



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY



CONSUMER PRICE INDEX AUGUST 2020

**CPI inflation printed at higher-than-expected 6.7% in
August 2020**

SEPTEMBER 2020

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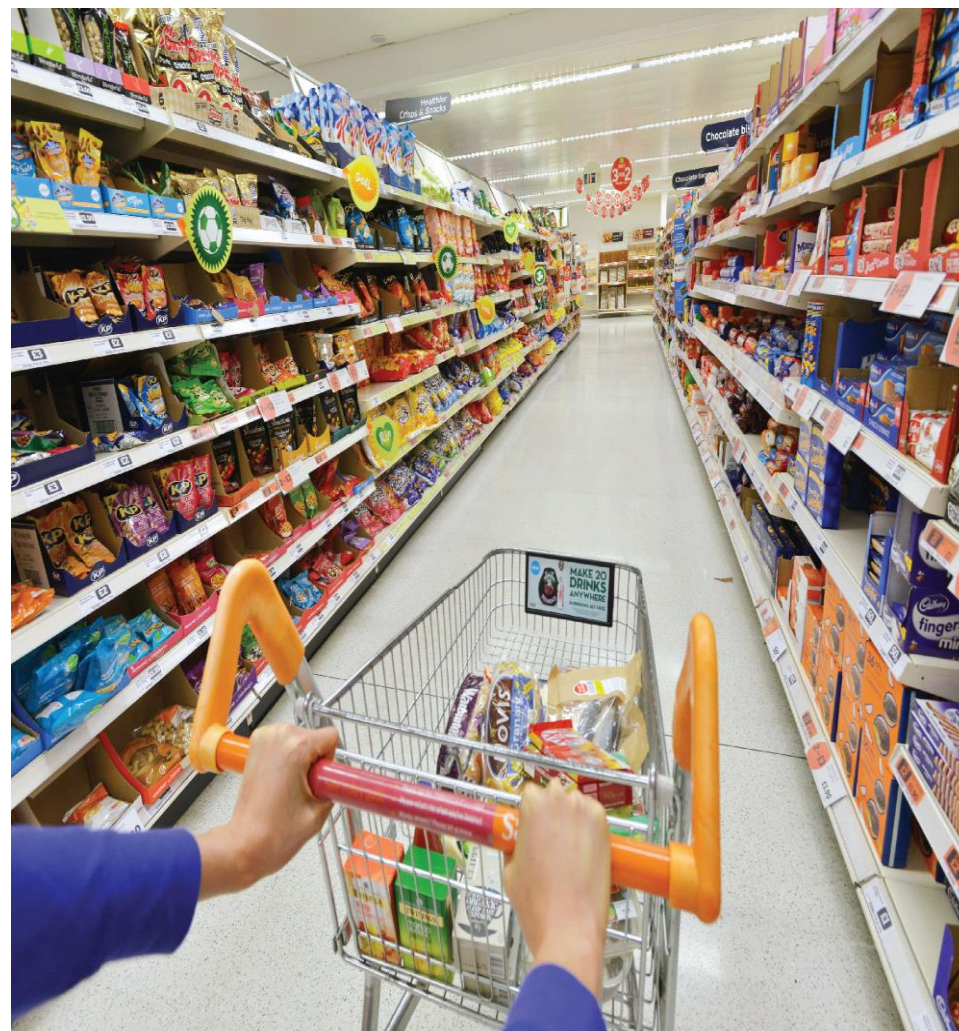
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HIGHLIGHTS

- The year-on-year (YoY) CPI inflation eased only marginally to 6.69% in August 2020 from the final estimate of 6.73% in July 2020, and printed well above our expectation of 6.4% for that month. Moreover, the CPI inflation continued to exceed the upper limit of the Monetary Policy Committee's (MPC's) medium-term inflation target range of 4%+/-2% in August 2020.
- The marginal easing in the YoY CPI inflation in August 2020 relative to the previous month was primarily driven by a base-effect led softening in the inflation for food and beverages, and to a smaller extent, a dip in the inflation for housing. In contrast, the inflation for other sub-groups such as pan, tobacco, and intoxicants, fuel and light, and miscellaneous items hardened in August 2020 relative to the previous month, whereas that for clothing and footwear remained unchanged at the level recorded in July 2020.
- The core-CPI inflation (CPI excluding food and beverages, petrol and diesel for vehicles, and fuel and light) hardened to 5.6% in August 2020 from the revised 5.5% in July 2020, on the back of a surge in the inflation for pan, tobacco, and intoxicants, as well as some miscellaneous items, such as personal care and effects.
- While the rural inflation recorded a mild easing to 6.7% in August 2020 from the revised 6.8% in July 2020, the inflation in urban areas inched up to 6.8% from 6.7%, respectively.
- With the CPI inflation for August 2020 sticky at a sharp 6.7%, and unlikely to recede meaningfully in September 2020, the likelihood of a Repo rate cut in the upcoming policy review is muted. Moreover, the CPI inflation is expected to print sub-4% only in December 2020-February 2021, based on which a continuation of the accommodative stance appears doubtful.



