



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

CONSUMER PRICE INDEX MAY 2021

CPI inflation soared to six-month
high 6.3% in May 2021, 100 bps
higher than expected

June 2021

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HIGHLIGHTS



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The YoY CPI inflation hardened to 6.3% in May 2021, a sharp 207 bps jump relative to April 2021

The core-CPI inflation rose to an 83-month high 6.6% in May 2021

For FY2022, we expect the CPI inflation to average 5.4%; MPC likely to display high tolerance given growth uncertainties

- The combined CPI inflation hardened to a six-month high 6.3% on a year-on-year (YoY) basis in May 2021 (+6.3% in May 2020) from 4.2% in April 2021 (ICRA exp: 5.3%; +7.3% in April 2020); this sharp jump of 207 basis points (bps) was twice as high as what we had expected.
- The CPI displayed a month-on-month (MoM) uptick of 1.6% in May 2021, amid the widening state level restrictions. This is nearly as high as the 1.9% MoM hardening that was seen in April 2020 during the nationwide lockdown, testing the assumption that supply disruptions have been limited in the second wave.
- Partly reflecting the base effect, the inflation for the food and beverages sub-index doubled to a six-month high 5.2% in May 2021 from the revised 2.6% in April 2021, and modestly exceeded our expectation. Notably, in MoM terms, the retail food prices of fruits and vegetables rose by 1.8% and 2.6%, respectively, in May 2021, charting a markedly different trend from the declines seen at the wholesale level (-7.2% and -8.3%, respectively).
- The core inflation (CPI excluding food and beverages, and fuel and light) recorded a substantial 1.5% MoM increase in May 2021, higher than the 1.1% rise in April 2020 amidst the lockdown. As a result, the core-CPI inflation rose to an 83-month high 6.6% in May 2021 from 5.4% in April 2021.
- The phased unlocking of the states may temper the CPI inflation to around 6.0% in the current month.
- We have raised our forecast for the FY2022 average CPI inflation to at least 5.4% from 5.2%. However, we believe the Monetary Policy Committee (MPC) will demonstrate a high tolerance even if the average CPI inflation ranges between 5.5-6.0% in FY2022, given the uncertainties regarding the growth outlook. Therefore, we continue to expect a status quo on the repo rate and a continuation of the accommodative stance through 2021.

OVERVIEW

- As the lockdown base faded, the headline CPI inflation displayed a broad-based increase to a six-month high 6.3% on a year-on-year (YoY) basis in May 2021 (+6.3% in May 2020) from the revised 4.2% in April 2021 (+7.2% in April 2020; refer Exhibit 1 and 2), sharply exceeding our forecast of 5.3% for that month.
- All of the major sub-indices displayed a sequential uptick in the YoY CPI inflation in May 2021, namely food and beverages, fuel and light, clothing and footwear, pan, tobacco and intoxicants, housing, and miscellaneous items.
- Reflecting the base effect, the inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) doubled to a six-month high 5.2% in May 2021 (+8.4% in May 2020) from the revised 2.6% in April 2021 (+10.5% in April 2020; refer Exhibit 3), and modestly exceeded our expectations. The sequential uptick was largely driven by lower disinflation in vegetables (to -1.9% in May 2021 from -14.5% in April 2021), sugar and confectionary (to -1.4% from -6.0%), and cereals and products (to -1.4% from -3.0%). In addition, the YoY inflation related to eggs (to +15.2% from +10.6%), oils and fats (to +30.8% from +25.9%), spices (to +6.9% from +4.3%), fruits (to +12.0% from +9.7%), pulses and products (to +9.4% from +7.5%), and prepared meals and snacks (to +5.1% from +4.0%) rose between these months. Moreover, milk and products witnessed an inflation of 0.6% in May 2021, in contrast to disinflation of 0.1% in April 2021. However, there was a softening in the inflation prints of items such as meat and fish (to +9.0% from +16.7%), and to a mild extent, for non-alcoholic beverages (to +15.1% from +15.2%). In MoM terms, the food and beverages sub-index increased by a substantial 1.7% in May 2021 (led by all sub-constituents barring fruits, and meat and fish), more than twice as high as the rise of 0.8% in April 2021. Moreover, the MoM rise of 1.7% in May 2021 is in contrast to the 0.8% decline in May 2020 (refer Exhibit 4), led chiefly by the trend for vegetables, the index for which rose by 2.6% in May 2021, in contrast to the 10.6% fall in May 2020. Additionally, in MoM terms, the retail food prices of fruits and vegetables rose by 1.8% and 2.6%, respectively, in May 2021, charting a markedly different trend from the declines seen at the wholesale level (-7.2% and -8.3%, respectively).
- The core-CPI (CPI excluding food and beverages, and fuel and light)¹ inflation hardened considerably to an 83-month high 6.6% in May 2021 (+5.0% in May 2020) from 5.4% in April 2021 (+4.8% in April 2020; refer Exhibit 5). This was led by an uptick in the inflation for all the major sub-groups between these two months. In MoM terms, the core-CPI increased by a substantial 1.5% in May 2021, much higher than the 0.3% uptick seen in May 2020. Moreover, the former exceeded even the 1.1% rise that was witnessed in April 2020 amidst the nation-wide lockdown.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) rose to 101-month high 7.5% in May 2021 (+5.8% in May 2020) from 6.1% in April 2021 (+5.4% in April 2020). The rise in the YoY inflation was broad based, led by personal care and effects (to +8.0% from +5.4%), household goods and services (to +3.9% from +1.9%), recreation and amusement (to +6.3% from +4.6%), transport and communication (to +12.4% from +10.8%), education (to +1.4% from +0.6%) and health (+8.4% from +7.7%). In MoM terms, the sub-index for miscellaneous items rose by 1.8% in May 2021, considerably higher than the 0.5% rise recorded in May 2020, led by personal care and effects (+2.6% in May 2021; +0.1% in May 2020) and household goods and services (to +2.1% from +0.2%, respectively).

