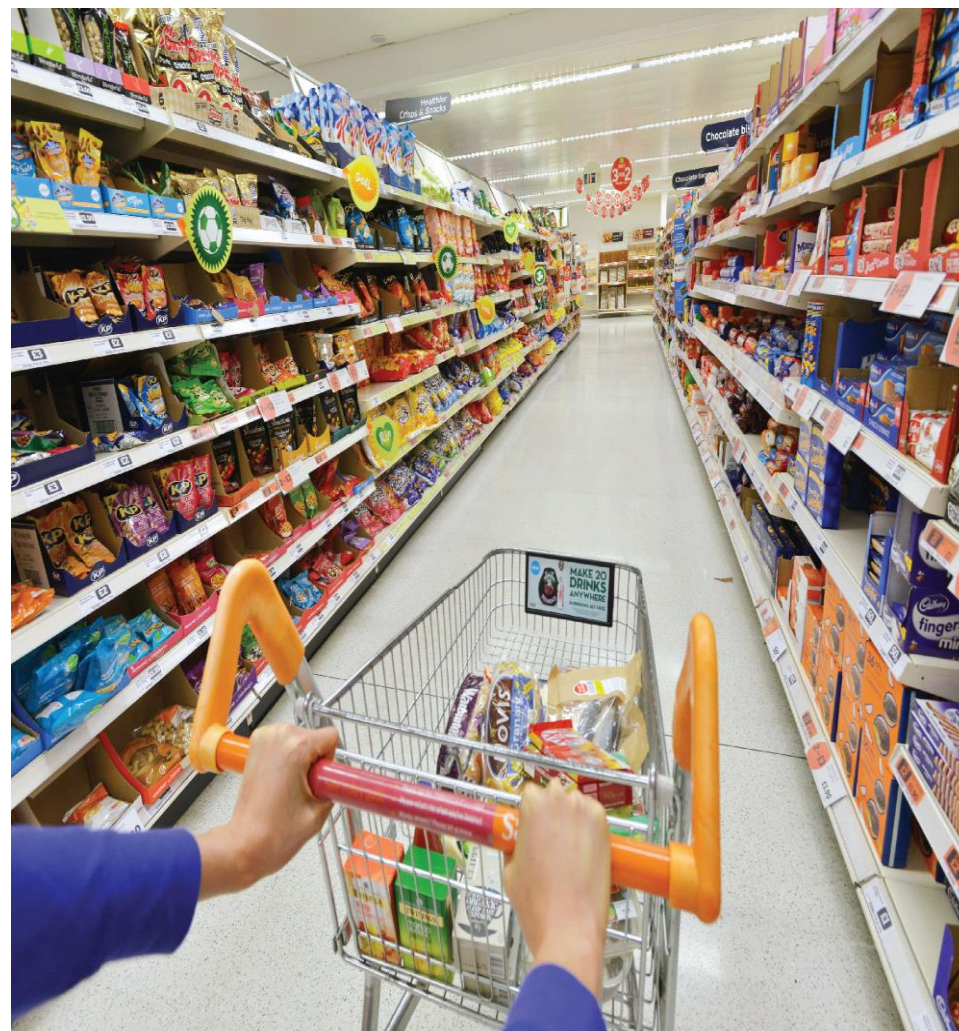
CPI inflation surged to a 65-month high 7.4% in December 2019, driven primarily by food and beverages

JANUARY 2020



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation hardened for the fifth month in a row, to a 65-month high 7.4% in December 2019 from 5.5% in November 2019, breaching the upper threshold of the Monetary Policy Committee's (MPC's) medium-term inflation target of 4%+/-2% after a gap of 40 months.
- The sharp uptick in the CPI inflation in December 2019 relative to the previous month was primarily driven by the increase in the inflation for food and beverages (to +12.2% from +8.7%), led by a spike in the YoY inflation for vegetables (to +60.5% from +36.1%), as well as more modest increases in the inflation for various other categories of the sub-index, particularly protein items.
- In addition, the YoY inflation for miscellaneous items (to +4.1% from +3.7%; driven partly by the impact of higher telecom tariffs on transport and communication), clothing and footwear (to +1.5% from +1.3%), and pan, tobacco and intoxicants (to +3.4% from +3.3%) recorded a sequential uptick in December 2019. Further, the fuel and light sub-index recorded a mild YoY inflation (+0.7%) in December 2019, in contrast to the YoY disinflation (-1.9%) during the previous month.
- In contrast, the YoY inflation for housing (to +4.3% from +4.5%) recorded a sequential easing in December 2019.
- The core-CPI inflation (CPI excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles) rose to 3.7% in December 2019 from 3.6% in November 2019.



