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A MOODY'S INVESTORS
SERVICE COMPANY



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CONSUMER PRICE INDEX SEPTEMBER 2020

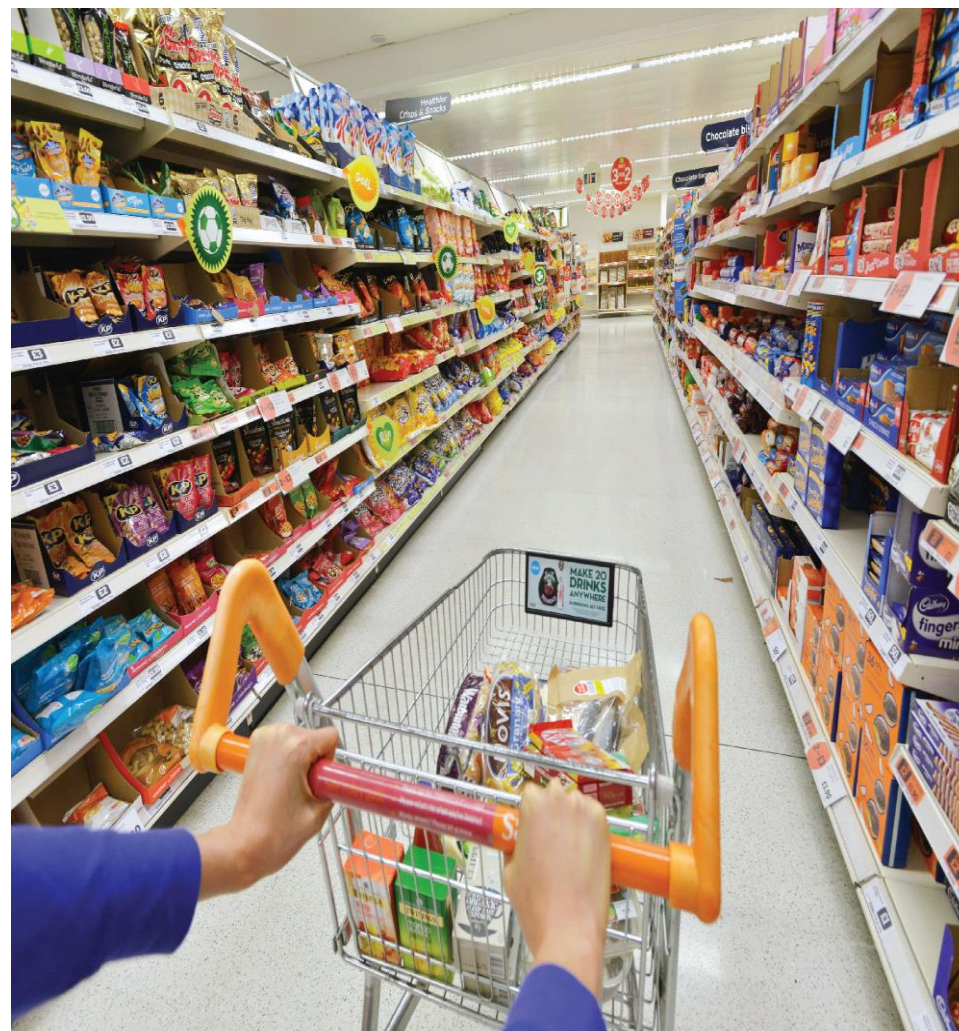
CPI inflation surged to 7.34% in September 2020

OCTOBER 2020



HIGHLIGHTS

- The year-on-year (YoY) CPI inflation increased to 7.34% in September 2020 from 6.69% in August 2020, and printed well above our expectation of 6.9% 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 September 2020.
- The sequential uptick in the YoY CPI inflation in September 2020 was primarily driven by a hardening in the inflation for food and beverages, and to a smaller extent, clothing and footwear. In contrast, the inflation for the other sub-groups such as pan, tobacco, and intoxicants, fuel and light, housing and miscellaneous items softened in September 2020 relative to the previous month.
- The core-CPI inflation (CPI excluding food and beverages, petrol and diesel for vehicles, and fuel and light) eased mildly to 5.5% in September 2020 from 5.6% in August 2020, on the back of softening in the inflation for pan, tobacco, and intoxicants, as well as some of the components of miscellaneous items such as personal care and effects.
- The rural and urban CPI inflation inched up to 7.4% and 7.3%, respectively, in September 2020 from 6.7% and 6.8%, respectively, in August 2020.
- Amidst the unfavourable trajectory of headline and food inflation, the relatively stable core inflation over the last three months offers some relief, keeping the hopes of a February 2021 rate cut alive.



