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# CONSUMER PRICE INDEX JANUARY 2020

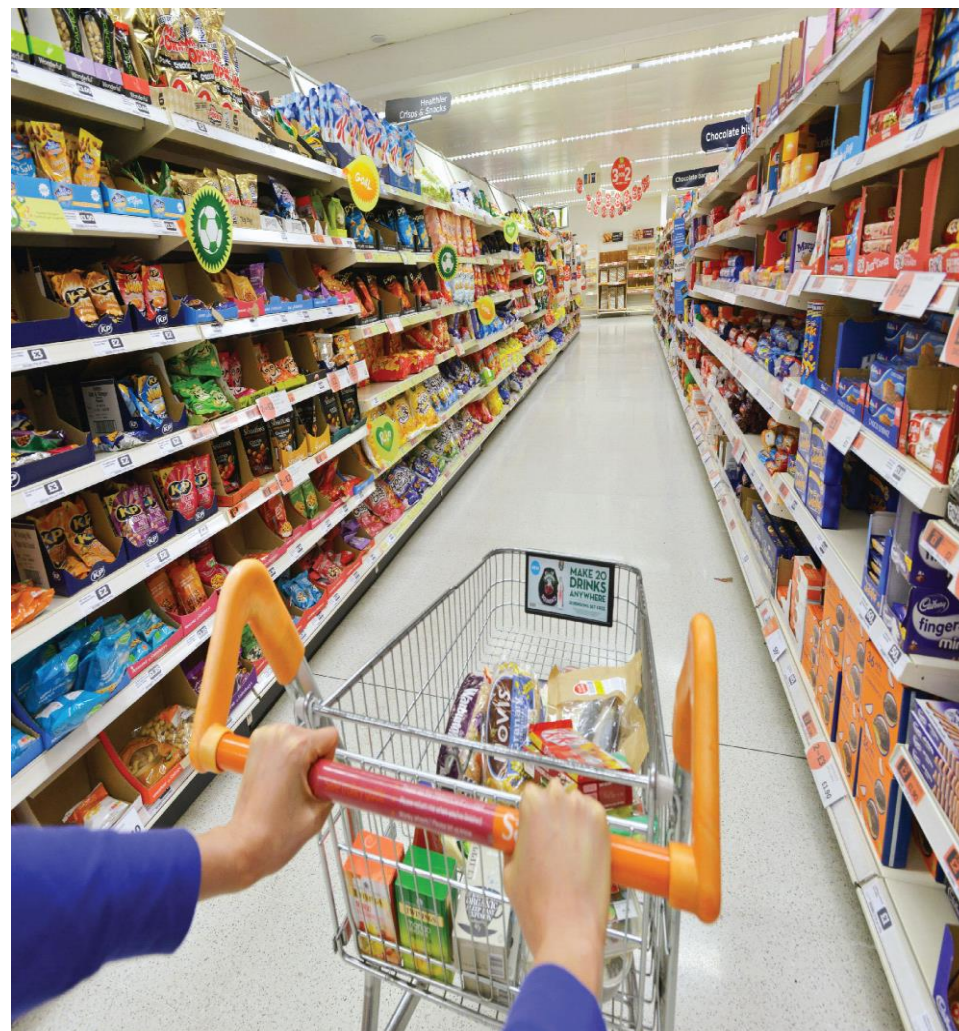
**CPI inflation rose further to 68-month high 7.6% in January 2020, driven by core items, and fuel and light**

**FEBRUARY 2020**



## HIGHLIGHTS

- The year-on-year (YoY) CPI inflation unexpectedly rose further to a 68-month high 7.6% in January 2020 from 7.4% in December 2019, breaching the upper threshold of the Monetary Policy Committee's (MPC's) medium-term inflation target of 4%+/-2% for the second consecutive month.
- The sequential pickup in the YoY CPI inflation in January 2020 was driven by a rise in the inflation for core-CPI (CPI excluding food and beverages, fuel and light, as well as petrol and diesel prices for vehicles), and fuel and light, coupled with only a mild decline in the food inflation.
- The core-CPI inflation recorded a broad-based uptick to 4.1% in January 2020 from 3.7% in December 2019, driven by transport and communication, personal care and effects and clothing and footwear etc.
- Belying expectations of a sharper correction, the YoY inflation for the food and beverages sub-index eased only mildly to 11.8% in January 2020 from 12.2% in December 2019. The internals of the food and beverages inflation are worrying, given a narrower-than-expected reduction in the inflation for vegetables, amid a broad-based uptick across all the other categories, some of which tend to be sticky, such as proteins.
- The rural CPI inflation hardened to 7.7% (66-month high) in January 2020 from 7.3% in December 2019, in contrast to the mild easing in the urban CPI inflation to 7.4% from 7.5%, respectively. Moreover, the rural CPI inflation exceeded the urban CPI inflation in January 2020, after a gap of eighteen months.