OVERVIEW

- The YoY CPI inflation hardened for the fifth consecutive month, to a 65-month high 7.4% in December 2019 (+2.1% in December 2018) from 5.5% in November 2019 (+2.3% in November 2018; refer Exhibit 1 and 2), largely driven by a rise in food inflation (to +14.1% from +10.0%). Moreover, the headline CPI inflation exceeded the upper threshold of the MPC's medium-term inflation target of 4%+/-2% in December 2019 after a gap of 40 months. The CPI inflation in December 2019 exceeded our forecast (+6.7%), primarily on account of a higher-than-expected print for food and beverages.
- The sequential uptick in the YoY CPI inflation in December 2019 was primarily driven by a further sharp rise in the inflation for food and beverages, led by vegetables. In addition, the YoY inflation recorded an uptick in December 2019 relative to November 2019 in the case of miscellaneous items (led by transport and communication), pan, tobacco and intoxicants, and clothing and footwear. Moreover, the fuel and light sub-index recorded a YoY inflation in December 2019, in contrast to the YoY disinflation in the previous month. In contrast, the YoY inflation for the housing sub-index recorded a sequential easing in December 2019.
- The YoY inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) rose for the fifth month in a row to a 72-month high 12.2% in December 2019 (-1.6% in December 2018) from 8.7% in November 2019 (-1.7% in November 2018), and outpaced the inflation recorded by the other sub-categories by a wide margin. The sequential uptick in the YoY inflation for food and beverages in December 2019 relative to November 2019, was primarily driven by a sharp rise in the inflation for vegetables (to a 73-month high +60.5% from +36.1%, led by onions and tomatoes; refer Exhibit 3). Moreover, the YoY inflation for all the other categories of this sub-index, namely, pulses and products (to +15.4% from +13.9%), spices (to +5.8% from +4.3%), cereals and products (to +4.4% from +3.7%), milk and products (to +4.2% from +3.5%), oils and fats (to +3.1% from +2.6%), sugar and confectionery (to +3.4% from +2.1%), meat and fish (to +9.6% from +9.4%), eggs (to +8.8% from +6.2%), prepared meals, snacks, sweets (to +2.2% from +1.9%), fruits (to +4.4% from +3.2%) and non-alcoholic beverages (to +1.4% from +1.3%), recorded a sequential uptick in December 2019. In month-on-month (MoM) terms, the food and beverages sub-index rose by an unseasonal 2.0% in December 2019, in contrast to the MoM decline of 1.1% in December 2018 (refer Exhibit 4), led chiefly by vegetables (+8.7% in December 2019; -7.8% in December 2018), as well as few other items.
- Additionally, the inflation for miscellaneous items (with a weight of 28.3% in the CPI) rose to 4.1% in December 2019 (+6.4% in December 2018) from 3.7% in November 2019 (+6.2% in November 2018). This was driven by a considerable rise in the YoY inflation for transport and communication (to +4.8% from +0.9%) in December 2019 relative to the previous month, led partly by the impact of revised telecom tariffs. In contrast, the inflation for healthcare (to +3.8% from +5.5%), household goods and services (to +1.7% from +2.2%), recreation and amusement activities (to +4.0% from +4.1%), and education (to +3.7% from +5.2%) eased in December 2019 relative to the previous month. Further, the YoY inflation for personal care and effects (+6.3%) remained unchanged in December 2019 at the level recorded in the previous month. On an MoM basis, the sub-index for miscellaneous items rose by 0.8% in December 2019, higher than the same in December 2018 (+0.4%).
- Moreover, the fuel and light sub-index (with a weight of 6.8% in the CPI) recorded a mild YoY inflation of 0.7% in December 2019 (+4.5% in December 2018), in contrast to the YoY disinflation of 1.9% in November 2019 (+7.2% in November 2018). The fuel and light sub-index increased by a substantial 1.0% in MoM terms in December 2019, in contrast to the significant MoM decline of 1.7% recorded in December 2018.

- Further, the inflation for clothing and footwear (with a weight of 6.5% in the CPI) rose to 1.5% in December 2019 from 1.3% in November 2019. In MoM terms, the sub-index for clothing and footwear increased by 0.3% in December 2019, higher than the mild 0.1% rise in December 2018.
- In addition, the inflation pertaining to pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) rose mildly to 3.4% in December 2019 from 3.3% in November 2019. This sub-index rose by 0.4% in MoM terms in December 2019, higher than 0.2% increase in December 2018.
- In contrast, the inflation for housing (with a weight of 10.1% in the CPI Index) softened to 4.3% in December 2019 (+5.3% in December 2018) from 4.5% in November 2019 (+6.0% in November 2018). In MoM terms, the decline in the sub-index in December 2019 (-0.5%) was sharper than the same in December 2018 (-0.3%).
- The core-CPI inflation rose mildly to 3.7% in December 2019 (+5.7% in December 2018) from 3.6% in November 2019 (+5.7% in November 2018; refer Exhibit 5). On an MoM basis, this sub-index rose by 0.4% in December 2019, mildly higher than the same in December 2018 (+0.3%). Notably, the headline CPI inflation exceeded the core-CPI inflation for the third month in a row, by a considerable 367 bps, in December 2019.
- The urban CPI inflation hardened to a 67-month high 7.5% in December 2019 from 5.8% in November 2019, driven by a significant uptick in food and beverages (to +13.6% from +10.4%), and more modest increases in miscellaneous items (to +4.5% from +3.1%), pan, tobacco and intoxicants (to +3.5% from +3.3%), clothing and footwear (to +2.7% from +2.6%) and fuel and light (to +0.9% from -3.3%). In contrast, the YoY inflation eased in urban areas in November 2019 relative to the previous month in the case of housing (to +4.3% from +4.5%).
- Moreover, the rural CPI inflation increased considerably to 7.3% (a 64-month high) in December 2019 from 5.3% in November 2019, led chiefly by food and beverages (to +11.4% from +7.8%), as well as fuel and light (to +0.5% from -1.3%) and clothing and footwear (to +0.7% from +0.5%). In contrast, the YoY inflation eased in rural areas in the case of miscellaneous items (to +3.8% from +4.3%) in December 2019 in sequential terms. In addition, the YoY inflation for pan, tobacco and intoxicants (+3.3%) remained unchanged in December 2019 at the level recorded in the previous month.
- The urban CPI inflation exceeded rural CPI inflation for the eighteenth month in a row in December 2019, although the gap between the two narrowed considerably.
- The buildup in the CPI inflation up to December 2019 stood at 7.1%, significantly higher than the buildup of 2.6% recorded up to December 2018.
- The final headline CPI inflation for November 2019 was retained at the initial level of 5.5%.