OVERVIEW

- The YoY CPI inflation increased to an eight-month high 7.34% in September 2020 (+4.0% in September 2019) from 6.69% in August 2020 (+3.3% in August 2019), and printed well above our expectation of 6.9% 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 September 2020 (refer Exhibit 1 and 2).
- The sequential uptick in the YoY CPI inflation in September 2020 was primarily driven by hardening in the inflation for food and beverages, and to a smaller extent, clothing and footwear. In contrast, the inflation for other sub-groups such as pan, tobacco, and intoxicants, fuel and light, housing and miscellaneous items softened in September 2020 relative to the previous month.
- Despite the base effect, the YoY inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) increased further to a five-month high 9.7% in September 2020 (+4.7% in September 2019) from 8.3% in August 2020 (+3.0% in August 2019; refer Exhibit 3). The sequential uptick was led by a hardening in the inflation for eight sub-indices, namely, vegetables (to +20.7% in September 2020 from +11.5% in August 2020), eggs (to +15.5% from +10.1%), fruits (+3.2% from +1.0%), non-alcoholic beverages (to +6.6% from +5.4%), meat and fish (to +17.6% from +16.5%), oils and fats (to +13.4% from +12.4%), pulses and products (to +14.7% from +14.4%) and prepared meals, snacks, sweets (to +4.1% from +4.0%). In contrast, the YoY inflation softened for sugar and confectionery (to +2.5% from +3.9%), cereals and products (to +4.7% from +5.9%), spices (to +11.7% from +12.4%) and milk and products (to +5.6% from +6.2%) in September 2020 relative to the previous month. Overall, continuing double-digit inflation rates for vegetables (+20.7%), meat and fish (+17.6%), eggs (+15.5%), pulses and products (+14.7%), oils and fats (+13.4%), and spices (+11.7%) in September 2020 remain a concern. In month-on-month (MoM) terms, the food and beverages sub-index rose by 2.1% in September 2020, sharply higher than the 0.8% increase recorded in September 2019 (refer Exhibit 4), led by the trend for vegetables (+12.0% in September 2020; +3.5% in September 2019), eggs (+5.7%; +0.8%), meat and fish (to +1.1% from +0.1%), etc.
- Moreover, the YoY inflation pertaining to clothing and footwear (with a weight of 6.5% in the CPI) rose, albeit modestly, to 3.0% in September 2020 (+1.0% in September 2019), from 2.8% in August 2020 (+1.2% in August 2019). In MoM terms, this sub-index rose by 0.3% in September 2020, in contrast to an unchanged print in September 2019.
- While the inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) softened to 10.8% in September 2020 (+4.6% in September 2019) from 11.2% in August 2020 (+5.0% in August 2019), it remained in double-digits. In MoM terms, this sub-index rose by a mild 0.1% in September 2020, lower than the 0.4% increase recorded in September 2019.
- Moreover, the inflation for housing (with a weight of 10.1% in the CPI Index) eased to 2.8% in September 2020 (+4.7% in September 2019) from 3.1% in August 2020 (+4.8% in August 2019). In MoM terms, the sub-index recorded a 0.1% uptick in September 2020, lower than 0.4% increase recorded in September 2019.

- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) eased marginally to 6.9% in September 2020 (+4.5% in September 2019) from 7.0% in August 2020 (+4.7% in August 2019). This was primarily driven by softening in the inflation for personal care and effects, and recreation and amusement to 12.3% and 3.8%, respectively, in September 2020 from 14.5% and 4.0%, respectively, in August 2020. However, the inflation for transport and communication (to +11.5% from +11.0%), education (to +2.2% from +1.7%) and health (to +4.9% from +4.8%) rose in September 2020 relative to August 2020. In MoM terms, the sub-index for miscellaneous items increased by 0.3% in September 2020, lower than the same in September 2019 (+0.4%).
- The core-CPI inflation (CPI excluding food and beverages, petrol and diesel for vehicles, and fuel and light) eased mildly to 5.5% in September 2020 (+4.2% in September 2019) from 5.6% in August 2020 (+4.4% in August 2019; refer Exhibit 5), on the back of softening 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, the core-CPI rose by 0.2% in September 2020, lower than the MoM increase recorded in September 2019 (+0.3%). Overall, the headline CPI inflation exceeded the core-CPI inflation by a significant 179 bps in September 2020, as opposed to 104 bps in August 2020.
- Moreover, the inflation for the fuel and light sub-index (with a weight of 6.8% in the CPI) eased to 2.9% in September 2020 (-2.2% in September 2019) from 3.2% in August 2020 (-1.7% in August 2019), despite the base effect. This sub-index rose by a mild 0.2% in MoM terms in September 2020, appreciably lower than the 0.5% rise in September 2019.
- The YoY rural CPI inflation hardened to 7.4% in September 2020 from 6.7% in August 2020. While the YoY print for food and beverages (to +9.7% from +8.4%) and clothing and footwear (to +2.7% from +2.3%) increased in September 2020 compared to August 2020, that for pan, tobacco and intoxicants (to +10.4% from +10.8%) eased between these months. In addition, the inflation for miscellaneous items remained unchanged at 6.1% in September 2020, in line with the print recorded in August 2020.
- Similarly, the urban CPI inflation increased, but by a narrower extent, to 7.3% in September 2020 from 6.8% in August 2020, driven by food and beverages (to +9.9% from +8.2%). The impact of this was partly offset by the softening in the inflation for fuel and light (to +8.4% from +9.3%), pan, tobacco and intoxicants (to +12.0% from +12.4%), housing (to +2.8% from +3.1%) and miscellaneous items (to +7.7% from +7.9%). The rural CPI inflation reverted above the urban CPI inflation in September 2020, after a gap of a month.
- The buildup in the CPI inflation up to September 2020 stood at 5.3%, significantly higher than the buildup of 3.8% recorded up to September 2019, chiefly reflecting the trend for pan, tobacco and intoxicants (+7.8% till September 2020; +1.8% till September 2019), miscellaneous items (+4.6% vs. +2.2%) and food and beverages (+8.3% vs. +6.4%).
- The final headline CPI inflation for August 2020 was unchanged at 6.7%.