¹ Since the detailed data for March-May 2020 is not available, we have not excluded prices for petrol and diesel of vehicles in the calculation of the core-CPI index for the YoY inflation rates.

- In addition, the inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) increased further to a three-month high 10.0% in May 2021 (+6.3% in May 2020) from 9.0% in April 2021 (+5.9% in April 2020). In MoM terms, this sub-index rose by a considerable 1.6% in May 2021, higher than the 0.7% increase recorded in May 2020.
- The YoY inflation pertaining to clothing and footwear (with a weight of 6.5% in the CPI) hardened to a 35-month high 5.3% in May 2021 (+3.4% in May 2020) from 3.5% in April 2021 (+3.5% in April 2020). In MoM terms, this sub-index rose by a sharp 2.0% in May 2021, as compared to the mild 0.2% rise seen in May 2020.
- In addition, the inflation for the fuel and light sub-index (with a weight of 6.8% in the CPI) increased sharply to an 111-month high 11.6% in May 2021 (+1.6% in May 2020) from the revised 8.0% in April 2021 (+2.9% in April 2020), chiefly led by the low base related to the crash in the international crude oil prices in May 2020 owing to the prevailing subdued global demand. This sub-index recorded a substantial 2.2% uptick in May 2021, in MoM terms, while it had recorded a 1.1% dip in May 2020.
- Additionally, the inflation for housing (with a weight of 10.1% in the CPI Index) rose modestly to a 13-month high 3.9% in May 2021 (+3.7% in May 2020) from 3.7% in April 2021 (+3.9% in April 2020). In MoM terms, the sub-index recorded a rise of 0.1% in May 2021, while it remained unchanged in May 2020.
- The core-CPI inflation (CPI excluding food and beverages, and fuel and light) exceeded the headline inflation for the sixth consecutive month in May 2021. However, the gap between the two narrowed to 26 bps from 116 bps in the previous month.
- The rural CPI inflation hardened sharply to 6.5% in May 2021 from 3.8% in the previous month, whereas the urban CPI inflation rose to 6.0% from 4.7%, respectively. The uptick in rural as well as urban inflation in May 2021 relative to April 2021 was broad-based. The higher uptick in the rural CPI inflation than the urban CPI inflation was led by clothing and footwear, fuel and light, food and beverages. As a result, the wedge between these two indices reversed in May 2021.
- The final headline CPI inflation for April 2021 was revised downwards to 4.2% from the initial 4.3%, led by food and beverages (to +2.6% from +2.7%) and miscellaneous items (to +6.1% from +6.2%).
- With a higher uptick in the WPI inflation than the CPI inflation in May 2021 relative to April 2021, the wedge between the two has surged to 664 basis points (bps; +12.9% vs. +6.3%) from 626 basis points (bps; +10.5% vs. +4.2%), respectively.

OUTLOOK

The early data released by the Department of Consumer Affairs for the month of June 2021 has revealed an uptick in terms of prices of various food items, such as wheat and atta, vegetables like potatoes, tomatoes and onions, and various edible oils (sunflower, palm, soya, vanaspati, etc.). In addition, the average prices of pulses like gram, masoor and urad dal have risen sequentially by 0.0-1.7% in June 2021, while those for tur and moong dal have softened mildly. Moreover, the price of rice has recorded a mild easing in the ongoing month relative to May 2021. Going forward, a normal southwest monsoon, projected by the IMD, should help to dampen the overall food inflation, especially in cereals and pulses.