OUTLOOK

Retail prices of vegetables have displayed a mixed trend in the current month, with an MoM decline for onions and tomatoes, amid a further uptick for potatoes. The pace of moderation in vegetable prices in the second half of the month will drive the extent of correction in food inflation in January 2020. However, the prices of pulses may remain elevated in the coming months, despite the favourable outlook for the rabi crop. Stickiness in prices of protein items may provide a floor to food inflation going forward, even once vegetable prices correct to seasonally appropriate levels. Overall, we expect the inflation for food and beverages to remain higher than 4.0% in H1 CY2020.

The impact of the rise in telecom tariffs is likely to keep the core-CPI inflation sticky going forward. In addition, the revision in rail fares, uptick in prices of some categories of automobiles as well as an unfavourable base effect, may contribute to a further uptick in the core inflation to around 4.0% in the ongoing month.

Even though we expect the headline CPI inflation to correct sharply in January 2020 and further in February 2020, from the high 7.35% recorded in December 2019, it is expected to remain sticky above 4.3% in the next few quarters. Moreover, the concerns surrounding a higher core inflation trajectory are likely to be adequate for the MPC to remain on hold in its February 2020 policy review, along with a possible change in stance from accommodative to neutral.

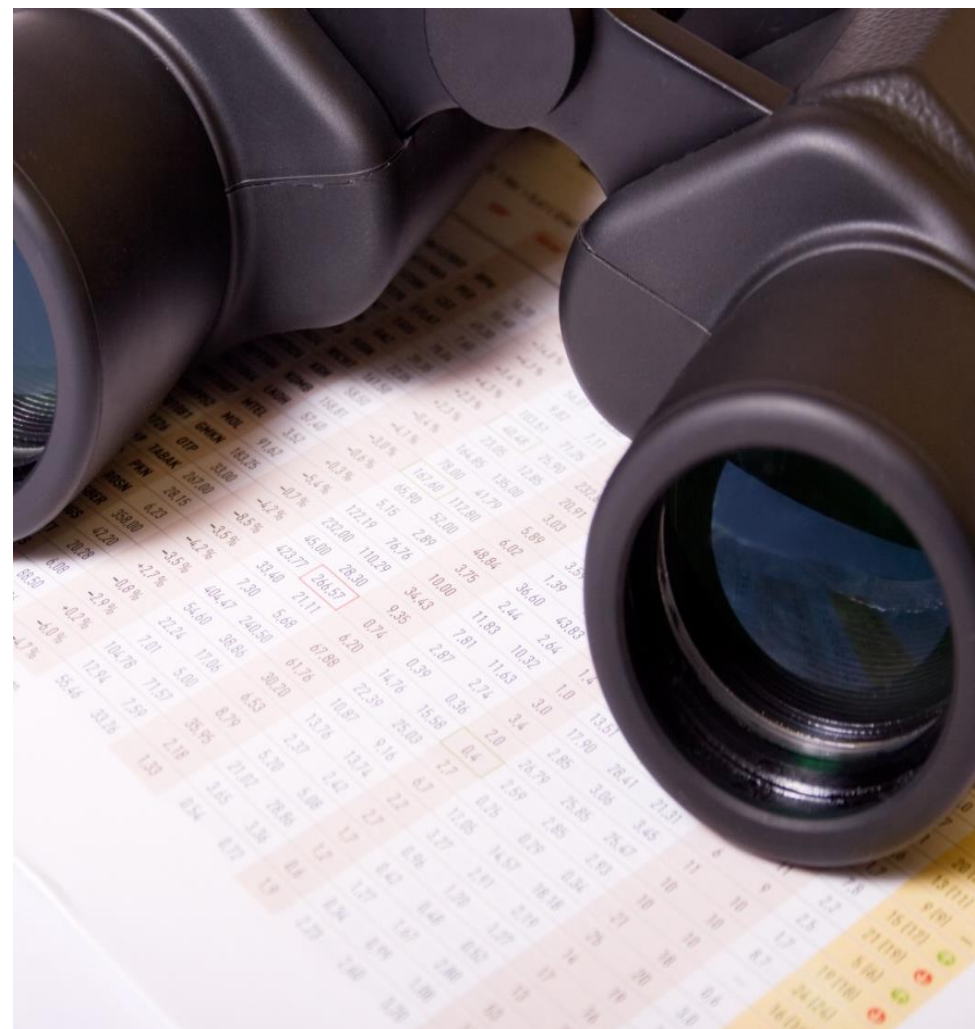
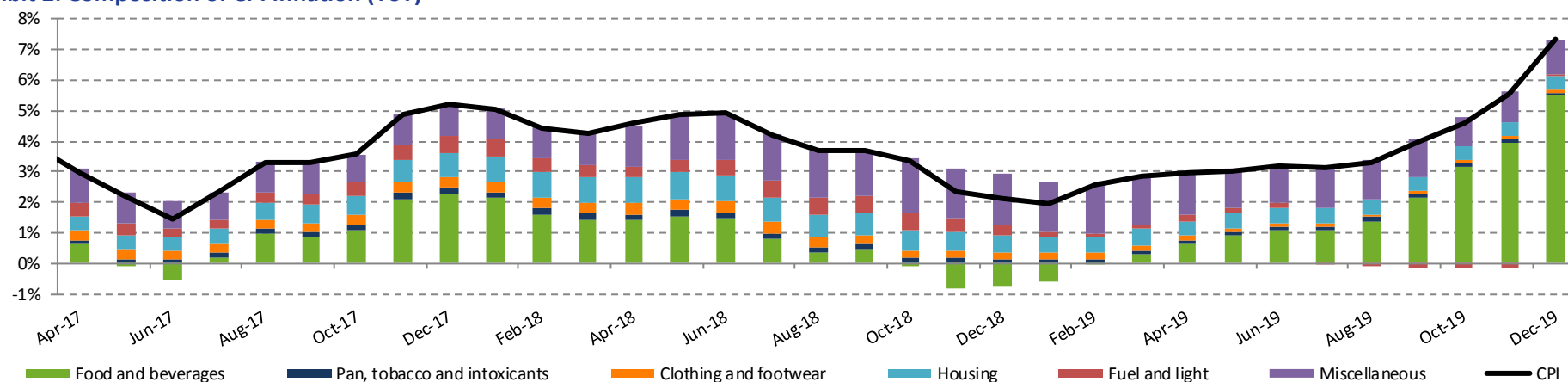


Exhibit 1: Trend in CPI Inflation (YoY)