## OVERVIEW

- The YoY CPI inflation posted an unanticipated uptick to a 68-month high 7.6% in January 2020 (+2.0% in January 2019) from 7.4% in December 2019 (+2.1% in December 2018; refer Exhibit 1 and 2), and printed substantially higher than our forecast (+6.5%). Moreover, the headline CPI inflation exceeded the upper threshold of the MPC's medium-term inflation target of 4%+/-2% in January 2020 for the second consecutive month.
- The sequential pickup in the YoY CPI inflation in January 2020 was driven by a rise in the inflation for core-CPI (to +4.1% from +3.7%), and fuel and light (to +3.7% from +0.7%), coupled with only a mild decline in the food inflation (to +11.8% from +12.2%). Within core-CPI, the YoY inflation recorded an uptick in January 2020 relative to December 2019 for miscellaneous items, pan, tobacco and intoxicants, and clothing and footwear, whereas the same for the housing sub-index eased during these two months.
- The core-CPI inflation rose to a four-month high 4.1% in January 2020 (+5.4% in January 2019) from 3.7% in December 2019 (+5.7% in December 2018; refer Exhibit 5). On a month-on-month (MoM) basis, this sub-index rose by 0.6% in January 2020, substantially higher than the same in January 2019 (+0.2%). Nevertheless, the headline CPI inflation exceeded the core-CPI inflation for the fourth month in a row, by a considerable 350 bps, in January 2020.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) increased for the third month in a row, to 4.7% in January 2020 (+6.0% in January 2019) from 4.2% in December 2019 (+6.4% in December 2018). There was a broad-based uptick in YoY inflation for all categories of this sub-index, namely, transport and communication (to +6.1% from +5.0%; led by higher prices of automobiles, a rise in diesel prices and the continued impact of revised telecom tariffs), personal care and effects (to +7.2% from +6.2%), recreation and amusement activities (to +4.5% from +4.0%), healthcare (to +4.2% from +3.8%) and education (to +3.9% from +3.7%) in January 2020 relative to the previous month. However, the YoY inflation for household goods and services remained unchanged at 1.8% in January 2020, in line with the print in December 2019. On an MoM basis, the sub-index for miscellaneous items rose by 0.6% in January 2020, sharply higher than the same in January 2019 (+0.1%).
- Further, the inflation pertaining to clothing and footwear (with a weight of 6.5% in the CPI) rose to 1.9% in January 2020 from 1.5% in December 2019. In MoM terms, the sub-index for clothing and footwear increased by a mild 0.1% in December 2019, in contrast to the MoM decline of 0.3% in January 2019.
- In addition, the inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) rose to 3.6% in January 2020 from 3.4% in December 2019. This sub-index increased by 0.4% in MoM terms in January 2020 as compared to a mild 0.1% rise in January 2019.
- The inflation for housing (with a weight of 10.1% in the CPI Index) eased to 4.2% in January 2020 (+5.2% in January 2019) from 4.3% in December 2019 (+5.3% in December 2018). In MoM terms, the sub-index recorded a 0.7% rise in January 2020, lower than the 0.8% uptick in January 2019.



- The fuel and light sub-index (with a weight of 6.8% in the CPI) recorded a sharp rise in the YoY inflation to 3.7% in January 2020 (+2.1% in January 2019) from the mild 0.7% in December 2019 (+4.5% in December 2018), led by the base effect. The fuel and light sub-index increased by 0.6% in MoM terms in January 2020, in contrast to the significant MoM downtick of 2.2% recorded in January 2019.
- Belying expectations of a sharper correction, the YoY inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) eased only mildly to 11.8% in January 2020 (-1.3% in January 2019) from the 72-month high 12.2% in December 2019 (-1.6% in December 2018). The softening in the YoY inflation for this sub-index in January 2020 relative to December 2019, was led by vegetables (to +50.2% from +60.5%, refer Exhibit 3). However, the YoY inflation hardened for all the other categories of this sub-index, namely, pulses and products (to +16.7% from +15.4%), spices (to +8.2% from +5.8%), cereals and products (to +5.3% from +4.4%), milk and products (to +5.6% from +4.4%), oils and fats (to +6.7% from +3.0%), sugar and confectionery (to +4.6% from +3.4%), meat and fish (to +10.5% from +9.6%), eggs (to +10.4% from +8.9%), prepared meals, snacks, sweets (to +2.6% from +2.2%), fruits (to +5.8% from +4.5%) and non-alcoholic beverages (to +2.1% from +1.5%) in January 2020 relative to the previous month. In MoM terms, the food and beverages sub-index declined by 0.9% in January 2020, higher than 0.6% downtick recorded in January 2019 (refer Exhibit 4), led by vegetables (-9.1% in January 2020; -2.9% in January 2019).
- The rural CPI inflation hardened further to a 66-month high 7.7% in January 2020 from 7.3% in December 2019, led by fuel and light (to +2.9% from +0.6%), miscellaneous items (to +4.5% from +3.9%), pan, tobacco and intoxicants (to +3.6% from +3.3%) and clothing and footwear (to +1.5% from +0.7%). In addition, the YoY inflation for food and beverages remained unchanged at a high 11.4% in January 2020, in line with the level recorded in the previous month.
- However, the urban CPI inflation eased to 7.4% in January 2020 from the 67-month high 7.5% in December 2019, driven by food and beverages (to +12.5% from +13.6%), and housing (to +4.2% from +4.3%). Moreover, the YoY inflation for clothing and footwear remained unchanged (+2.7%) in urban areas in January 2020 relative to the previous month. In contrast, there was a modest uptick in the inflation for miscellaneous items (to +5.0% from +4.5%), fuel and light (to +5.1% from +0.9%), and pan, tobacco and intoxicants (to +3.7% from +3.5%) in January 2020 relative to December 2019.
- The rural CPI inflation exceeded urban CPI inflation in January 2020, after a gap of eighteen months.
- The buildup in the CPI inflation up to January 2020 stood at 7.0%, significantly higher than the buildup of 2.3% recorded up to January 2019.
- The final headline CPI inflation for December 2019 was retained at the initial level of 7.4%.