The average international crude oil price, in Indian basket terms, has risen by 4.9% to \$70.3/barrel during June 1-11, 2021 from \$67.0/barrel in May 2021, driven by the prospects of improving global demand along with depleting fuel inventories of US. Consequently, retail fuel prices have risen to record high levels in the ongoing month, which will add to inflationary pressures.

With rising global prices of commodities such as iron ore, copper, steel, etc. as well as an increase in logistical costs, the core-CPI inflation may remain relatively sticky, and display a limited correction going forward.

The phased unlocking of the states may temper the CPI inflation to around 6.0% in the current month. We have raised our forecast for the FY2022 average CPI inflation to at least 5.4% from 5.2%. However, we believe the MPC will demonstrate a high tolerance even if the average CPI inflation ranges between 5.5-6.0% in FY2022, given the uncertainties regarding the growth outlook. Therefore, we continue to expect a status quo on the repo rate and a continuation of the accommodative stance through 2021.

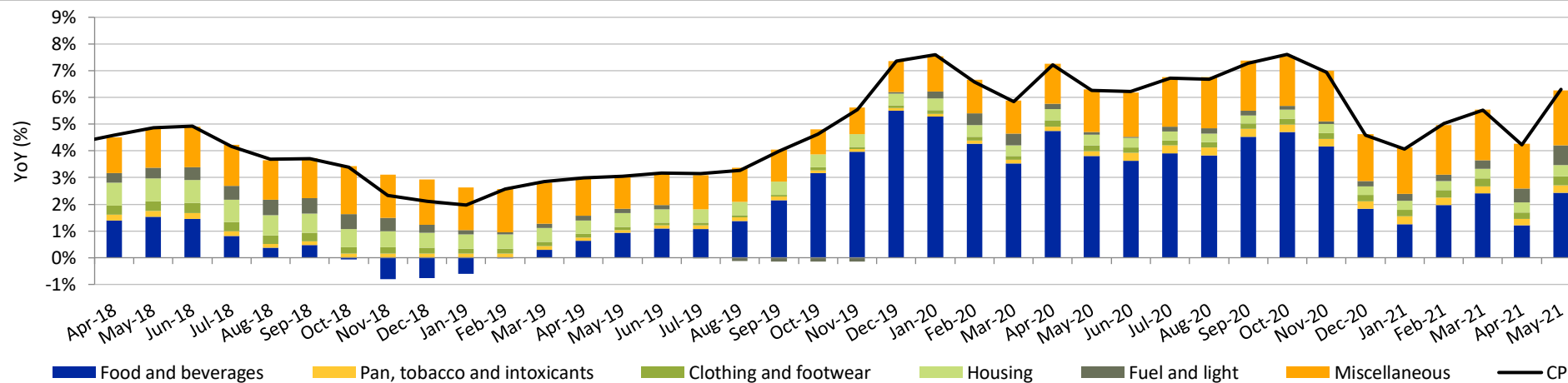


Exhibit 1: Trend in CPI Inflation (YoY)