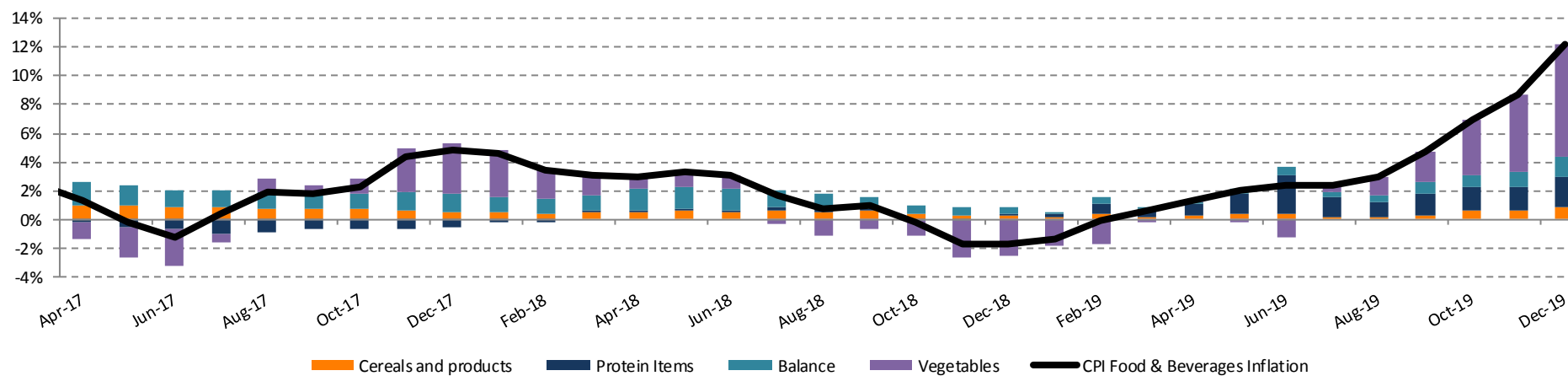
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		Oct-19	Nov-19	Nov-19	Dec-19	Dec-19	Dec-19
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	4.6%	5.5%	5.5%	7.4%	1.2%	7.1%
Food and beverages	45.86	6.9%	8.7%	8.7%	12.2%	2.0%	12.2%
Cereals and products	9.67	2.2%	3.7%	3.7%	4.4%	0.7%	4.1%
Meat and fish	3.61	9.7%	9.4%	9.4%	9.6%	1.0%	7.8%
Egg	0.43	6.3%	6.2%	6.2%	8.8%	3.7%	7.6%
Milk and products	6.61	3.1%	3.5%	3.5%	4.2%	1.0%	4.1%
Oils and fats	3.56	2.0%	2.6%	2.6%	3.1%	1.2%	3.1%
Fruits	2.89	4.1%	3.3%	3.2%	4.4%	-1.2%	5.8%
Vegetables	6.04	26.1%	36.0%	36.1%	60.5%	8.7%	63.7%
Pulses and products	2.38	11.7%	13.9%	13.9%	15.4%	1.9%	13.5%
Sugar and confectionary	1.36	1.3%	2.1%	2.1%	3.4%	-0.2%	4.6%
Spices	2.50	3.9%	4.3%	4.3%	5.8%	1.2%	6.6%
Pan, tobacco and intoxicants	2.38	3.9%	3.3%	3.3%	3.4%	0.4%	3.1%