OVERVIEW

- The YoY CPI inflation softened only marginally to 6.69% in August 2020 (+3.3% in August 2019) from the final estimate of 6.73% in July 2020 (+3.1% in July 2019), and printed well above our expectation of 6.4% for that month. Moreover, the CPI inflation continued to exceed the upper limit of the MPC's medium-term inflation target range of 4%+/-2% in August 2020 (refer Exhibit 1 and 2).
- The mild sequential dip in the YoY CPI inflation in August 2020 was primarily driven by a base-effect led softening in the inflation for food and beverages, and to a smaller extent, a mild weakening in the inflation for housing. In contrast, the inflation for other sub-groups such as pan, tobacco, and intoxicants, fuel and light, and miscellaneous items hardened in August 2020 relative to the previous month, whereas that for clothing and footwear remained unchanged at the level recorded in July 2020.
- Partly on account of the base effect, the YoY inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) eased mildly to 8.3% in August 2020 (+3.0% in August 2019) from the revised 8.5% in July 2020 (+2.3% in July 2019), while remaining uncomfortably high (refer Exhibit 3). The sequential dip was led by softening in the inflation for five sub-indices, namely, cereals and products (to +5.9% from +6.9%), pulses and products (to +14.4% from +15.7%), meat and fish (to +16.5% from +17.3%), milk and products (to +6.2% from +6.5%) and spices (to +12.3% from +12.9%). In contrast, the inflation for vegetables inched up further to 11.4% in August 2020 relative to the revised 11.1% in the previous month, reflecting the ongoing supply disruptions amidst localised lockdowns and heavy rainfall in some regions. Moreover, the inflation for eggs hardened sharply to a seven-month high 10.1% in August 2020 from 7.7% in July 2020, while there were milder upticks in the inflation for other sub-indices, such as oils and fats (to +12.4% in August 2020 from +12.2% in July 2020), sugar and confectionery (to +3.9% from +3.6%), non-alcoholic beverages (to +5.3% from +4.4%), fruits (to +1.0% from +0.1%), and prepared meals, snacks, sweets (to +4.0% from +3.9%) during this period. Overall, continuing double digit inflation rates for vegetables (+11.4%), pulses and products (+14.4%), meat and fish (+16.5%), eggs (+10.1%), oils and fats (+12.4%) and spices (+12.3%) in August 2020 remain a concern. In month-on-month (MoM) terms, the food and beverages sub-index rose by 0.6% in August 2020, lower than the 0.8% increase recorded in August 2019 (refer Exhibit 4), led by the trend for cereals (-0.3% in August 2020; +0.6% in August 2019) and pulses (-0.4%; +0.7%, respectively).
- The inflation for housing (with a weight of 10.1% in the CPI Index) eased to 3.1% in August 2020 from 3.3% in July 2020. In MoM terms, the sub-index recorded a 0.5% increase in August 2020, lower than 0.7% increase recorded in August 2019.
- In contrast, the core-CPI inflation (CPI excluding food and beverages, petrol and diesel for vehicles, and fuel and light) rose to 5.6% in August 2020 from the revised 5.5% in July 2020 (refer Exhibit 5), on the back of a surge in the inflation for pan, tobacco, and intoxicants, as well as some of the components of miscellaneous items such as personal care and effects. In MoM terms, core-CPI increased by 0.6% in August 2020, somewhat higher to the MoM rise recorded in August 2019 (+0.5%). Overall, the headline CPI inflation exceeded the core-CPI inflation by 104 bps in August 2020.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) increased to an 89-month high 7.0% in August 2020 (+4.7% in August 2019) from the revised 6.8% in July 2020 (+4.7% in July 2019). This was primarily driven by the inflation for personal care and effects and transport and communication, which printed at a multi-month high 14.5% and 11.0%, respectively, in August 2020 from 13.7% and 10.3%, respectively, in July 2020. While the inflation for household goods and services (to

+3.0% from +2.9%), and recreation and amusement (to +4.0% from +3.9%) inched up in August 2020 relative to July 2020, other sub-groups, such as education (to +1.6% from +2.9%) and health (to +4.7% from +4.8%) displayed some softening in their YoY inflation during these two months. In MoM terms, the sub-index for miscellaneous items rose by 0.7% in August 2020, higher than the same in August 2019 (+0.5%).

- Moreover, the inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) hardened to a sharp 11.2% in August 2020 (+5.0% in August 2019) from the revised 10.5% in July 2020 (+4.9% in July 2019). This sub-index increased by a considerable 1.0% in MoM terms in August 2020, significantly higher than the 0.4% rise in August 2019.
- The inflation for the fuel and light sub-index (with a weight of 6.8% in the CPI) rose to 3.1% in August 2020 (-1.7% in August 2019) from the revised 2.7% in July 2020 (-0.3% in July 2019), largely reflecting the base effect. Moreover, this sub-index declined by a mild 0.1% in MoM terms in August 2020, appreciably lower than the 0.6% fall in August 2019.
- The YoY inflation pertaining to clothing and footwear (with a weight of 6.5% in the CPI) remained unchanged at 2.8% in August 2020, in line with the revised print for July 2020. In MoM terms, this sub-index rose by 0.2% in August 2020, in line with the uptick recorded in August 2019 (+0.2%).
- The YoY rural CPI inflation eased mildly to 6.7% in August 2020 from the revised 6.8% in July 2020. While the YoY print for food and beverages (to +8.4% from the revised +8.6%) eased in August 2020 compared to July 2020, that for pan, tobacco and intoxicants (to +10.8% from the revised +10.0%) rose during this period. Further, the disinflation related to fuel and light (to -0.1% from -0.7%) narrowed between these months. In addition, the inflation for clothing and footwear and miscellaneous items remained unchanged at 2.3% and 6.1%, respectively, in August 2020, in line with their respective prints recorded in July 2020.
- In contrast, the urban CPI inflation inched up to 6.8% in August 2020 from the revised 6.7% in July 2020, driven by pan, tobacco and intoxicants (to +12.3% from the revised +12.0%), fuel and light (to +9.3% from +8.9%), and miscellaneous items (to +7.9% from +7.7%), the impact of which was partly offset by the softening in the inflation for food and beverages (to +8.2% from +8.3%) and housing (to +3.1% from +3.3%). However, the inflation for clothing and footwear in urban areas remained unchanged at 3.6% in August 2020, in line with the print for July 2020.
- The buildup in the CPI inflation up to August 2020 stood at 4.1%, significantly higher than the buildup of 3.3% recorded up to August 2019, chiefly reflecting the trend for miscellaneous items (+4.3% till August 2020; +1.8% till August 2019), pan, tobacco and intoxicants (+7.7% vs. +1.4%), and food and beverages (+6.1% vs. +5.6%).
- The final headline CPI inflation for July 2020 was revised downwards to 6.7% from the initial level of 6.9%, led by a sharp downward revision for pan, tobacco and intoxicants (to +10.5% from the initial +12.3%), as well as modest revisions in the inflation for miscellaneous items (to +6.8% from +7.0%), food and beverages (to +8.5% from +8.7%) and fuel and light (to +2.7% from +2.8%).