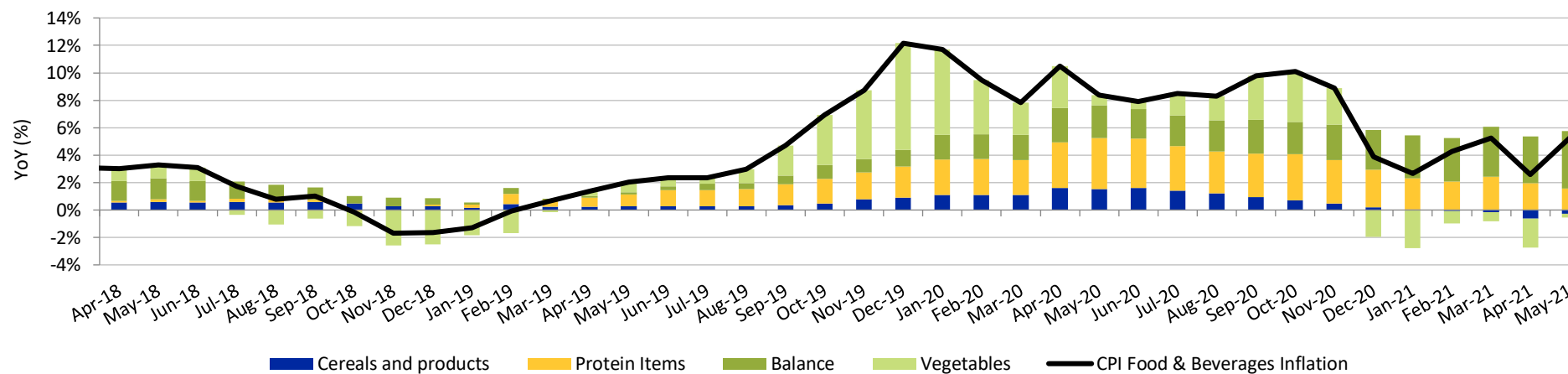
	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		March-21 Final	April-21 Provisional	April-21 Final	May-21 Provisional	May-21 Provisional	May-21 Provisional
CPI (combined)	100.00	5.5%	4.3%	4.2%	6.3%	1.6%	2.3%
<i>Food and beverages</i>	45.86	5.2%	2.7%	2.6%	5.2%	1.7%	2.6%
Cereals and products	9.67	-0.7%	-3.0%	-3.0%	-1.4%	1.4%	1.5%
Meat and fish	3.61	15.1%	16.7%	16.7%	9.0%	1.2%	4.3%
Egg	0.43	10.6%	10.6%	10.6%	15.2%	3.4%	3.9%
Milk and products	6.61	2.2%	-0.1%	-0.1%	0.6%	0.5%	0.8%
Oils and fats	3.56	24.9%	25.9%	25.9%	30.8%	5.0%	9.0%
Fruits	2.89	7.9%	9.8%	9.7%	12.0%	1.8%	8.8%
Vegetables	6.04	-5.0%	-14.2%	-14.5%	-1.9%	2.6%	-1.1%
Pulses and products	2.38	13.3%	7.5%	7.5%	9.4%	2.3%	3.5%
Sugar and confectionary	1.36	-0.5%	-6.0%	-6.0%	-1.4%	1.6%	2.0%
Spices	2.50	6.7%	4.3%	4.3%	6.9%	2.6%	2.9%
<i>Pan, tobacco and intoxicants</i>	2.38	9.9%	9.0%	9.0%	10.0%	1.6%	2.0%
<i>Clothing and footwear</i>	6.53	4.4%	3.5%	3.5%	5.3%	2.0%	2.6%
<i>Housing</i>	10.07	3.5%	3.7%	3.7%	3.9%	0.1%	1.1%
<i>Fuel and light</i>	6.84	4.4%	7.9%	8.0%	11.6%	2.2%	2.3%
<i>Miscellaneous</i>	28.32	7.0%	6.2%	6.1%	7.5%	1.8%	2.2%
Household goods and services	3.80	3.3%	2.0%	1.9%	3.9%	2.1%	2.5%
Health	5.89	6.2%	7.8%	7.7%	8.4%	2.2%	2.5%
Transport and communication	8.59	12.5%	11.0%	10.8%	12.4%	1.6%	1.8%
Recreation and amusement	1.68	6.2%	4.6%	4.6%	6.3%	1.9%	2.3%
Education	4.46	2.6%	0.9%	0.6%	1.4%	0.9%	1.0%
Personal care and effects	3.89	5.9%	5.4%	5.4%	8.0%	2.6%	3.7%
<i>CPI-Food</i>	36.55	4.9%	2.0%	2.0%	5.0%	1.9%	2.8%
<i>CPI-Core*</i>	47.30	6.0%	5.4%	5.4%	6.6%	1.5%	2.0%
<i>CPI Rural</i>		4.6%	3.8%	3.8%	6.5%	2.2%	2.7%
<i>CPI Urban</i>		6.5%	4.8%	4.7%	6.0%	1.1%	1.8%

*Since the detailed data for March-May 2020 is not available, we have not excluded prices for petrol and diesel of vehicles in the calculation of the core-CPI index for the YoY inflation rates

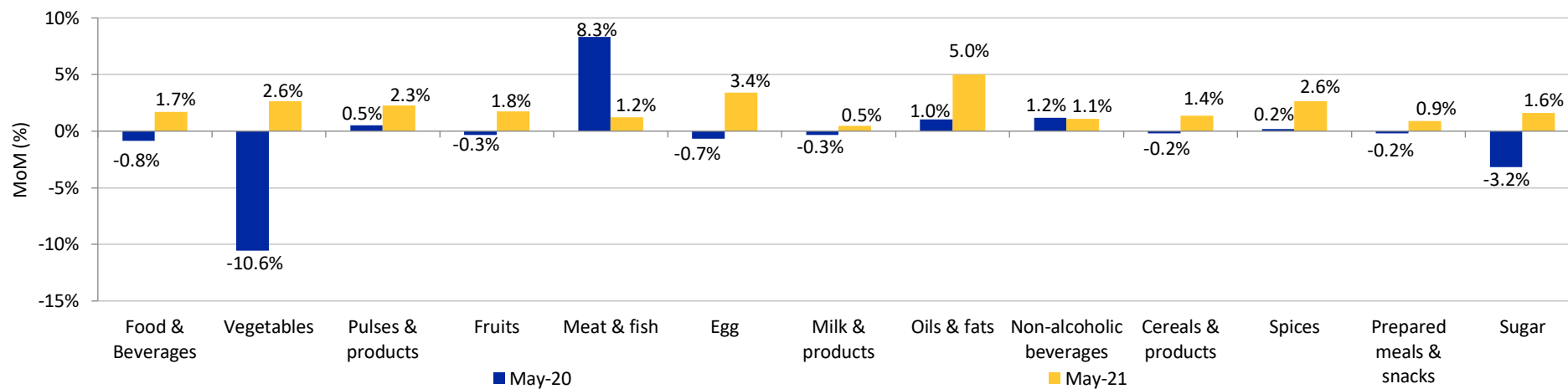
Source: National Statistical Office (NSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)