OUTLOOK

Retail prices of various items have recorded a varied trend in the initial part of October 2020, with stabilisation displayed by cereals, even as some pulses and oilseeds have displayed a rise. In the case of vegetables, prices of onions have surged so far in October 2020, whereas those of tomatoes have receded. Overall, a favourable base effect as well as anticipated healthy kharif arrivals are expected to soften the retail food inflation in the ongoing month, in our assessment.

The price of the Indian crude oil basket has eased somewhat in the ongoing month. Moreover, the retail prices of diesel and petroleum have displayed a similar trend. Overall, retail fuel prices are unlikely to exert substantial upward pressure on the CPI inflation in October 2020.

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

Even though the high food inflation will eventually prove to be transient, with the favourable base effect and kharif arrivals to soon initiate a downward trajectory, the average inflation figures for FY2021 as well as H2 FY2021 are likely to be uncomfortably high. Amidst the unpalatable headline and food inflation figures, the relatively stable core inflation over the last three months offers some relief, keeping the hopes of a February 2021 rate cut alive.

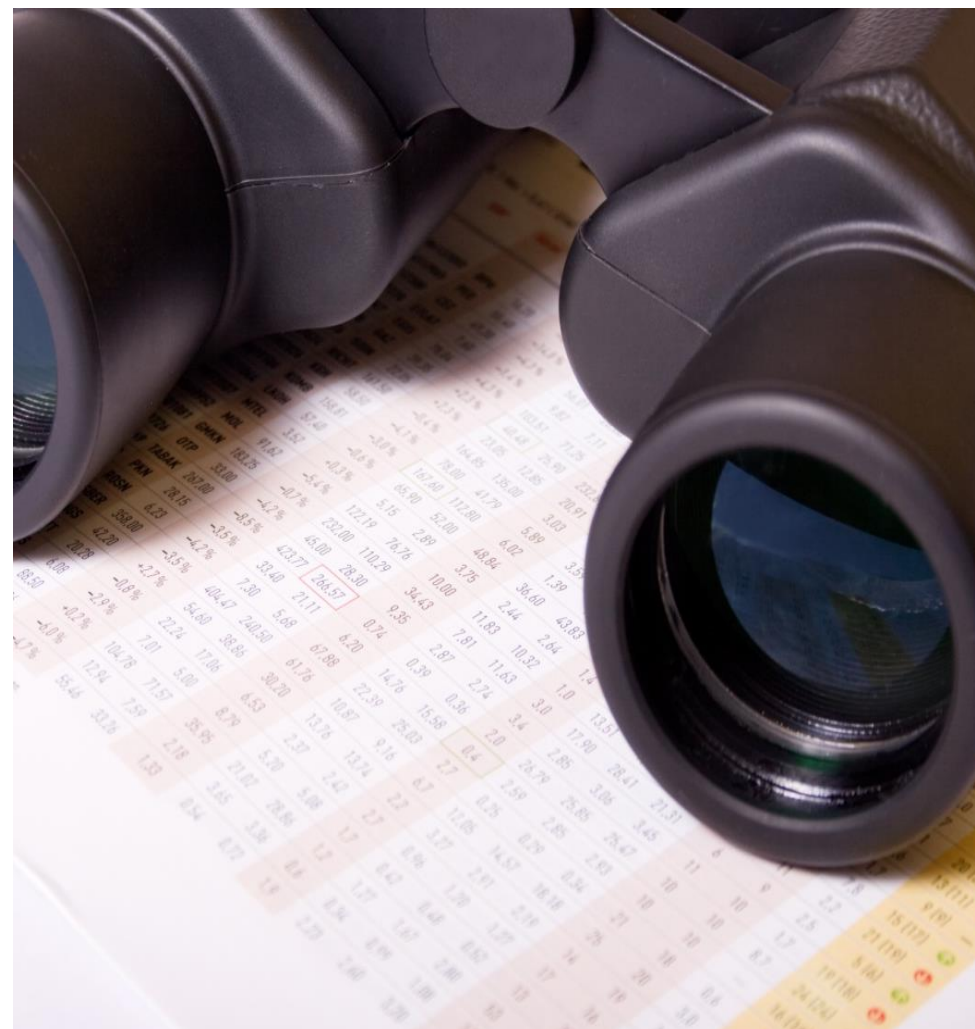
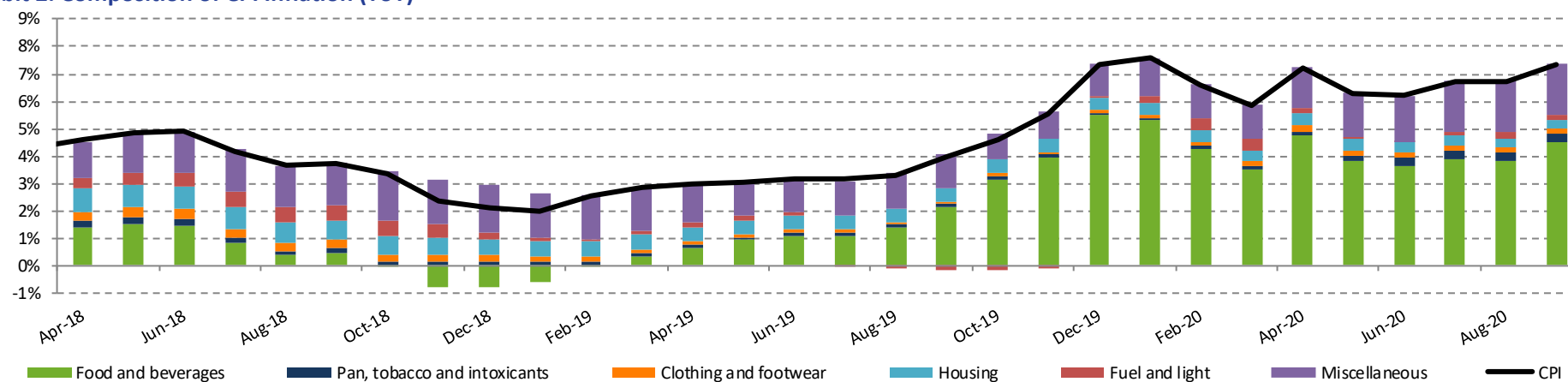