OUTLOOK

Retail prices of various items have recorded a varied trend in the initial part of September 2020, with stabilisation displayed by cereals, even as some pulses and oilseeds have recorded a rise. In the case of vegetables, prices of onions and tomatoes surged so far in September 2020, whereas potatoes have witnessed a moderate uptick during the same period. In our assessment, the retail food inflation may record an uptick in the ongoing month.

While the price of the Indian crude oil basket has eased somewhat in the ongoing month, and the retail price of diesel has also eased, that of petrol has firmed up. Overall, retail fuel prices are unlikely to exert substantial upward pressure on the CPI inflation in September 2020.

The extent to which supply disruptions and social distancing norms continue to exert pressure on non-food prices remains to be seen.

Looking ahead, we expect the elevated vegetable prices to prevent a meaningful correction in the CPI inflation in September 2020. Thereafter, a favourable base effect in Q3 FY2021, and the reversal of the same in Q4 FY2021, would result in a 'V' shaped trajectory of the CPI inflation. However, we now expect this 'V' shape to be shallower than what we had earlier anticipated.

With the CPI inflation for August 2020 sticky at a sharp 6.7%, and unlikely to recede meaningfully in September 2020, the likelihood of a Repo rate cut in the upcoming policy review is muted. Moreover, the CPI inflation is expected to print sub-4% only in December 2020-February 2021, based on which a continuation of the accommodative stance appears doubtful.

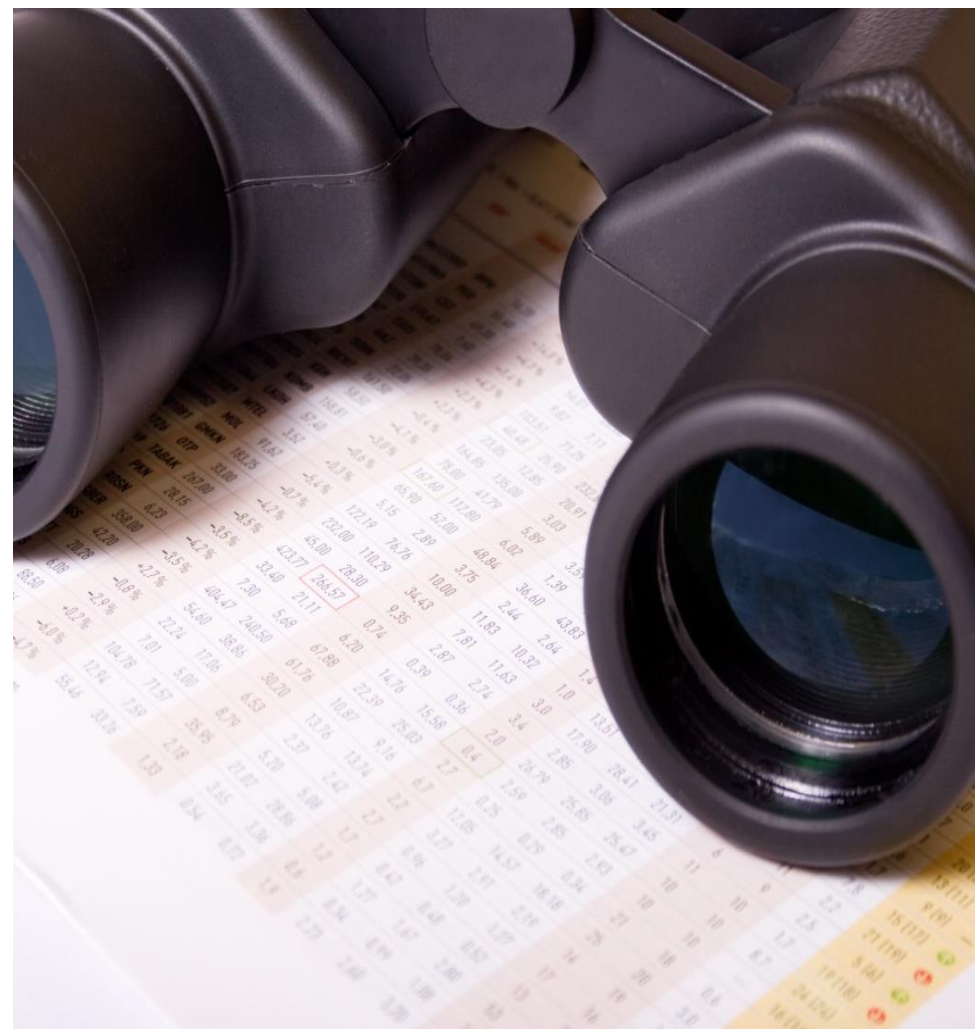
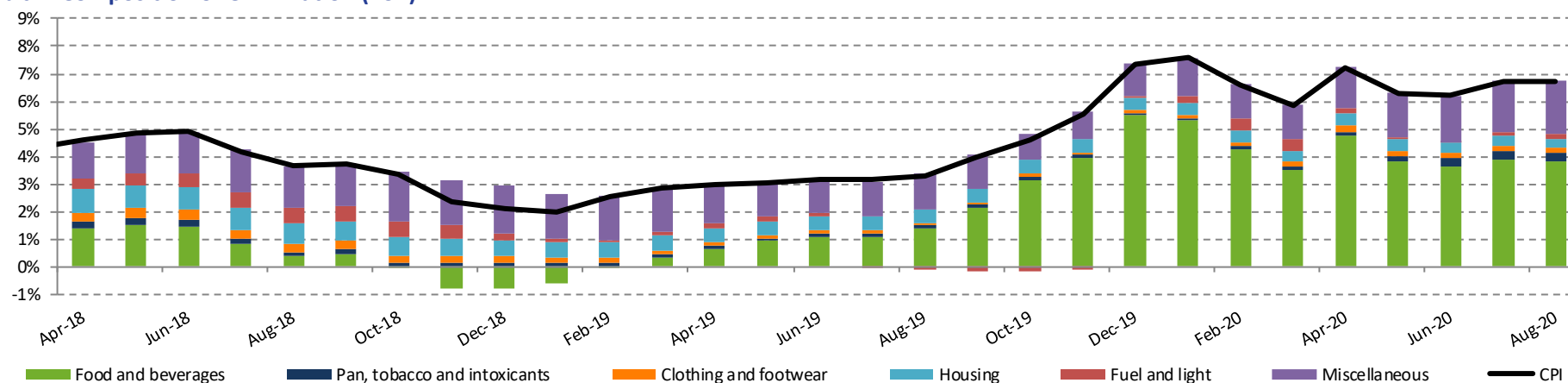