## OUTLOOK

Retail prices of vegetables have declined in the current month, benefitting from improved domestic supplies as well as imports. Moreover, the YoY rise in rabi sowing in conjunction with the healthy groundwater and reservoir levels has brightened the outlook for agricultural output and prices of these crops. Nevertheless, the inflation for items such as pulses, which has printed in double-digits for the last four months, is expected to remain sticky. We expect the inflation for food and beverages to ease mildly in February 2020, and remain higher than 5.0% in H1 CY2020.

Higher customs duties would push up the retail inflation related to imports to some extent going forward. However, the impact of the spread of the coronavirus on risk sentiment and commodity prices, including crude oil, is expected to exert a mild moderation on the retail inflation, and have a larger impact on the wholesale inflation, in February 2020.

Overall, we expect the CPI inflation to remain in excess of 6.5% in February 2020.

In our view, even though the CPI inflation for January 2020 is unfavourable, it is unlikely to materially alter the direction of monetary policy, with the MPC already having placed its forecast for the average CPI inflation in Q4 FY2020 at a high 6.5%. However, this data suggests that the pause in the repo rate is likely to be extended further, until at least the August 2020 policy review.

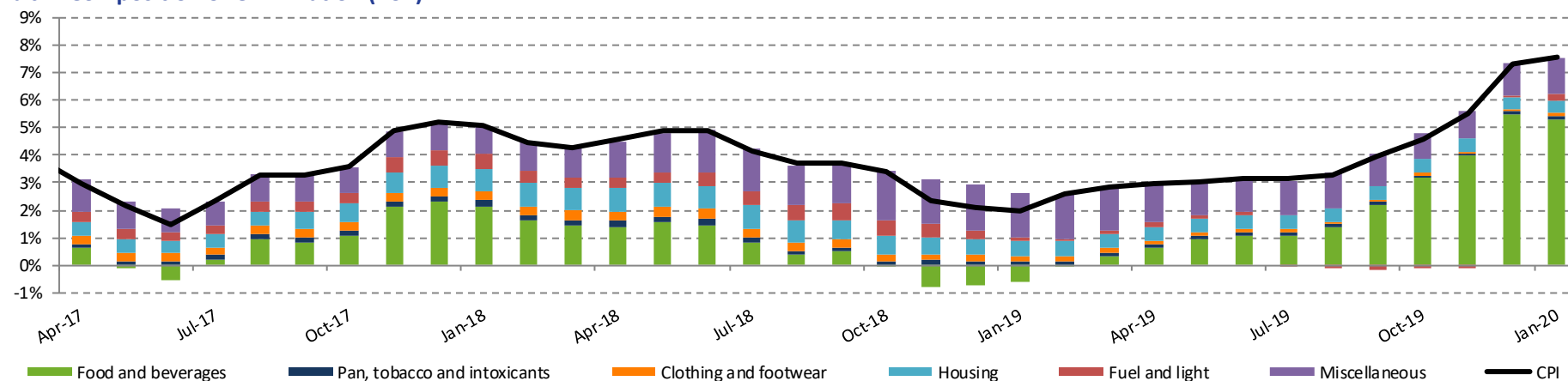


Exhibit 1: Trend in CPI Inflation (YoY)