Clothing and footwear	6.53	1.6%	1.3%	1.3%	1.5%	0.3%	1.6%
Housing	10.07	4.6%	4.5%	4.5%	4.3%	-0.5%	2.6%
Fuel and light	6.84	-2.0%	-1.9%	-1.9%	0.7%	1.0%	2.9%
Miscellaneous	28.32	3.4%	3.7%	3.7%	4.1%	0.8%	3.4%
Household goods and services	3.80	2.4%	2.2%	2.2%	1.7%	0.3%	1.3%
Health	5.89	5.6%	5.5%	5.5%	3.8%	0.3%	2.9%
Transport and communication	8.59	-0.5%	0.9%	0.9%	4.8%	2.3%	3.9%
Recreation and amusement	1.68	5.1%	4.1%	4.1%	4.0%	0.1%	3.3%
Education	4.46	6.1%	5.2%	5.2%	3.7%	0.1%	3.6%
Personal care and effects	3.89	5.5%	6.3%	6.3%	6.3%	0.1%	5.3%
CPI-Food	36.55	7.9%	10.0%	10.0%	14.1%	2.4%	14.2%
CPI-Core	44.97	3.6%	3.6%	3.6%	3.7%	0.4%	2.9%
CPI Rural		4.3%	5.3%	5.3%	7.3%	1.5%	7.8%
CPI Urban		5.1%	5.8%	5.8%	7.5%	0.9%	6.3%

*Buildup with reference to March 2019

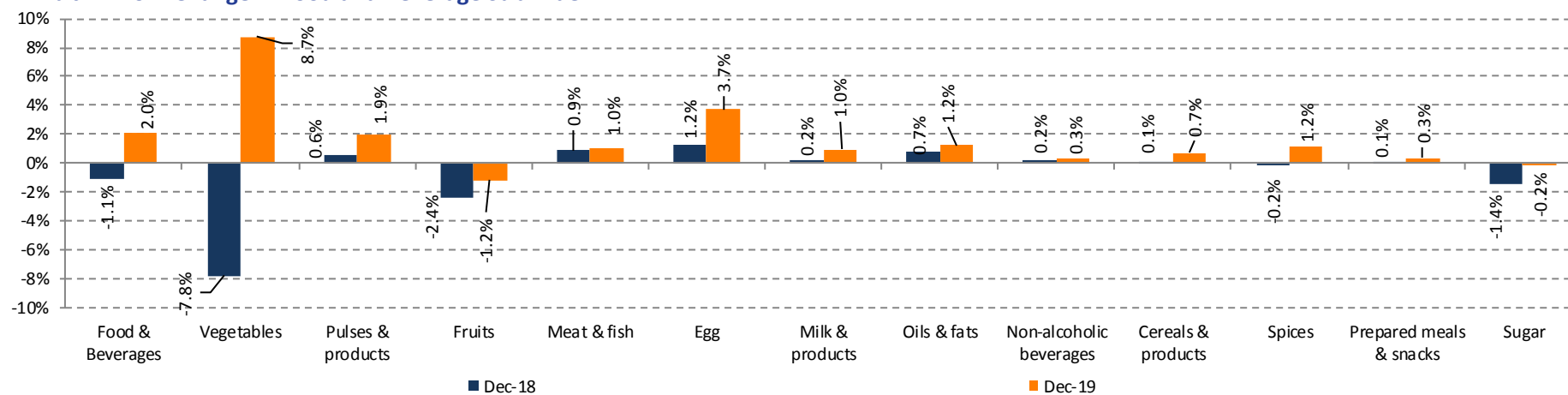
Source: Central Statistics Office (CSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