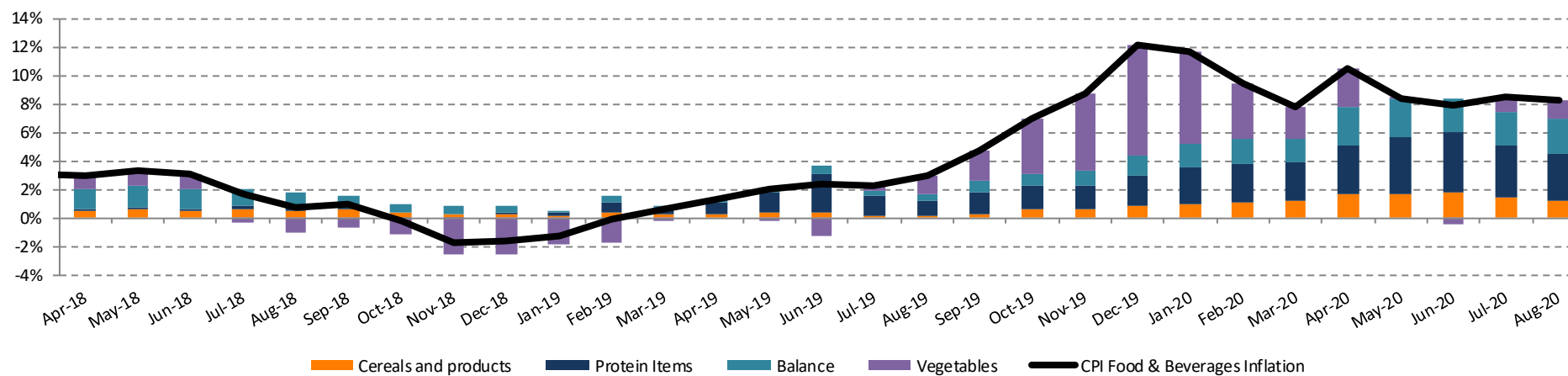
Exhibit 1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		June-20	July-20	July-20	August-20	August-20	August-20
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	6.2%	6.9%	6.7%	6.7%	0.5%	4.1%
Food and beverages	45.86	7.9%	8.7%	8.5%	8.3%	0.6%	6.1%
Cereals and products	9.67	7.9%	7.0%	6.9%	5.9%	-0.3%	2.3%
Meat and fish	3.61	18.9%	18.8%	17.3%	16.5%	-2.0%	12.0%
Egg	0.43	9.9%	8.8%	7.7%	10.1%	1.1%	3.0%
Milk and products	6.61	7.0%	6.6%	6.5%	6.2%	0.2%	1.4%
Oils and fats	3.56	11.5%	12.4%	12.2%	12.4%	0.6%	5.3%
Fruits	2.89	0.3%	0.1%	0.1%	1.0%	0.3%	5.9%
Vegetables	6.04	4.0%	11.3%	11.1%	11.4%	4.7%	18.6%
Pulses and products	2.38	17.6%	15.9%	15.7%	14.4%	-0.4%	6.2%
Sugar and confectionary	1.36	2.9%	3.6%	3.6%	3.9%	1.1%	2.8%
Spices	2.50	13.4%	13.3%	12.9%	12.3%	0.1%	4.6%
Pan, tobacco and intoxicants	2.38	11.3%	12.3%	10.5%	11.2%	1.0%	7.7%
Clothing and footwear	6.53	2.7%	2.9%	2.8%	2.8%	0.2%	1.5%
Housing	10.07	3.5%	3.3%	3.3%	3.1%	0.5%	1.2%
Fuel and light	6.84	0.5%	2.8%	2.7%	3.1%	-0.1%	-4.1%
Miscellaneous	28.32	6.1%	7.0%	6.8%	7.0%	0.7%	4.3%
Household goods and services	3.80	1.8%	3.1%	2.9%	3.0%	0.3%	1.6%
Health	5.89	4.7%	4.7%	4.8%	4.7%	0.3%	2.1%
Transport and communication	8.59	8.3%	10.0%	10.3%	11.0%	0.9%	7.5%
Recreation and amusement	1.68	6.2%	5.5%	3.9%	4.0%	0.4%	2.0%
Education	4.46	2.6%	3.2%	2.9%	1.6%	-0.7%	0.8%
Personal care and effects	3.89	12.9%	13.6%	13.7%	14.5%	2.7%	9.1%
CPI-Food	36.55	8.7%	9.6%	9.3%	9.1%	0.7%	6.8%
CPI-Core	44.97	5.3%	5.8%	5.5%	5.6%	0.6%	2.3%
CPI Rural		6.3%	7.0%	6.8%	6.7%	0.5%	3.7%
CPI Urban		6.1%	6.8%	6.7%	6.8%	0.7%	4.5%