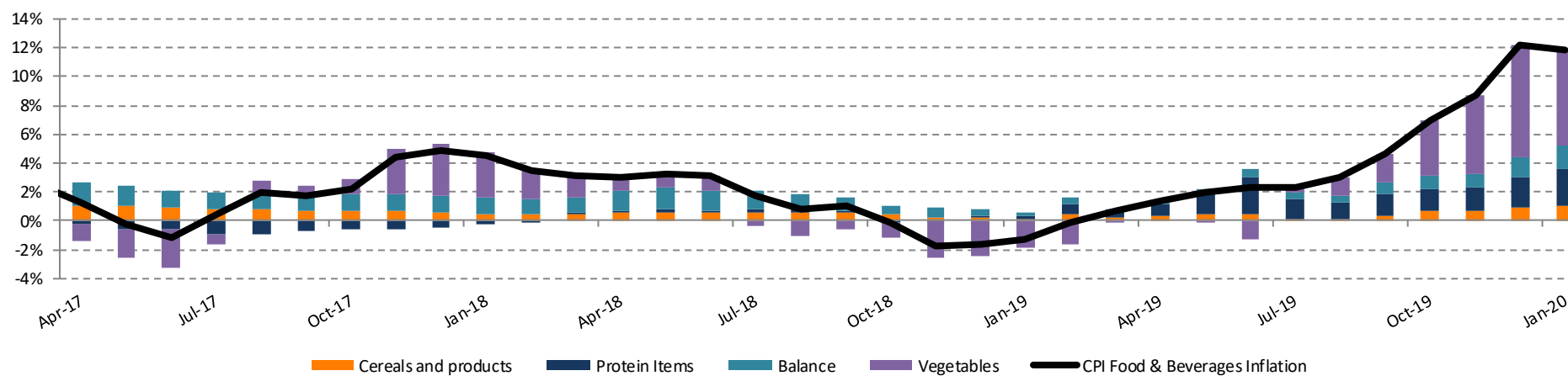
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup*
		Nov-19	Dec-19	Dec-19	Jan-20	Jan-20	Jan-20
		Final	Provisional	Final	Provisional	Provisional	Provisional
<b>CPI (combined)</b>	<b>100.00</b>	<b>5.5%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.6%</b>	<b>-0.1%</b>	<b>7.0%</b>
<b>Food and beverages</b>	<b>45.86</b>	<b>8.7%</b>	<b>12.2%</b>	<b>12.2%</b>	<b>11.8%</b>	<b>-0.9%</b>	<b>11.2%</b>
Cereals and products	9.67	3.7%	4.4%	4.4%	5.3%	0.6%	4.7%
Meat and fish	3.61	9.4%	9.6%	9.6%	10.5%	1.4%	9.3%
Egg	0.43	6.2%	8.8%	8.9%	10.4%	2.4%	10.3%
Milk and products	6.61	3.5%	4.2%	4.4%	5.6%	1.2%	5.5%
Oils and fats	3.56	2.6%	3.1%	3.0%	6.7%	3.3%	6.5%
Fruits	2.89	3.2%	4.4%	4.5%	5.8%	-1.7%	4.1%
Vegetables	6.04	36.1%	60.5%	60.5%	50.2%	-9.1%	48.7%
Pulses and products	2.38	13.9%	15.4%	15.4%	16.7%	1.5%	15.3%
Sugar and confectionary	1.36	2.1%	3.4%	3.4%	4.6%	0.1%	4.7%
Spices	2.50	4.3%	5.8%	5.8%	8.2%	1.5%	8.2%
<b>Pan, tobacco and intoxicants</b>	<b>2.38</b>	<b>3.3%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.6%</b>	<b>0.4%</b>	<b>3.4%</b>
<b>Clothing and footwear</b>	<b>6.53</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>0.1%</b>	<b>1.7%</b>
<b>Housing</b>	<b>10.07</b>	<b>4.5%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.2%</b>	<b>0.7%</b>	<b>3.3%</b>
<b>Fuel and light</b>	<b>6.84</b>	<b>-1.9%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>3.7%</b>	<b>0.6%</b>	<b>3.5%</b>
<b>Miscellaneous</b>	<b>28.32</b>	<b>3.7%</b>	<b>4.1%</b>	<b>4.2%</b>	<b>4.7%</b>	<b>0.6%</b>	<b>4.1%</b>
Household goods and services	3.80	2.2%	1.7%	1.8%	1.8%	0.3%	1.7%
Health	5.89	5.5%	3.8%	3.8%	4.2%	0.5%	3.4%
Transport and communication	8.59	0.9%	4.8%	5.0%	6.1%	0.8%	5.0%
Recreation and amusement	1.68	4.1%	4.0%	4.0%	4.5%	0.4%	3.7%
Education	4.46	5.2%	3.7%	3.7%	3.9%	0.3%	3.9%
Personal care and effects	3.89	6.3%	6.3%	6.2%	7.2%	1.4%	6.7%
<b>CPI-Food</b>	<b>36.55</b>	<b>10.0%</b>	<b>14.1%</b>	<b>14.2%</b>	<b>13.6%</b>	<b>-1.2%</b>	<b>12.9%</b>
<b>CPI-Core</b>	<b>44.97</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>4.1%</b>	<b>0.6%</b>	<b>3.5%</b>
<b>CPI Rural</b>		<b>5.3%</b>	<b>7.3%</b>	<b>7.3%</b>	<b>7.7%</b>	<b>-0.3%</b>	<b>7.6%</b>
<b>CPI Urban</b>		<b>5.8%</b>	<b>7.5%</b>	<b>7.5%</b>	<b>7.4%</b>	<b>-0.1%</b>	<b>6.2%</b>