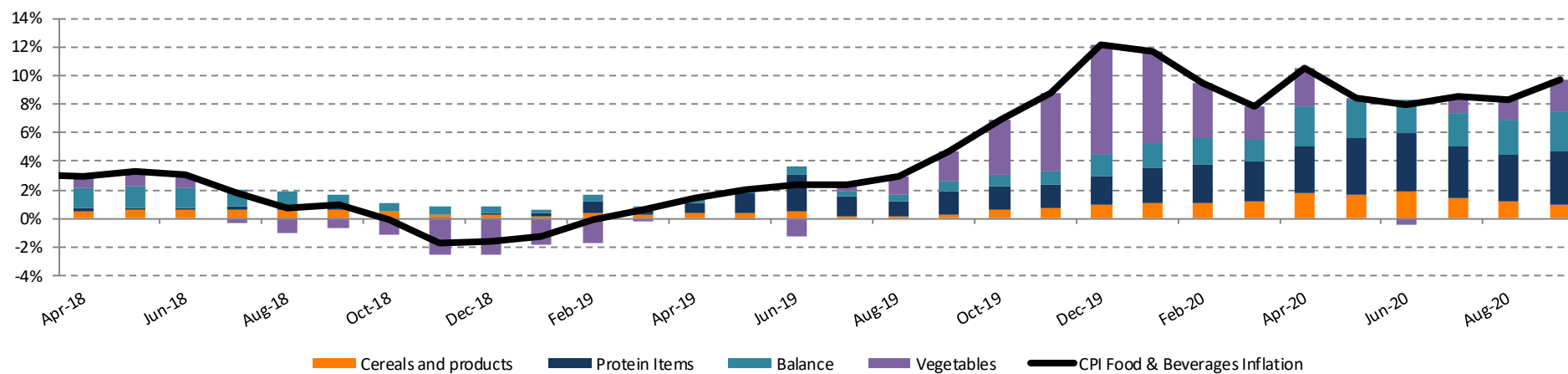
Exhibit 1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		July-20	August-20	August-20	September-20	September-20	September-20
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	6.7%	6.7%	6.7%	7.3%	1.2%	5.3%
Food and beverages	45.86	8.5%	8.3%	8.3%	9.7%	2.1%	8.3%
Cereals and products	9.67	6.9%	5.9%	5.9%	4.7%	-0.6%	1.7%
Meat and fish	3.61	17.3%	16.5%	16.5%	17.6%	1.1%	13.2%
Egg	0.43	7.7%	10.1%	10.1%	15.5%	5.7%	8.8%
Milk and products	6.61	6.5%	6.2%	6.2%	5.6%	0.0%	1.4%
Oils and fats	3.56	12.2%	12.4%	12.4%	13.4%	1.4%	6.8%
Fruits	2.89	0.1%	1.0%	1.0%	3.2%	0.3%	6.2%
Vegetables	6.04	11.1%	11.4%	11.5%	20.7%	12.0%	32.9%
Pulses and products	2.38	15.7%	14.4%	14.4%	14.7%	0.7%	6.9%
Sugar and confectionary	1.36	3.6%	3.9%	3.9%	2.5%	-0.3%	2.5%
Spices	2.50	12.9%	12.3%	12.4%	11.7%	0.4%	5.1%
Pan, tobacco and intoxicants	2.38	10.5%	11.2%	11.2%	10.8%	0.1%	7.8%
Clothing and footwear	6.53	2.8%	2.8%	2.8%	3.0%	0.3%	1.7%
Housing	10.07	3.3%	3.1%	3.1%	2.8%	0.1%	1.3%
Fuel and light	6.84	2.7%	3.1%	3.2%	2.9%	0.2%	-3.8%
Miscellaneous	28.32	6.8%	7.0%	7.0%	6.9%	0.3%	4.6%
Household goods and services	3.80	2.9%	3.0%	2.9%	2.9%	0.1%	1.6%
Health	5.89	4.8%	4.7%	4.8%	4.9%	0.4%	2.6%
Transport and communication	8.59	10.3%	11.0%	11.0%	11.5%	0.7%	8.2%
Recreation and amusement	1.68	3.9%	4.0%	4.0%	3.8%	0.0%	2.0%
Education	4.46	2.9%	1.6%	1.7%	2.2%	0.7%	1.6%
Personal care and effects	3.89	13.7%	14.5%	14.5%	12.3%	-0.9%	8.1%
CPI-Food	36.55	9.3%	9.1%	9.1%	10.7%	2.4%	9.3%
CPI-Core	44.97	5.5%	5.6%	5.6%	5.5%	0.2%	2.5%
CPI Rural		6.8%	6.7%	6.7%	7.4%	1.4%	5.2%
CPI Urban		6.7%	6.8%	6.8%	7.3%	0.8%	5.4%