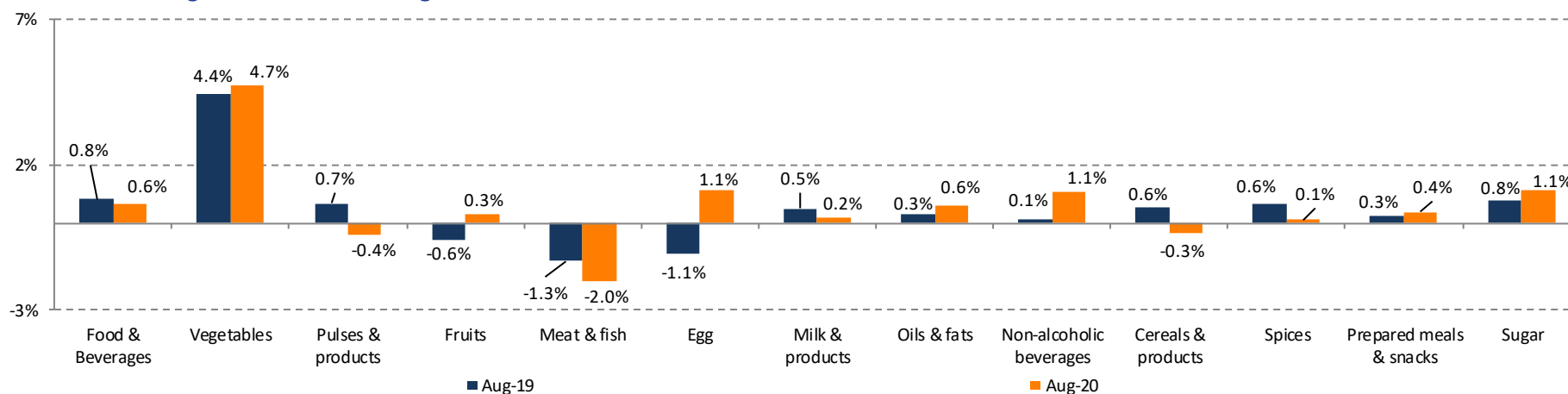
Source: National Statistical Office (NSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