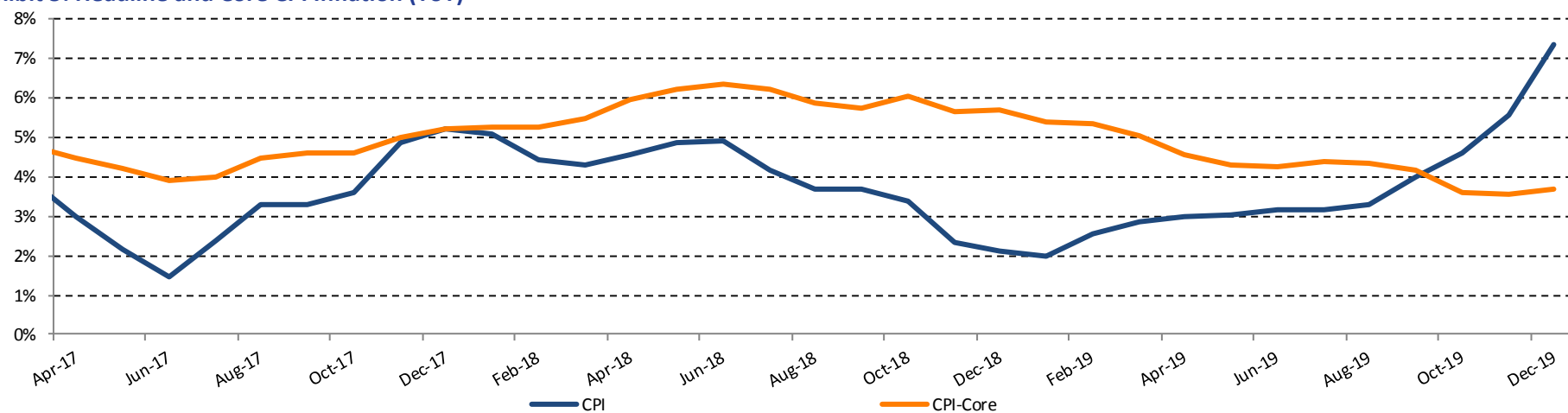
Source: CSO; CEIC; ICRA research

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

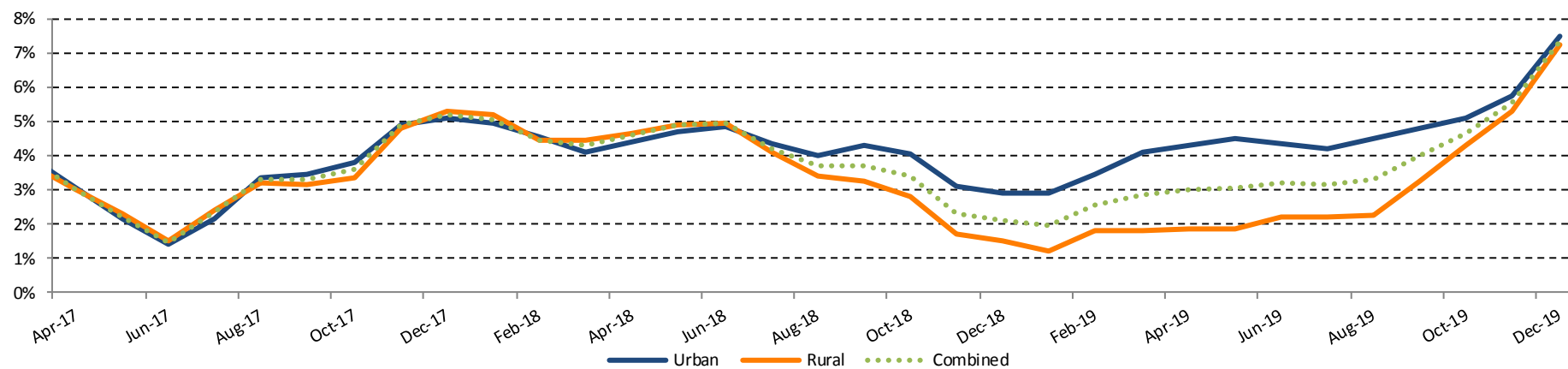
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

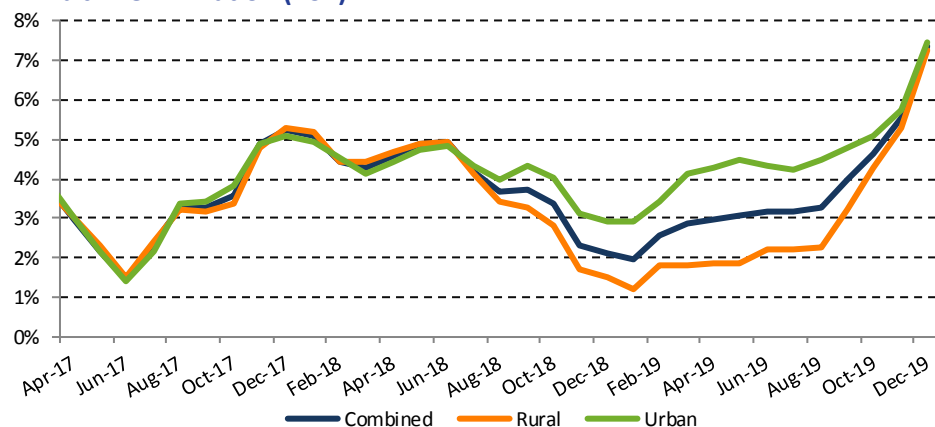
Source: CSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)