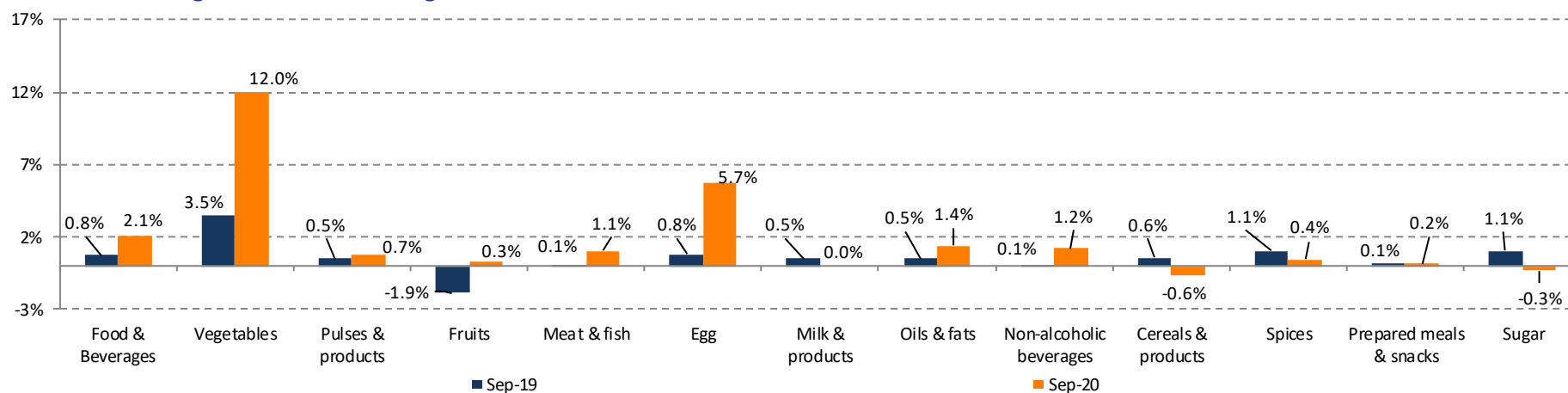
Source: National Statistical Office (NSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)