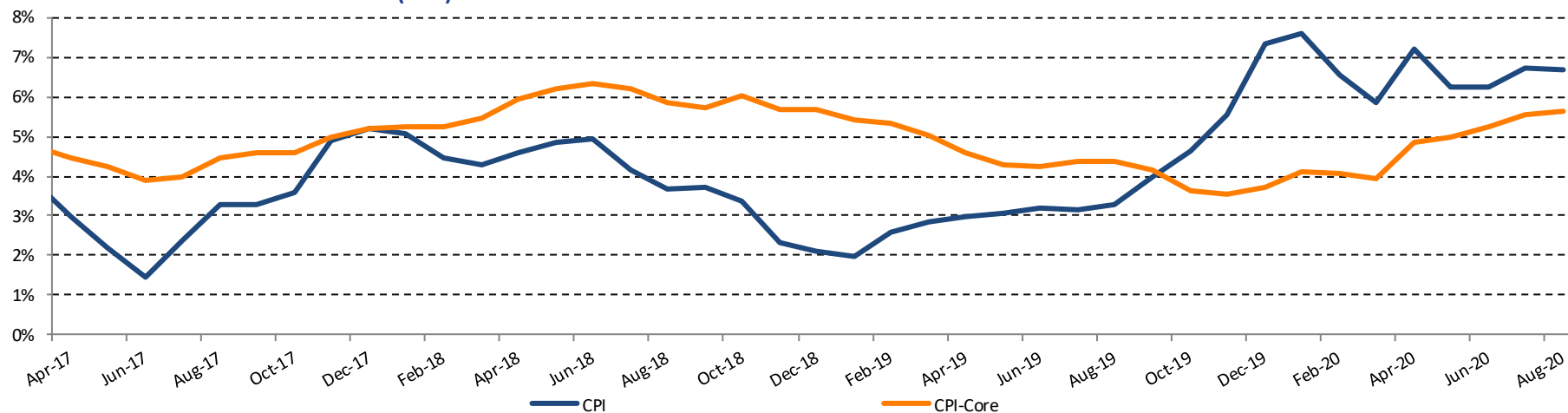
Source: NSO; CEIC; ICRA research

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

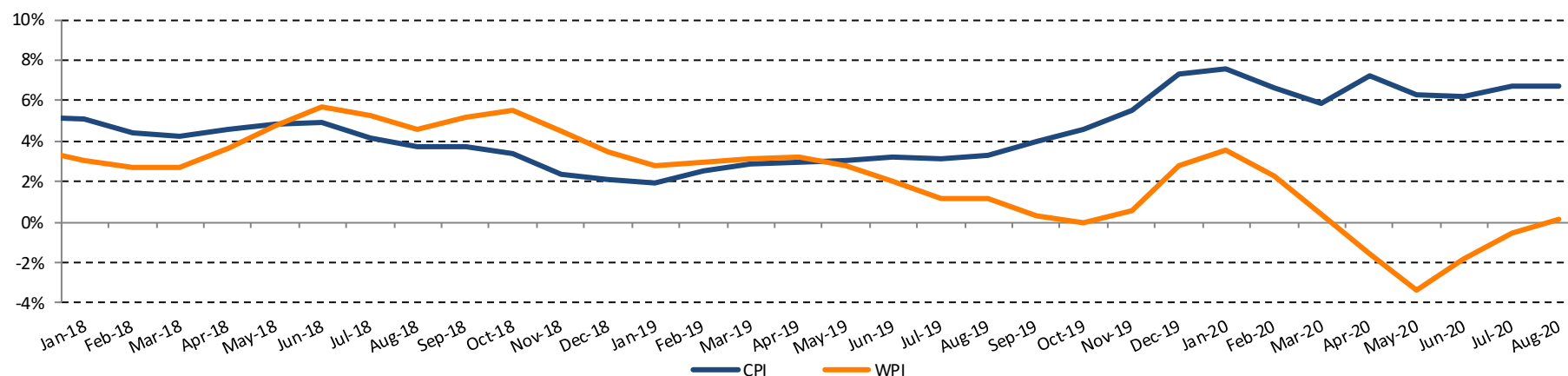
Source: NSO; CEIC; ICRA research

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

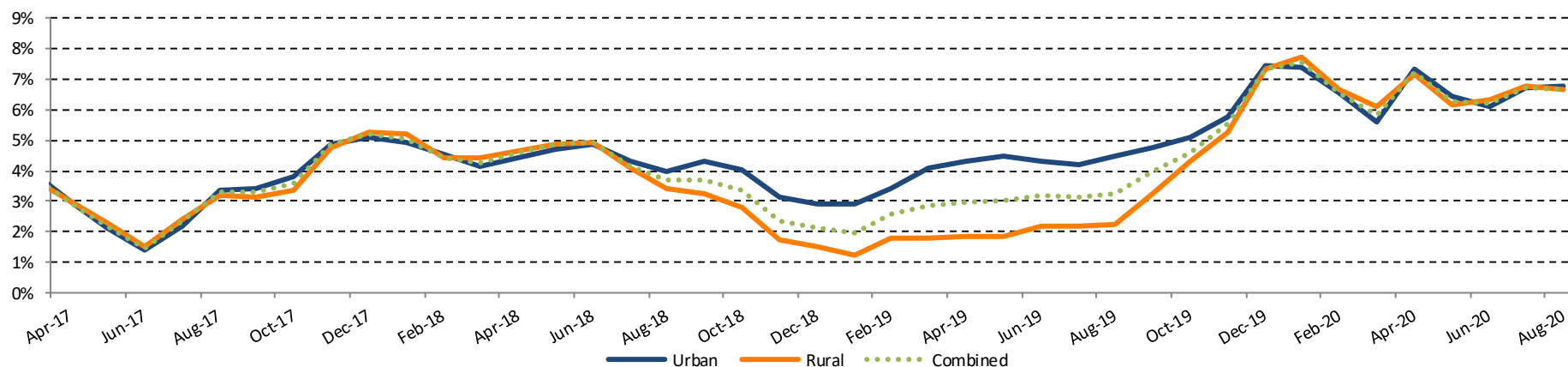
Source: NSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

Source: NSO; CEIC; ICRA research

Exhibit 6: WPI Inflation and CPI Inflation (YoY)

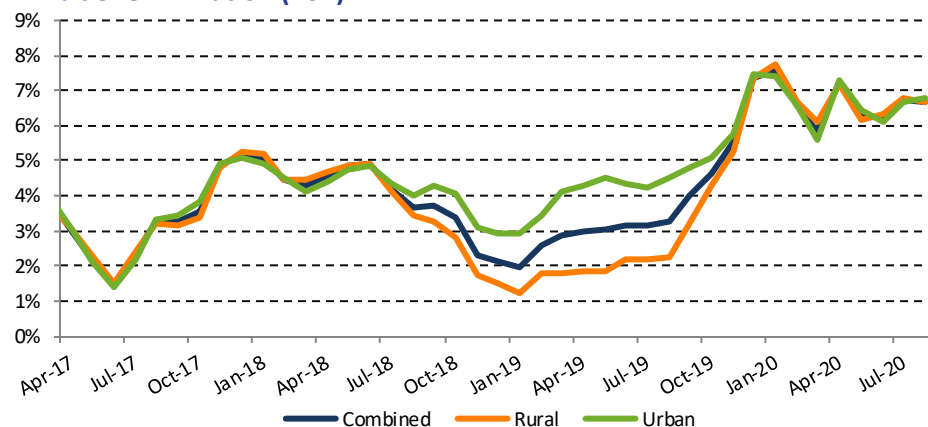
Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; NSO; CEIC; ICRA research