Source: CSO; CEIC; ICRA research

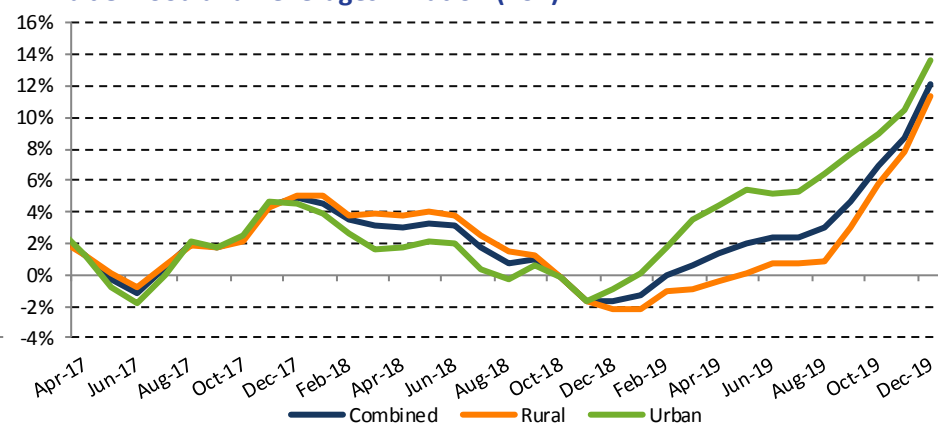
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



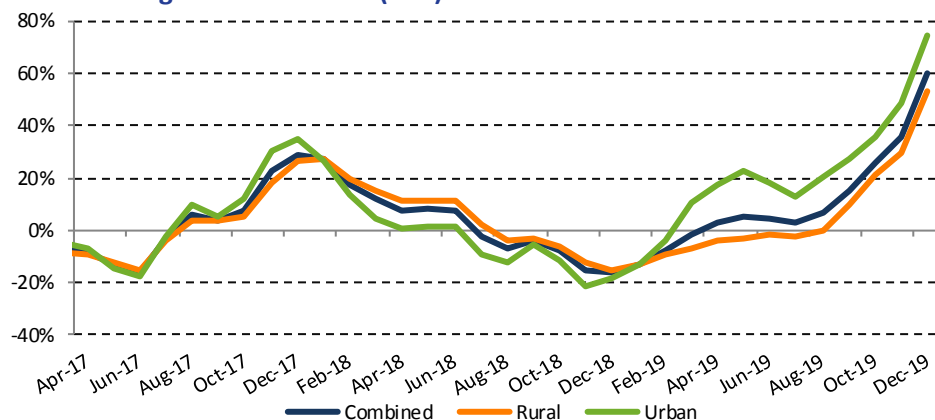
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



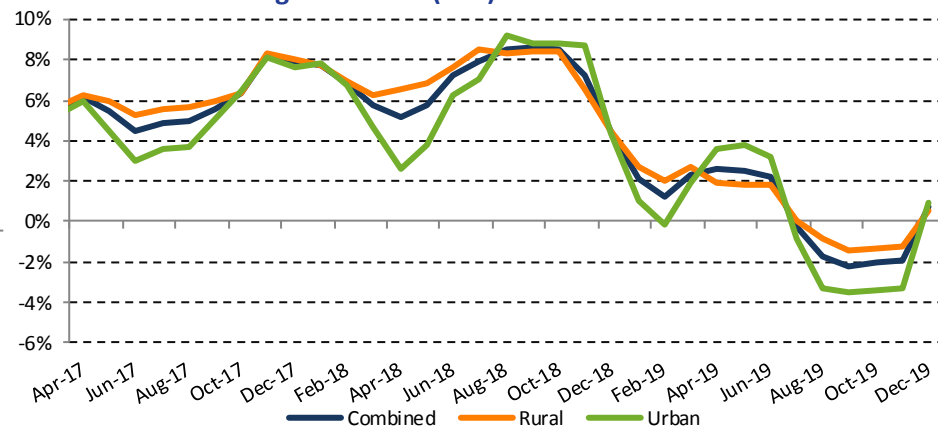
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