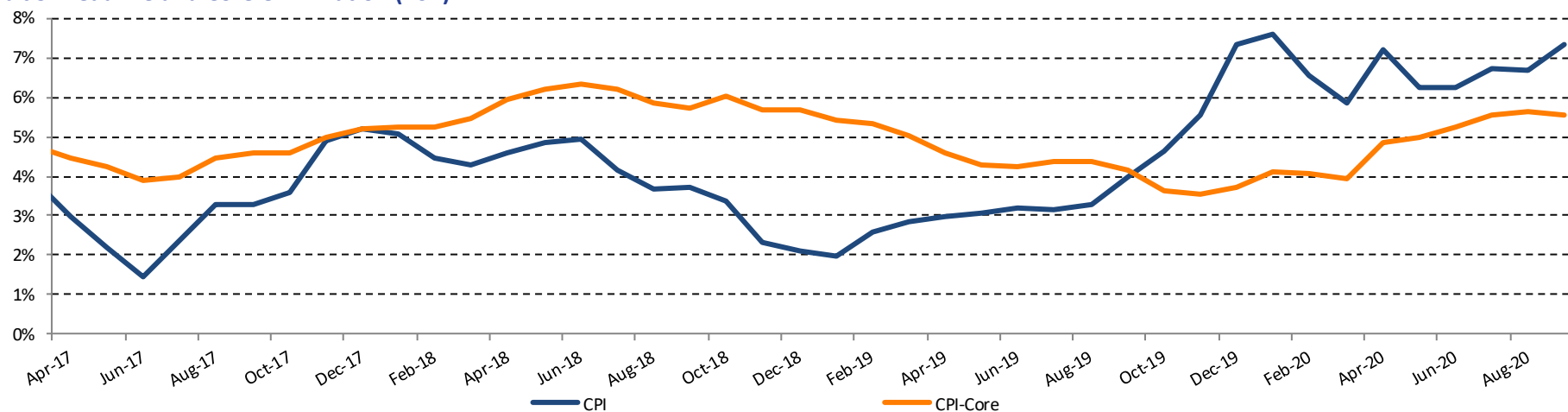
Source: NSO; CEIC; ICRA research

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

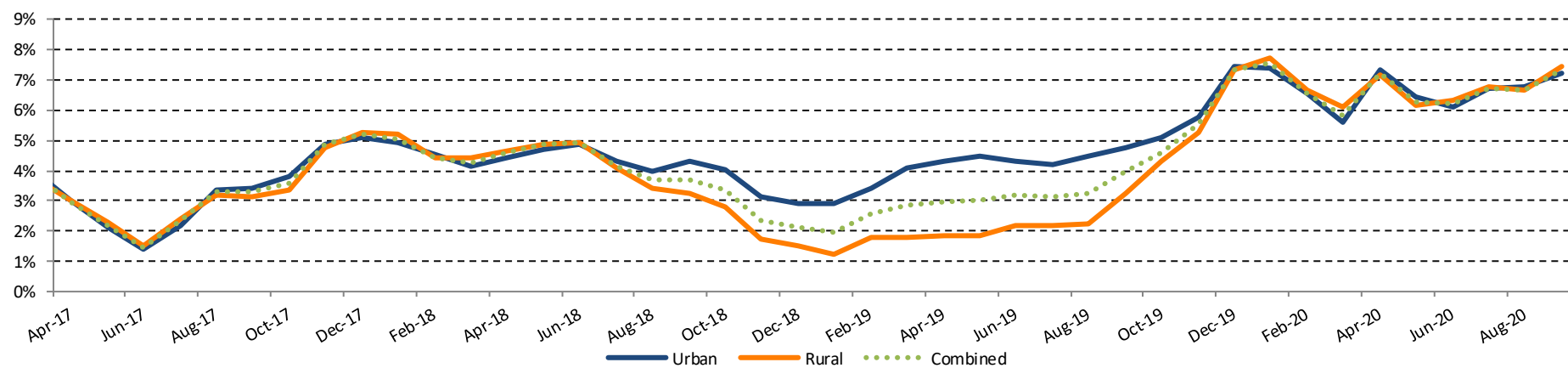
Source: NSO; CEIC; ICRA research

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

Source: NSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)

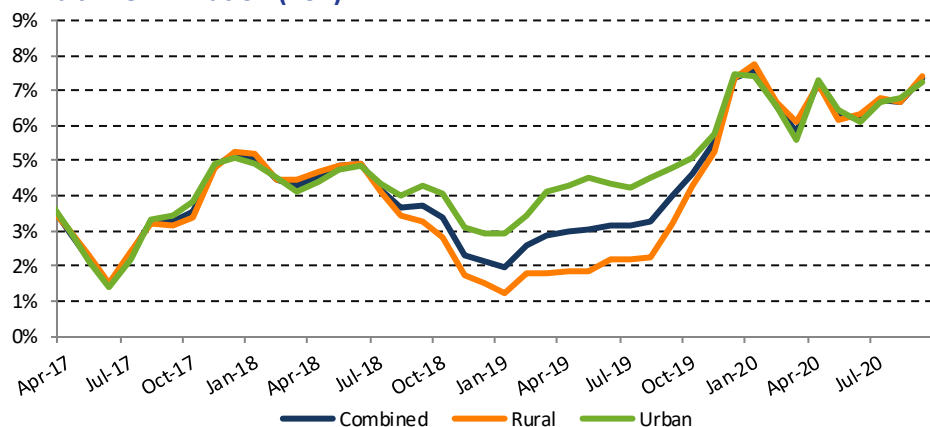
Source: NSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)