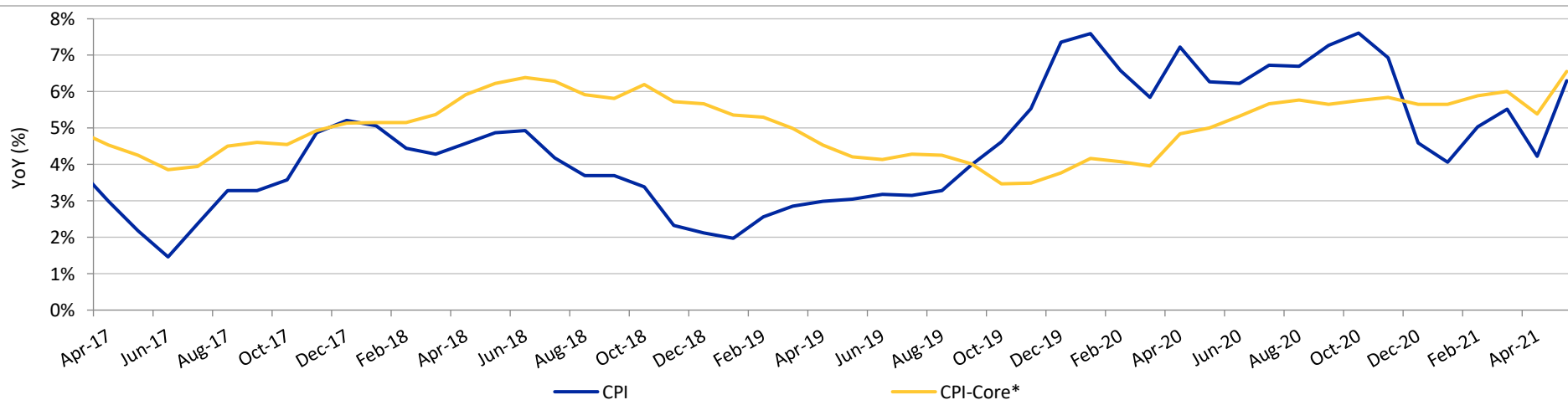
Source: NSO; CEIC; ICRA research

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


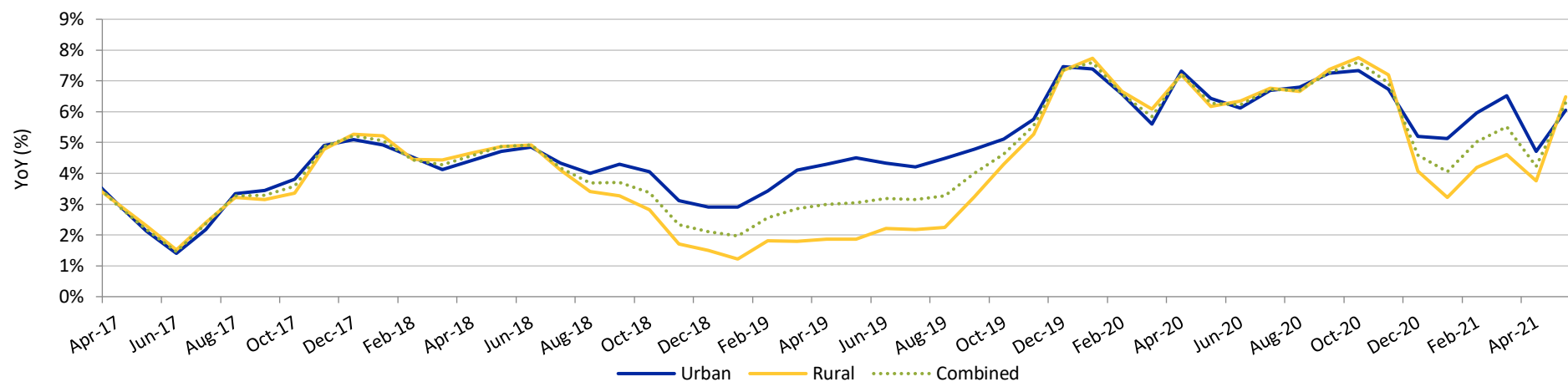
Source: NSO; CEIC; ICRA research

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


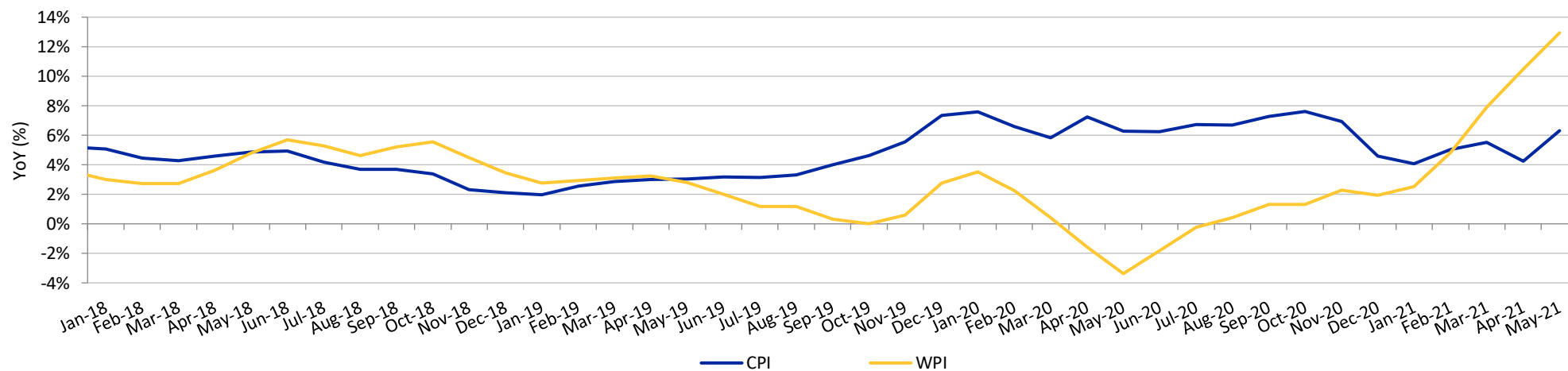
Source: NSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)


*Since the detailed data for March-May 2020 is not available, we have not excluded prices for petrol and diesel of vehicles in the calculation of the core-CPI index for the YoY inflation rates; Source: NSO; CEIC; ICRA research

Exhibit 6: Rural and Urban CPI Inflation (YoY)


Source: NSO; CEIC; ICRA research

Exhibit 7: CPI Inflation and WPI Inflation (YoY)


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

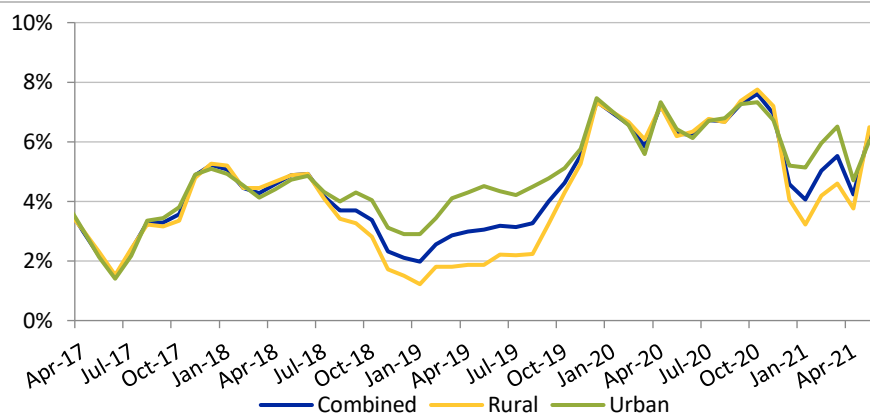
Exhibit 8: Sub-sectors with highest contribution in CPI Inflation

Sub-Group	Item Description	Weight (%)	Sub-Group	Item Description	Weight (%)
Food and Beverages	Milk: Liquid	6.42	Housing	House Rent, Garage Rent	9.51
	Rice – other sources*	4.38		Residential Building and Land (cost of repairs only)	0.28
	Wheat/Atta – other sources*	2.56		Water Charges	0.16
	Cooked Meals Purchased	2.42		Watch man Charges	0.11
Pan, Tobacco and Intoxicants	Bidi	0.43	Fuel and Light	Electricity	2.26
	Foreign/Refined Liquor or Wine	0.40		Firewood and Chips	2.07
	Country Liquor	0.35		LPG (excluding conveyance)	1.29
	Other Tobacco Products	0.26		Dung Cake	0.44
Clothing and Footwear	Saree	0.90	Miscellaneous	Medicine (non-institutional)	4.01
	Cloth for Shirt, Pyjama, Kurta, Salwar, etc.	0.68		Tuition and Other Fees (school, college, etc.)	2.90
	Shirts, T-shirts	0.57		Petrol for Vehicle	2.19
	Shorts, Trousers, Bermudas	0.55		Telephone Charges: Mobile	1.84