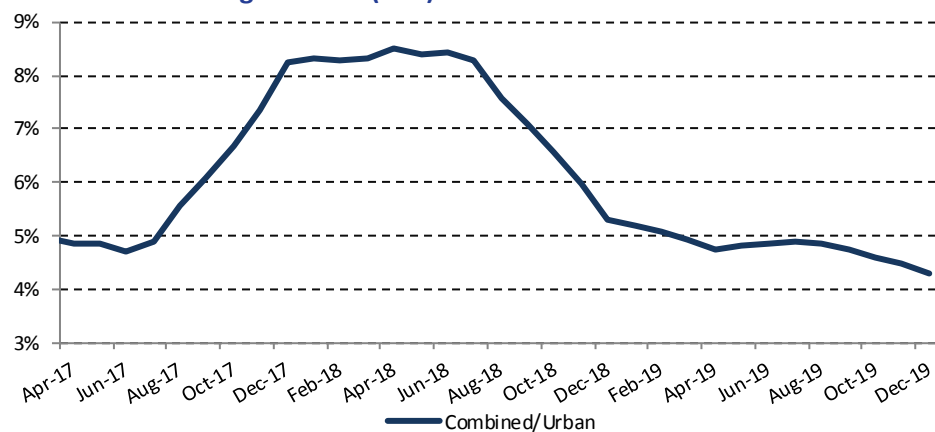


Source: CSO; CEIC; ICRA research

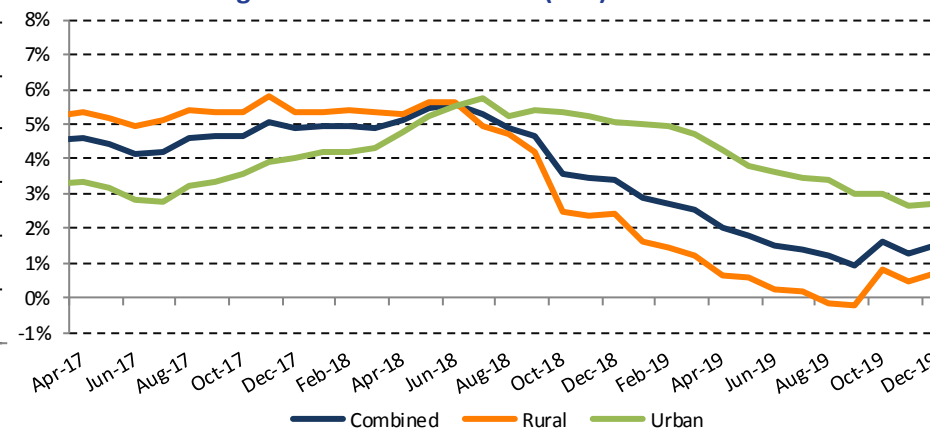
Exhibit 10: Fuel and Light Inflation (YoY)



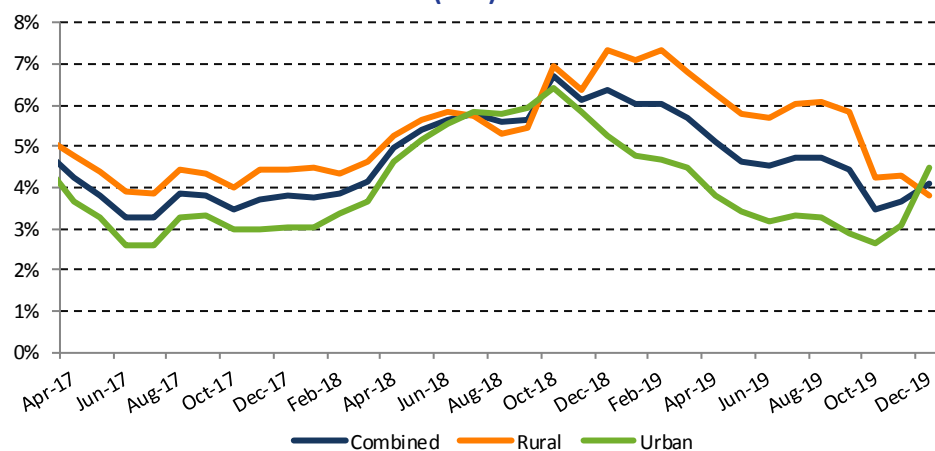
Source: CSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)

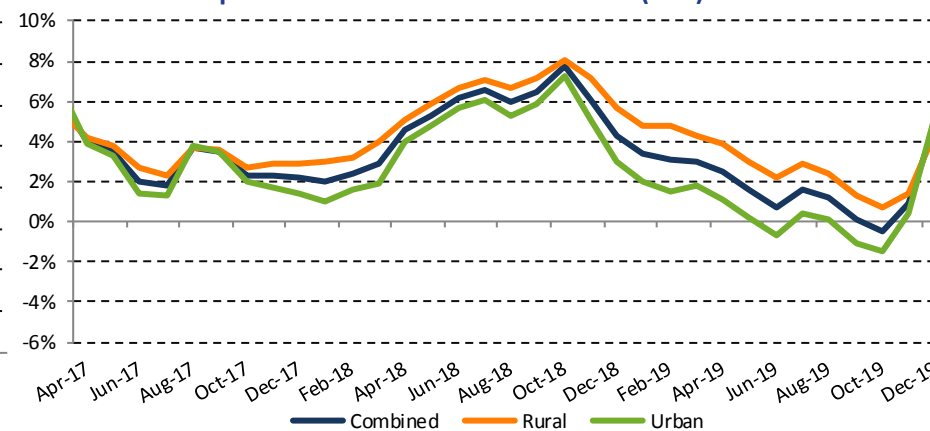
Source: CSO; CEIC; ICRA research

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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