Exhibit 7: Rural and Urban CPI Inflation (YoY)

Source: NSO; CEIC; ICRA research

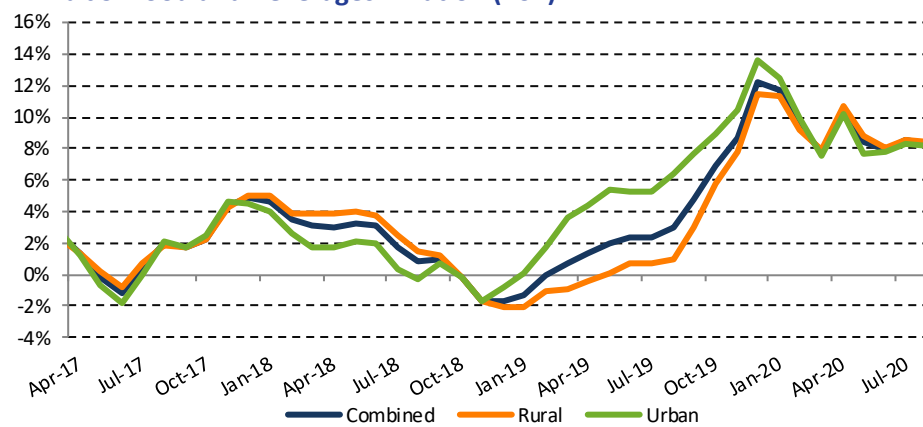
ANNEXURE

Exhibit 8: CPI Inflation (YoY)



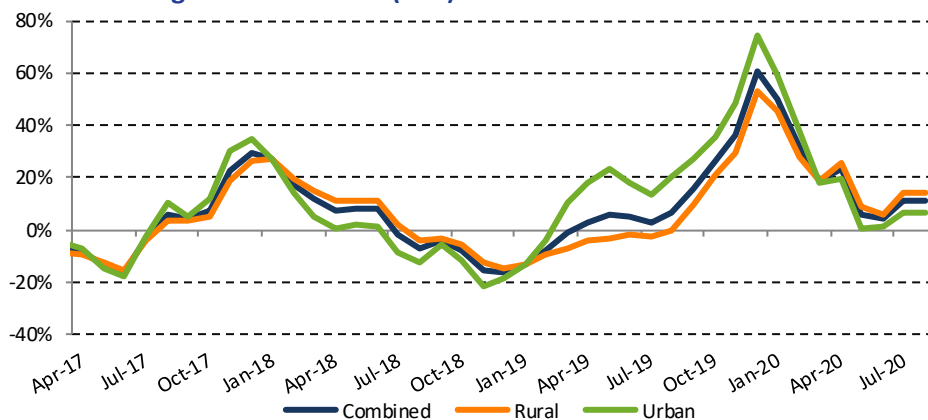
Source: NSO; CEIC; ICRA research

Exhibit 9: Food and Beverages Inflation (YoY)



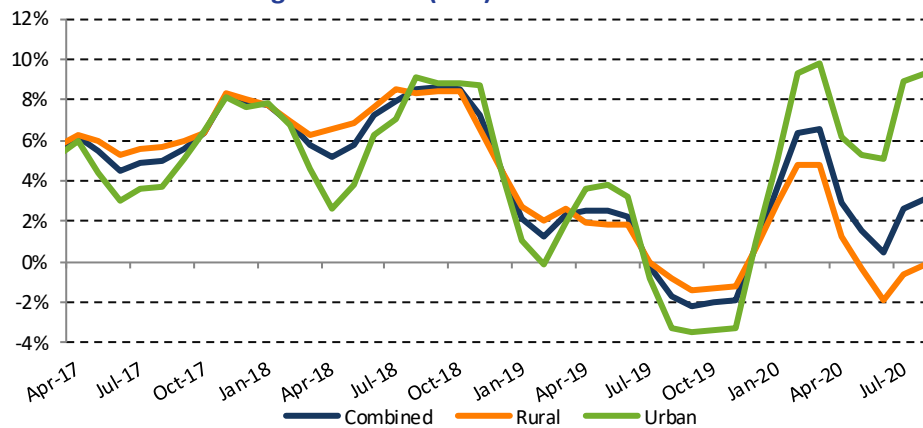
Source: NSO; CEIC; ICRA research

Exhibit 10: Vegetables Inflation (YoY)