Source: NSO; CEIC; ICRA research

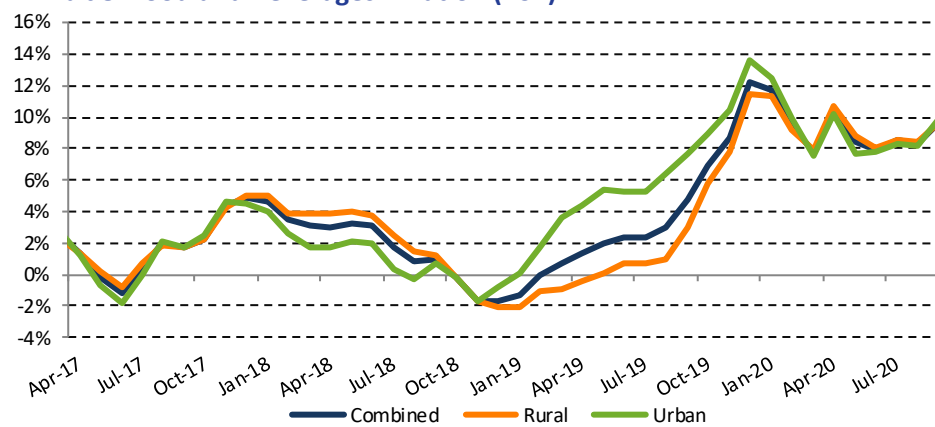
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



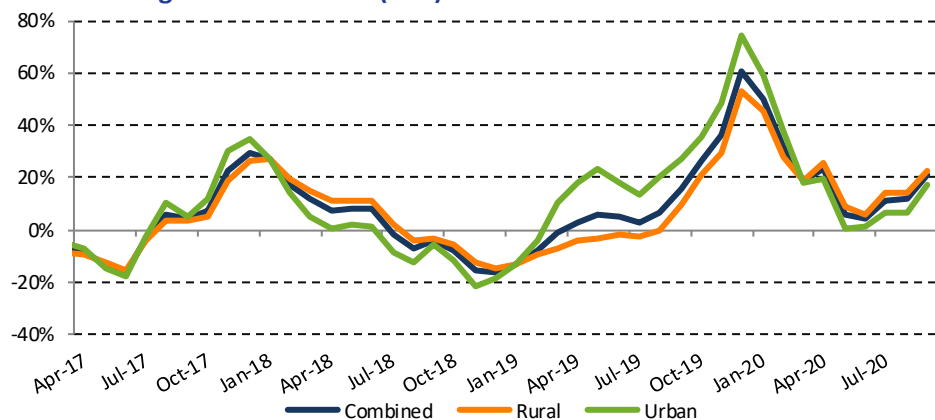
Source: NSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



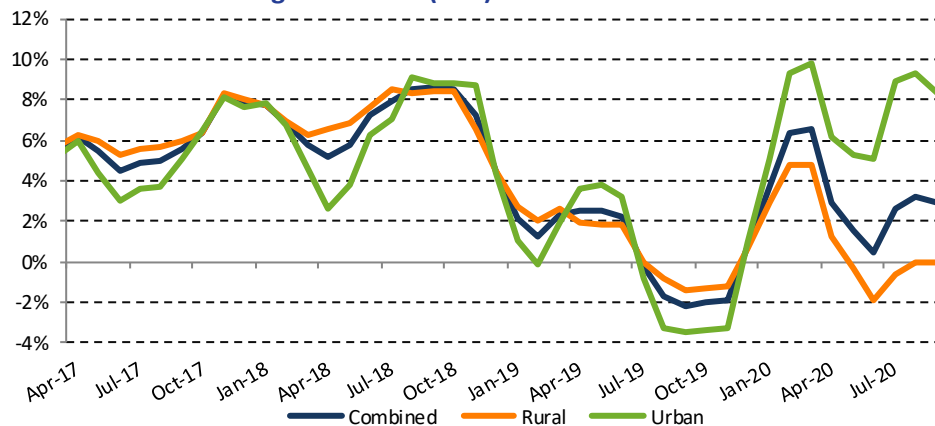
Source: NSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)