\*Buildup with reference to March 2019

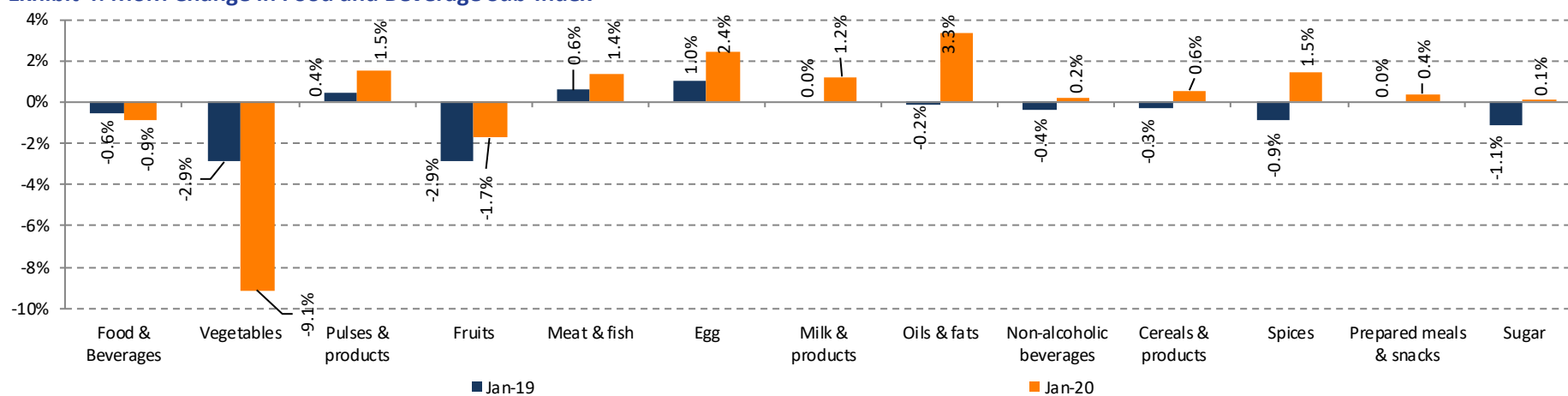
Source: Central Statistics Office (CSO); CEIC; ICRA research

