



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

CONSUMER PRICE INDEX AUGUST 2021

Four-month low CPI inflation of
5.3% in Aug 2021 to allay concerns
for October MPC review

September 2021

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HIGHLIGHTS



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The YoY CPI inflation declined to a four-month low 5.3% in August 2021 from 5.6% in July 2021, well below the 6% upper tolerance level of the MPC's medium term target (2-6%) for the second consecutive month

The sequential decline in the YoY CPI inflation in August 2021 was mainly driven by food and beverages

Today's print is likely to allay any lingering fears regarding the tone of the upcoming MPC review

The headline CPI inflation declined to a four-month low 5.3% on a year-on-year (YoY) basis in August 2021 (ICRA's exp: +5.9%) from 5.6% in July 2021, well below the upper tolerance level of the Monetary Policy Committee's (MPC's) 2-6% medium term target. The decline in the YoY CPI inflation in August 2021 relative to July 2021 was primarily driven by a softening in the inflation for food and beverages, as well as pan, tobacco and intoxicants and miscellaneous items. The latter contributed to a moderation in the core-CPI inflation to 5.5% in August 2021 from 5.7% in July 2021. The softening in the August 2021 CPI inflation, in conjunction with the Q1 FY2022 GDP growth being mildly lower than the MPC's forecast of 21.4%, is likely to allay the discomfort in the tone of the upcoming policy review, and the subsequent minutes of the individual MPC's members.

- **Headline CPI inflation moderated to 5.3% in August 2021 from 5.6% in July 2021:** The headline CPI inflation declined to a four-month low 5.3% on a YoY basis in August 2021 from 5.6% in July 2021, well below the upper tolerance level of the MPC's 2-6% medium term target for the second consecutive month.
- **Food and beverages, and miscellaneous items contributed to the sharp cooling in the CPI Inflation in August 2021:** The dip in the YoY CPI inflation in August 2021 relative to July 2021 was primarily driven by a softening in the inflation for food and beverages, as well as pan, tobacco and intoxicants, and miscellaneous items, even as the inflation for clothing and footwear, and fuel and light rose, and that for housing was largely stable between these months.
- **Vegetables, fruits and eggs drove the YoY dip in food inflation:** The inflation for the food and beverages sub-index receded appreciably to four-month low 3.8% in August 2021 from 4.5% in July 2021. This was primarily driven by a considerable easing in the inflation for eggs and fruits, as well as a deeper YoY disinflation in vegetables. In month-on-month (MoM) terms, the index for food and beverages was unchanged in August 2021.
- **Core-CPI inflation eased to 5.5% in August 2021 from 5.7% in July 2021:** The YoY easing in the core-CPI inflation in August 2021, relative to July 2021 was led by miscellaneous items (especially reflecting the correction in personal care and effects), as well as pan, tobacco and intoxicants.
- **Status quo expected in October 2021 policy review:** The stance and policy rate are likely to be left unchanged until strengthening domestic demand replaces supply-side constraints as the key driver of inflationary pressures. The Q2 FY2022 GDP data and the festive season trends will provide a clearer signal of the strength of the demand revival, and guide the tone of the Dec 2021 review. At present, we believe policy normalisation could commence in Feb 2022, with a change in the stance of monetary policy to neutral from accommodative, followed by a hike in the repo rate of 25 bps each in the Apr 2022 and Jun 2022 meetings.