*Sources other than PDS; Source: NSO; CEIC; ICRA research

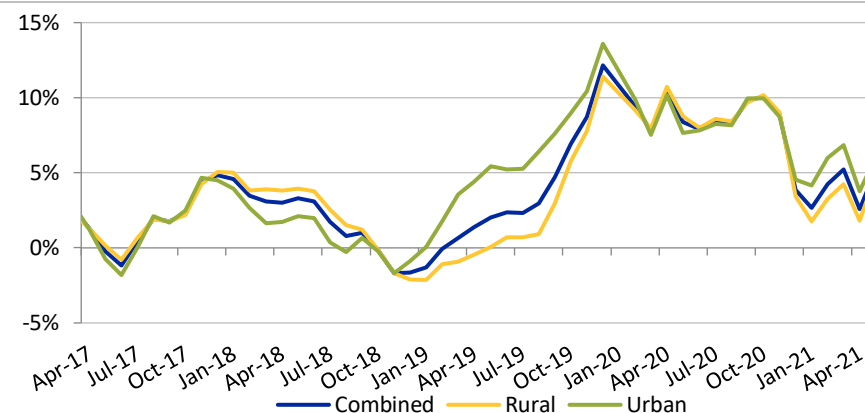
ANNEXURE

Exhibit 9: CPI Inflation (YoY)



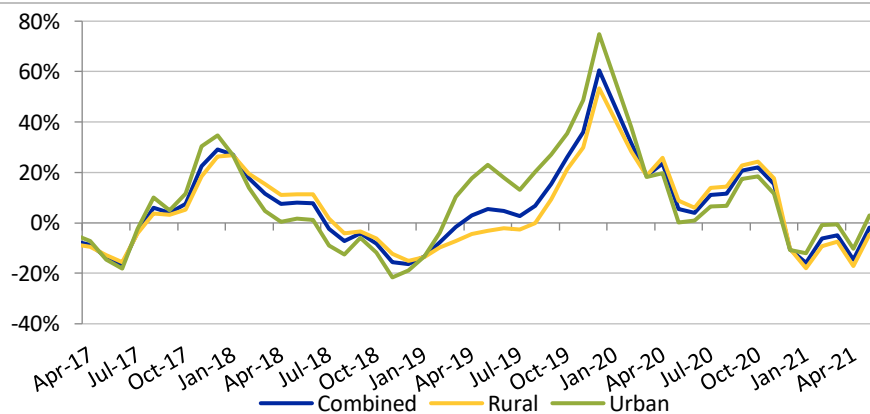
Source: NSO; CEIC; ICRA research

Exhibit 10: Food and Beverages Inflation (YoY)



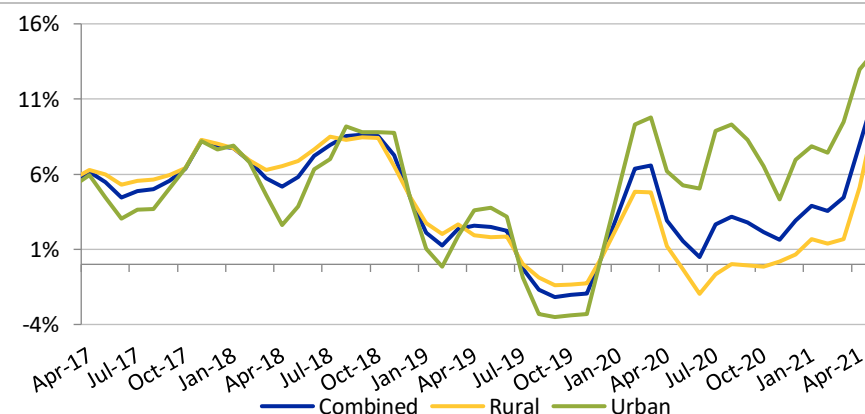
Source: NSO; CEIC; ICRA research

Exhibit 11: Vegetables Inflation (YoY)