**Exhibit 2: Composition of CPI Inflation (YoY)**

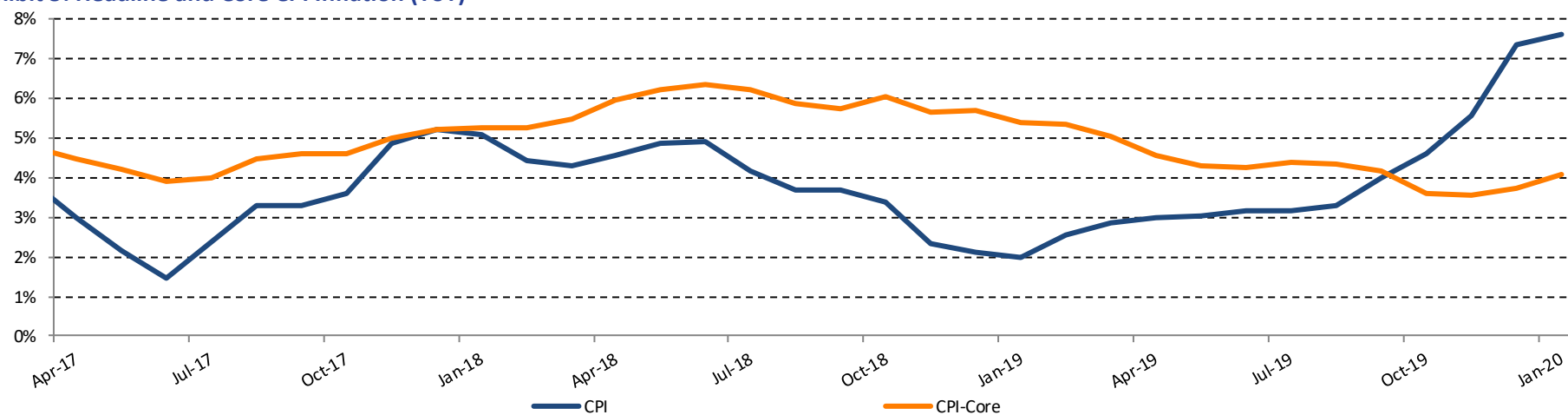
Source: CSO; CEIC; ICRA research

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

Source: CSO; CEIC; ICRA research

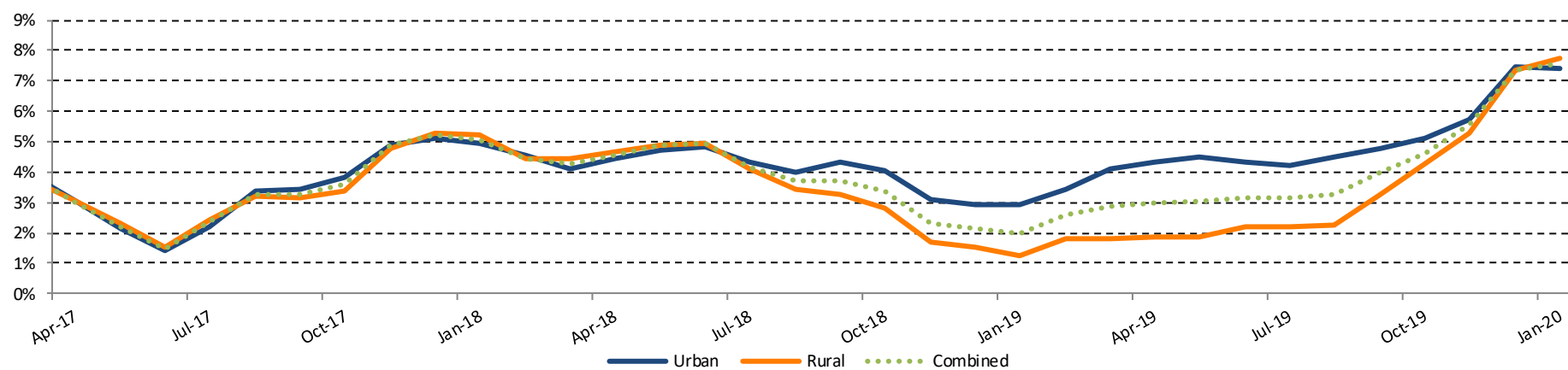
**Exhibit 4: MoM Change in Food and Beverage Sub-Index**