OVERVIEW

- The headline CPI inflation declined to a four-month low 5.3% on a YoY basis in August 2021 (ICRA's exp.: +5.9%; +6.69% in August 2020) from 5.6% in July 2021 (+6.73% in July 2020; refer Exhibit 1 and 2), well below the upper tolerance level of the MPC's 2-6% medium term target. Contrary to our apprehension, the CPI inflation receded appreciably in August 2021, led by a lower than expected inflation related to food.
- The correction in the YoY CPI inflation in August 2021 relative to July 2021 was chiefly driven by a softening in the inflation for food and beverages, as well as a moderation in the inflation for pan, tobacco and intoxicants, and miscellaneous items, even as the inflation for clothing and footwear, and fuel and light rose, and that for housing was largely stable between these months.
- Benefitting from an unchanged index for food and beverages, the MoM uptick in the CPI inflation declined to a mild 0.2% in August 2021, from 0.7% and 0.5%, respectively, in July 2021 and August 2020.
- The inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) softened to a four-month low 3.8% in August 2021 (+8.3% in August 2020) from 4.5% in July 2021 (+8.5% in July 2020; refer Exhibit 3). This was driven by a considerable easing in the inflation for eggs (to +16.3% in August 2021 from +20.8% in July 2021) and fruits (to +6.7% from +9.0%), as well as deeper YoY disinflation in vegetables (to -11.7% from -7.8%, led by potatoes, onion, garlic and cauliflower). Additionally, there was a mild easing in the inflation for pulses and products (to +8.8% from +9.0%; reflecting the continued impact of the change in the import policy), spices (to +5.1% from +5.2%), non-alcoholic beverages (to +13.9% from +14.4%) and sugar and confectionary (to -0.6% from -0.5%). In contrast, the inflation for oils and fats (to +33.0% from +32.5%), meat and fish (to +9.2% from +8.3%), and milk and products (to +2.9% from +2.7%; reflecting the impact of milk price hike by some dairy firms) witnessed an uptick over the same period. In addition, the inflation for prepared meals and snacks remained unchanged at 6.1% in August 2021, in line with the level recorded in July 2021. In MoM terms, after an increase of 0.9% in July 2021, the index of food and beverages was unchanged in August 2021 at the previous month's level; downticks in eggs (-2.6% in Aug 2021), meat and fish (-1.2%), fruits (-1.8%), pulses (-0.6%) and cereals (-0.1%), absorbing the upticks in sugar (+1.0%), oils and fats (+0.9%), milk (+0.3%), vegetables (+0.4%) and spices (+0.1%). Moreover, the MoM print of food and beverages index in August 2021 (+0.0%) stood in contrast to the rise of 0.6% seen in August 2020 (refer Exhibit 4).
- The core-CPI (CPI excluding food and beverages, fuel and light, and petrol and diesel index for vehicles) inflation eased mildly to 5.5% in August 2021 (+5.6% in August 2020) from 5.7% in July 2021 (+5.5% in July 2020; refer Exhibit 5), led by miscellaneous items (to +6.4% from +6.7%), especially reflecting the correction in personal care and effects (to +1.0% from +3.8%), as well as pan, tobacco and intoxicants (to +4.0% from +4.7%). The core-CPI inflation exceeded the headline inflation (CPI excluding food and beverages, and fuel and light) for the second consecutive month in August 2021. In MoM terms, the core-CPI rose by 0.4% in August 2021, lower than the increase of 0.6% in August 2020.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) softened to 6.4% in August 2021 (+7.0% in August 2020) from 6.7% in July 2021 (+6.8% in July 2020), partly aided by a favourable base. This was driven by the correction in the inflation for personal care and effects (to an 81-month low +1.0% from +3.8%; led by gold, silver and other ornaments), and to a mild extent, transport and communication (to +10.2% from +10.5%). However, the YoY inflation for other sub-constituents such as household goods and services (to +5.4% from +5.0%), recreation and amusement (to +6.5% from +6.4%), education (to +3.8% from +3.0%) and health (to +7.8% from +7.7%) rose in August 2021, relative to the previous month. In

MoM terms, the uptick in the sub-index for miscellaneous items moderated to 0.4% in August 2021 from the unnerving 0.9% in July 2021, easing fears regarding the inflation trajectory. Moreover, it was lower than the 0.7% MoM uptick in August 2020, led by personal care and effects (-0.1% in August 2021; +2.7% in August 2020).