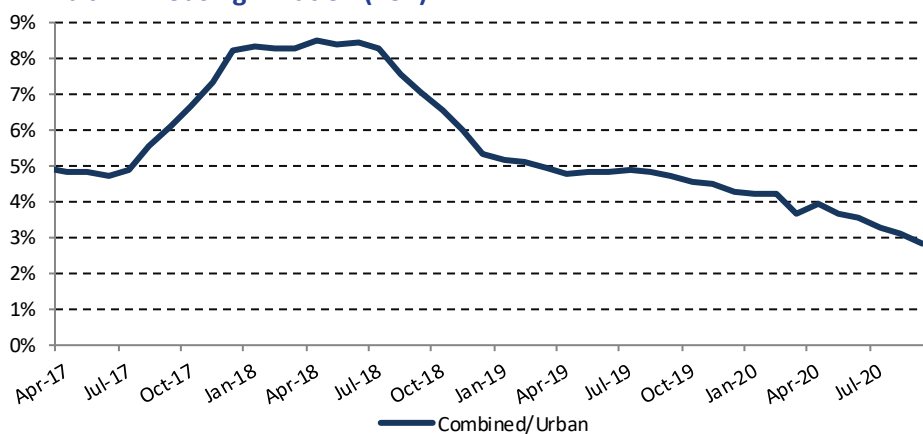


Source: NSO; CEIC; ICRA research

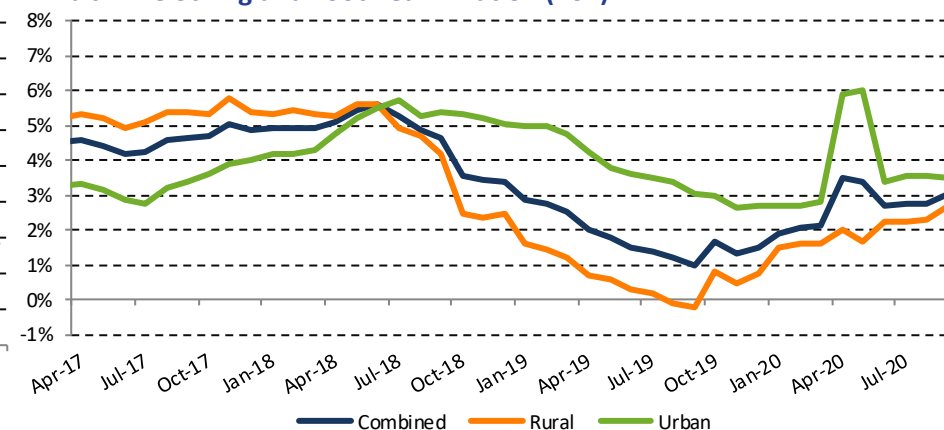
Exhibit 10: Fuel and Light Inflation (YoY)



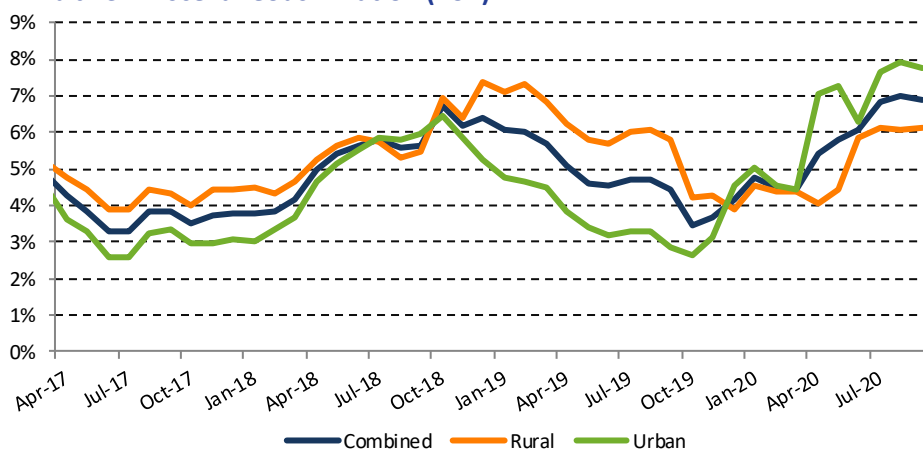
Source: NSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)

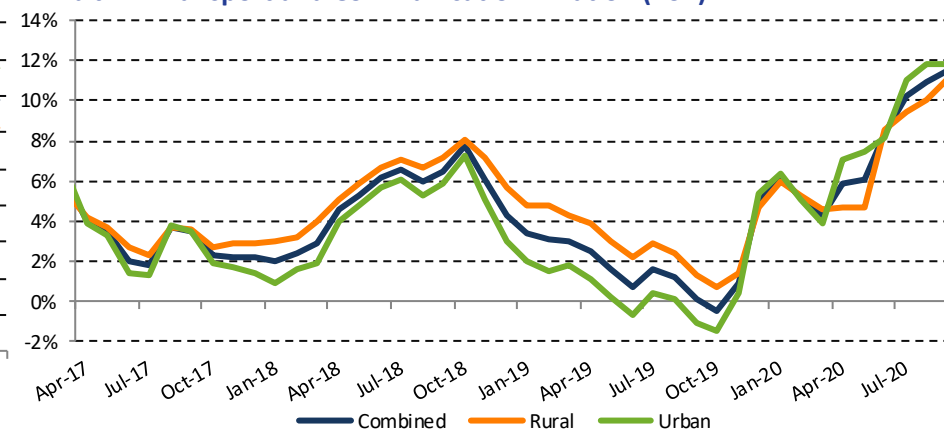
Source: NSO; CEIC; ICRA research

Exhibit 12: Clothing and Footwear Inflation (YoY)

Source: NSO; CEIC; ICRA research

Exhibit 13: Miscellaneous Inflation (YoY)

Source: NSO; CEIC; ICRA research

Exhibit 14: 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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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

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- Provide information and guidance to institutional and individual investors/creditors;
- 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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