Source: CSO; CEIC; ICRA research

**Exhibit 5: Headline and Core CPI Inflation (YoY)**

Source: CSO; CEIC; ICRA research

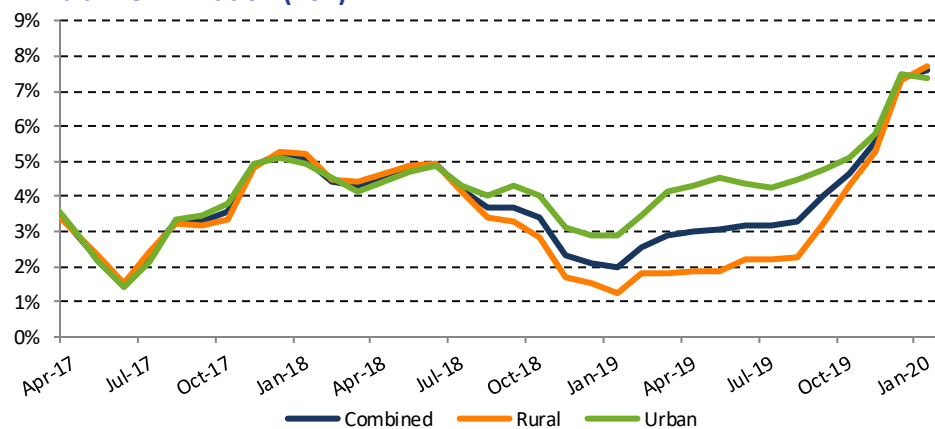


**Exhibit 6: Rural and Urban CPI Inflation (YoY)**

Source: CSO; CEIC; ICRA research

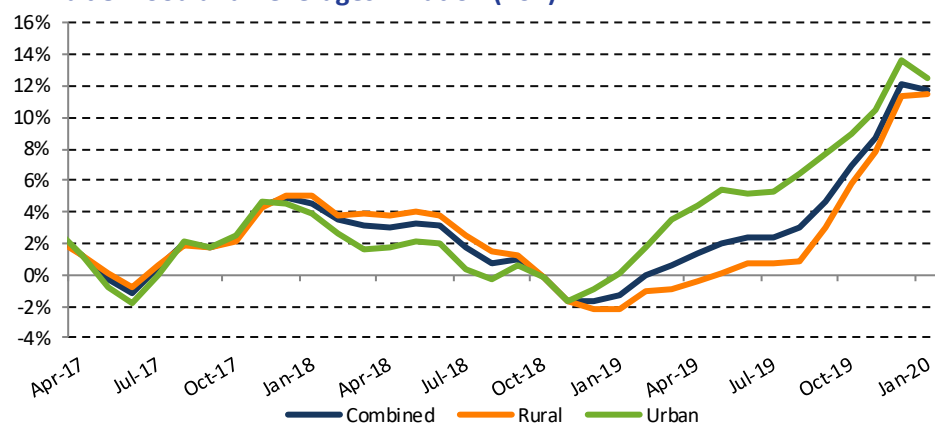
## ANNEXURE

Exhibit 7: CPI Inflation (YoY)



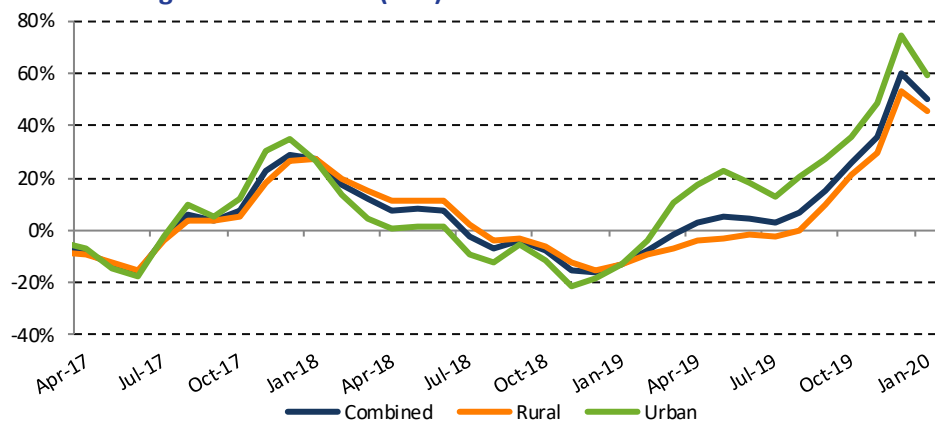
Source: CSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



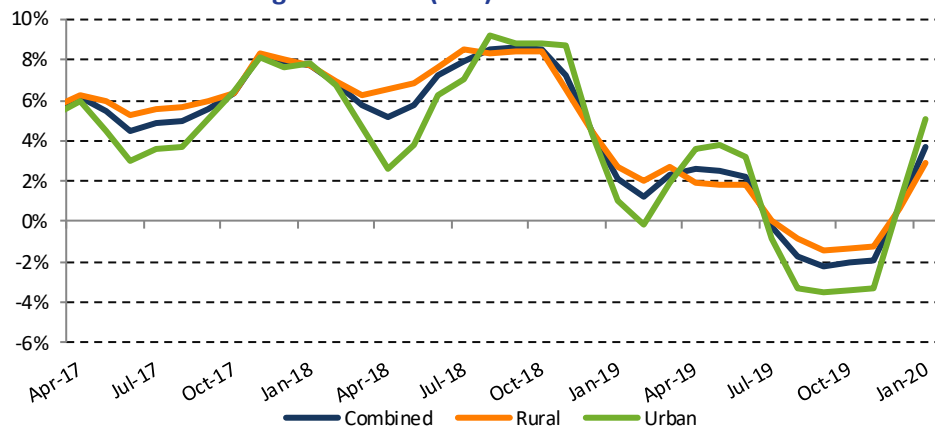
Source: CSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