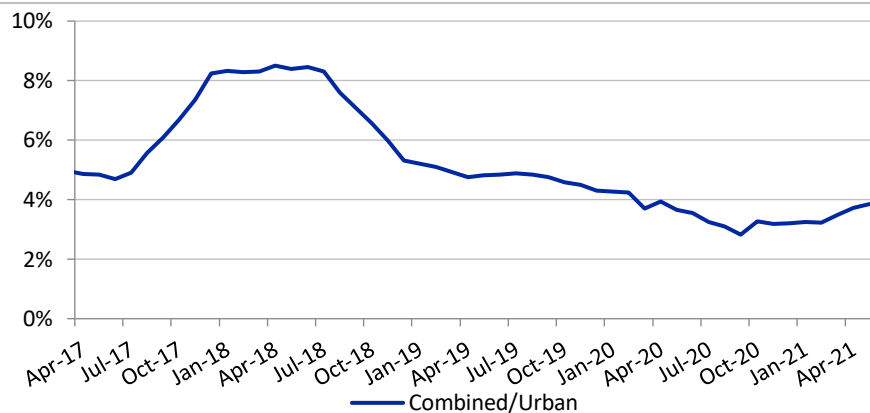


Source: NSO; CEIC; ICRA research

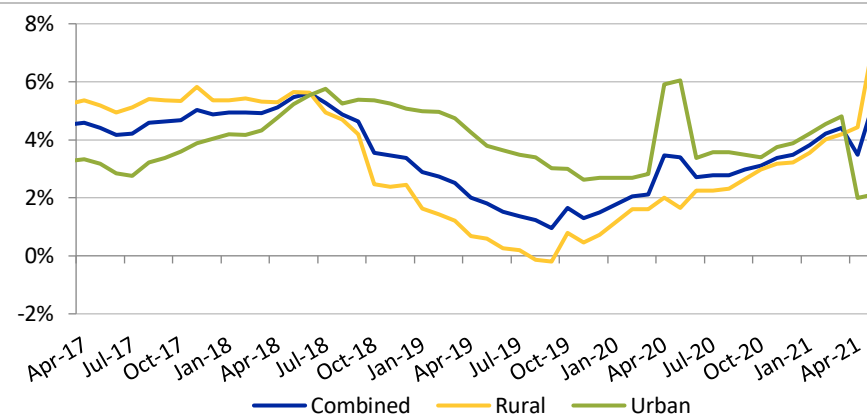
Exhibit 12: Fuel and Light Inflation (YoY)



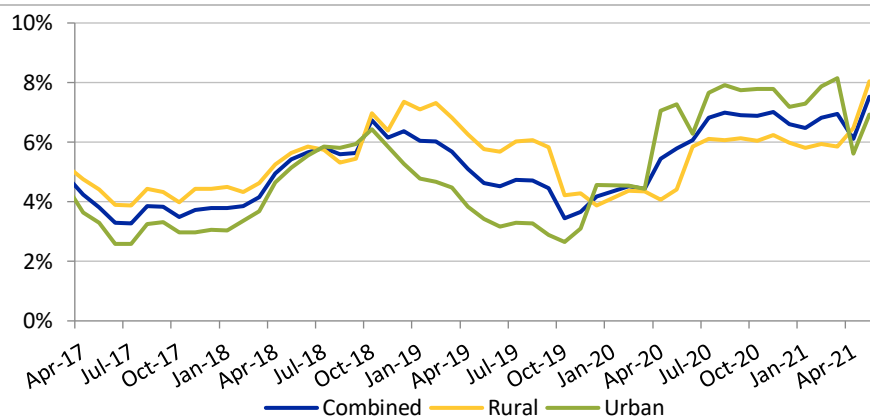
Source: NSO; CEIC; ICRA research

Exhibit 13: Housing Inflation (YoY)


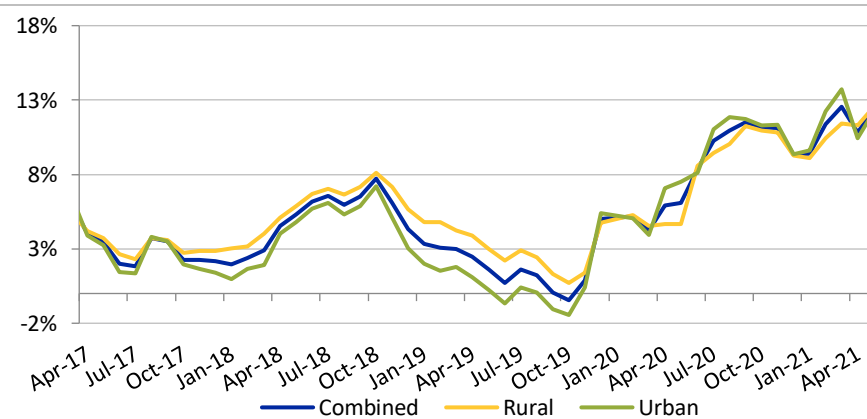
Source: NSO; CEIC; ICRA research

Exhibit 14: Clothing and Footwear Inflation (YoY)


Source: NSO; CEIC; ICRA research

Exhibit 15: Miscellaneous Inflation (YoY)


Source: NSO; CEIC; ICRA research

Exhibit 16: Transport and Communication Inflation (YoY)


Source: NSO; CEIC; ICRA research



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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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