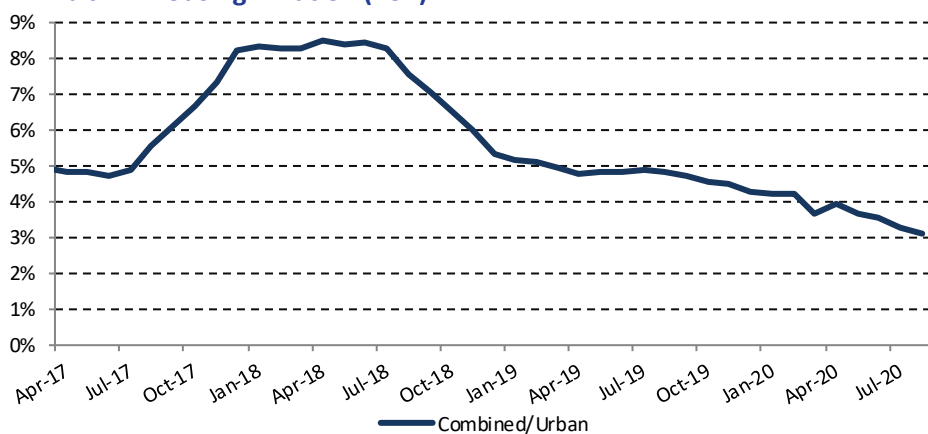


Source: NSO; CEIC; ICRA research

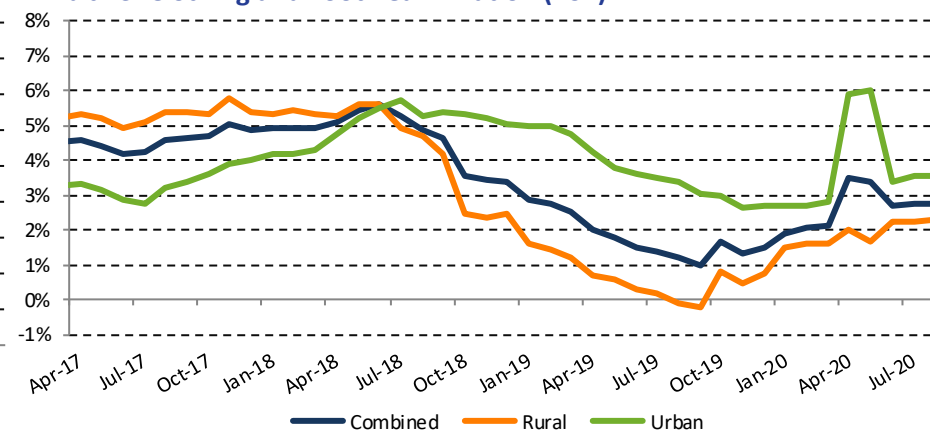
Exhibit 11: Fuel and Light Inflation (YoY)



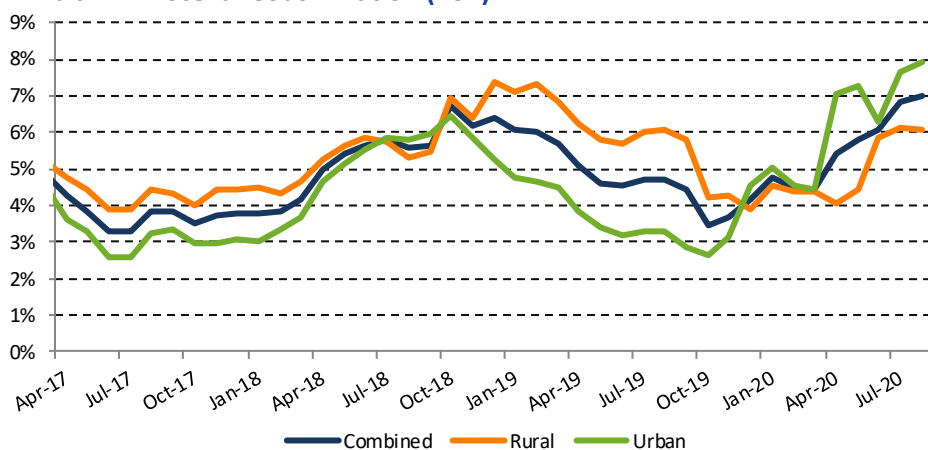
Source: NSO; CEIC; ICRA research

Exhibit 12: Housing Inflation (YoY)

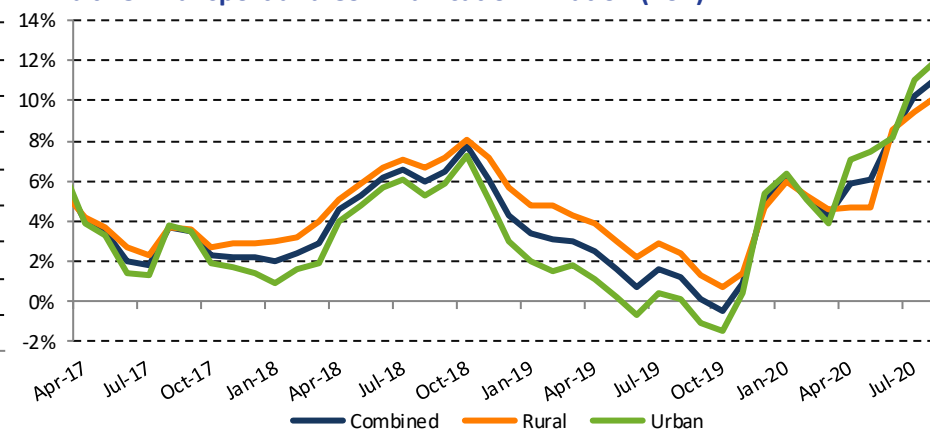
Source: NSO; CEIC; ICRA research

Exhibit 13: Clothing and Footwear Inflation (YoY)

Source: NSO; CEIC; ICRA research

Exhibit 14: Miscellaneous Inflation (YoY)

Source: NSO; CEIC; ICRA research

Exhibit 15: Transport and Communication Inflation (YoY)

Source: NSO; 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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