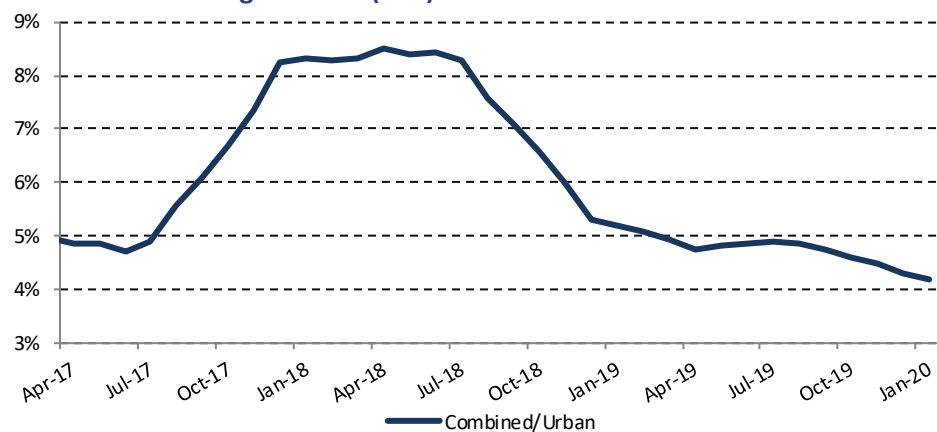


Source: CSO; CEIC; ICRA research

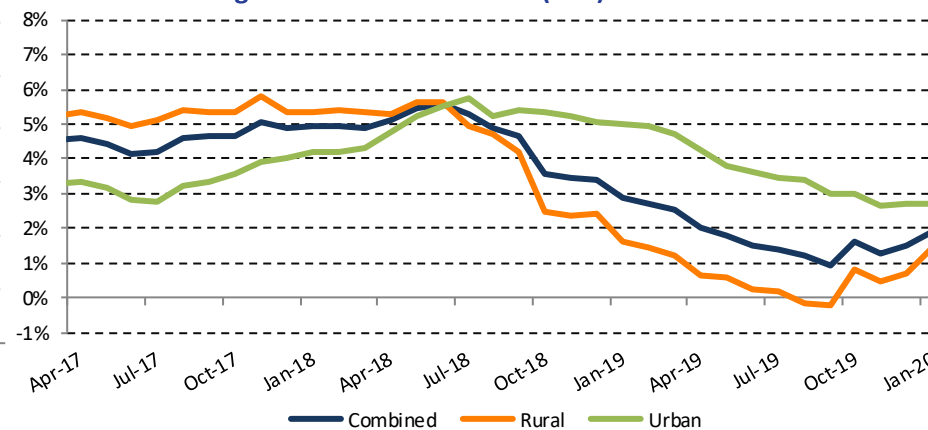
Exhibit 10: Fuel and Light Inflation (YoY)



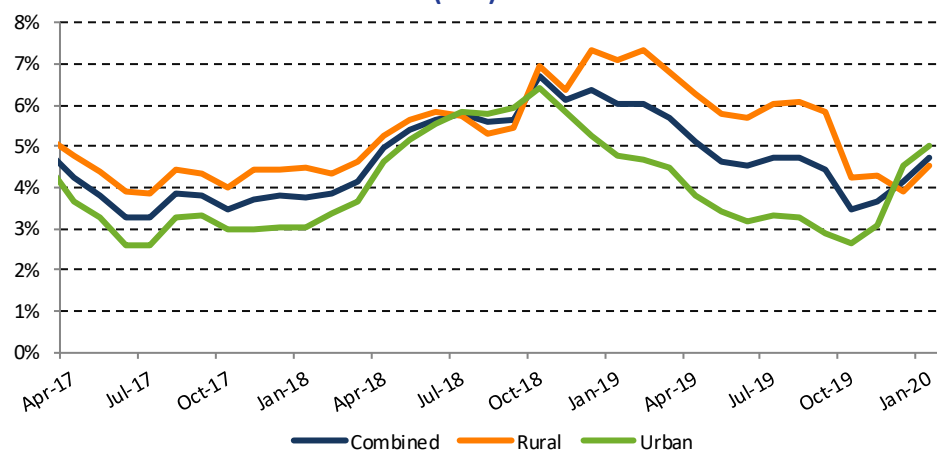
Source: CSO; CEIC; ICRA research

**Exhibit 11: Housing Inflation (YoY)**

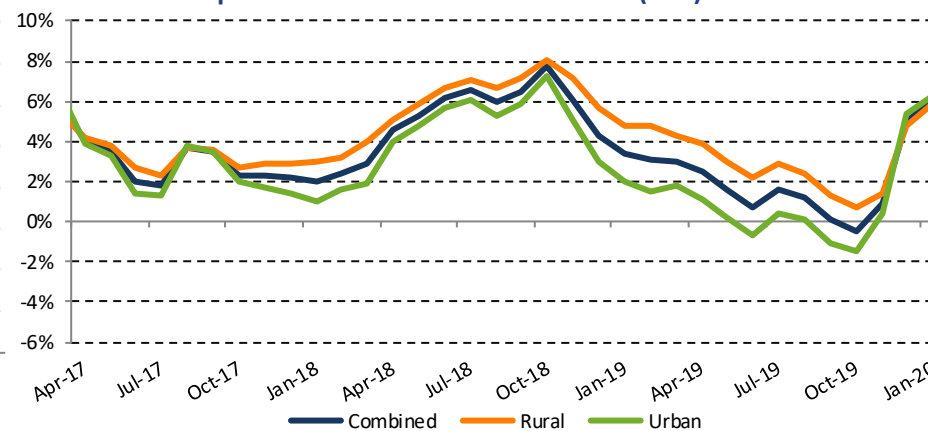
Source: CSO; CEIC; ICRA research

**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.

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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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