- Additionally, the YoY inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) eased to 19-month low 4.0% in August 2021 (+11.2% in August 2020) from 4.7% in July 2021 (+10.5% in July 2020), partly on account of the high base. In MoM terms, this sub-index rose by 0.3% in August 2021, sharply lower than the 1.0% increase recorded in August 2020.
- In contrast, the YoY inflation pertaining to clothing and footwear (with a weight of 6.5% in the CPI) rose to an 81-month high 6.8% in August 2021 (+2.77% in August 2020) from 6.4% in July 2021 (+2.78% in July 2020). In MoM terms, the sub-index firmed up by 0.6% in August 2021 (+0.4% in July 2021; +0.2% in August 2020), which may be a signal of demand recovery.
- Moreover, the inflation for the fuel and light sub-index (with a weight of 6.8% in the CPI) hardened to a series-high 12.9% in August 2021 (+3.2% in August 2020) from 12.4% in July 2021 (+2.7% in July 2020), and remained in double-digits for the fourth consecutive month. This sub-index rose by 0.4% in August 2021 in MoM terms, in contrast to the mild 0.1% fall in August 2020.
- The inflation for housing (with a weight of 10.1% in the CPI Index) rose marginally to 3.90% in August 2021 (+3.1% in August 2020) from 3.86% in July 2021 (+3.3% in July 2020). In MoM terms, this sub-index increased by 0.6% in August 2021, exceeding the rise of 0.5% seen in August 2020.
- Additionally, the rural and urban CPI inflation converged at 5.3% each in August 2021, declining from 5.5% and 5.8%, respectively, in the previous month. The relatively sharper YoY moderation in the urban CPI inflation compared to the rural CPI inflation in August 2021 as compared to July 2021 was driven by a considerable cooling in the inflation for food and beverages, and softening in the inflation for miscellaneous items. However, the YoY CPI inflation for fuel and light hardened in urban areas in August 2021 as compared to the previous month, whereas that for rural areas recorded a mild easing. The YoY inflation for clothing and footwear rose in both rural and urban areas during August 2021, relative to July 2021.
- The final headline CPI inflation for July 2021 was unchanged at 5.6%.

OUTLOOK

The early data for the month of September 2021 has revealed a sequential decline in the average price of tomatoes after the hardening in the previous month, and a moderation for potatoes and onions, as well as rice. However, the average prices of pulses including masoor, tur, moong, gram and urad dal have risen mildly sequentially in September 2021. Additionally, the prospects of tightening global supplies have led to a further sequential uptick in the domestic average prices of all edible oils such as soya oil, vanaspati oil, palm oil, etc. in Sep 2021. In view of this, the GoI has further reduced the basic customs duty on crude palm, soy and sunflower oil with effect from Sep 11, 2021. **Although kharif sowing is still lagging last-year's level, it remains healthy compared to FY2020. The reservoir storage on Sep 9, 2021 is trailing the corresponding level in 2019 and 2020. This suggests a cautious outlook for rabi sowing, unless rains remain strong in the rest of this month, which would be counterproductive for the kharif harvest. Availability of fertilisers has also emerged as a concern for the upcoming rabi season as systemic inventory is significantly below the historical levels. The recently announced Minimum Support Prices for such crops for marketing season FY2023 indicate a healthy rise for mustard/rapeseed (+8.6%) and masoor dal (+7.8%), which may incentivise farmers to switch to these crops, and help to cool inflation.**

The average global crude oil price, in Indian basket terms, rose mildly to \$70.9/bbl during Sep 1-10, 2021 from \$70.1/bbl in Aug 2021, whereas average domestic retail fuel prices have dipped so far in Sep 2021.

The August 2021 CPI inflation print is likely to ease the discomfort in the tone of the upcoming policy review, and the subsequent minutes of the MPC's members. Moreover, fears of immediate policy normalisation have been doused with the Q1 FY2022 GDP growth being mildly lower than the MPC's forecast of 21.4%. The stance and policy rate are likely to be left unchanged until strengthening domestic demand replaces supply-side constraints as the key driver of inflationary pressures. The Q2 FY2022 GDP data and the festive season trends will provide a clearer signal of the strength of the demand revival, and guide the tone of the Dec 2021 review. At present, we believe policy normalisation could commence in Feb 2022, with a change in the stance of monetary policy to neutral from accommodative, followed by a hike in the repo rate of 25 bps each in the Apr 2022 and Jun 2022 meetings. Once the lift-off starts, we believe that the MPC will stagger rate increases over a period of time, instead of immediately trying to push real interest rates back into the positive territory.

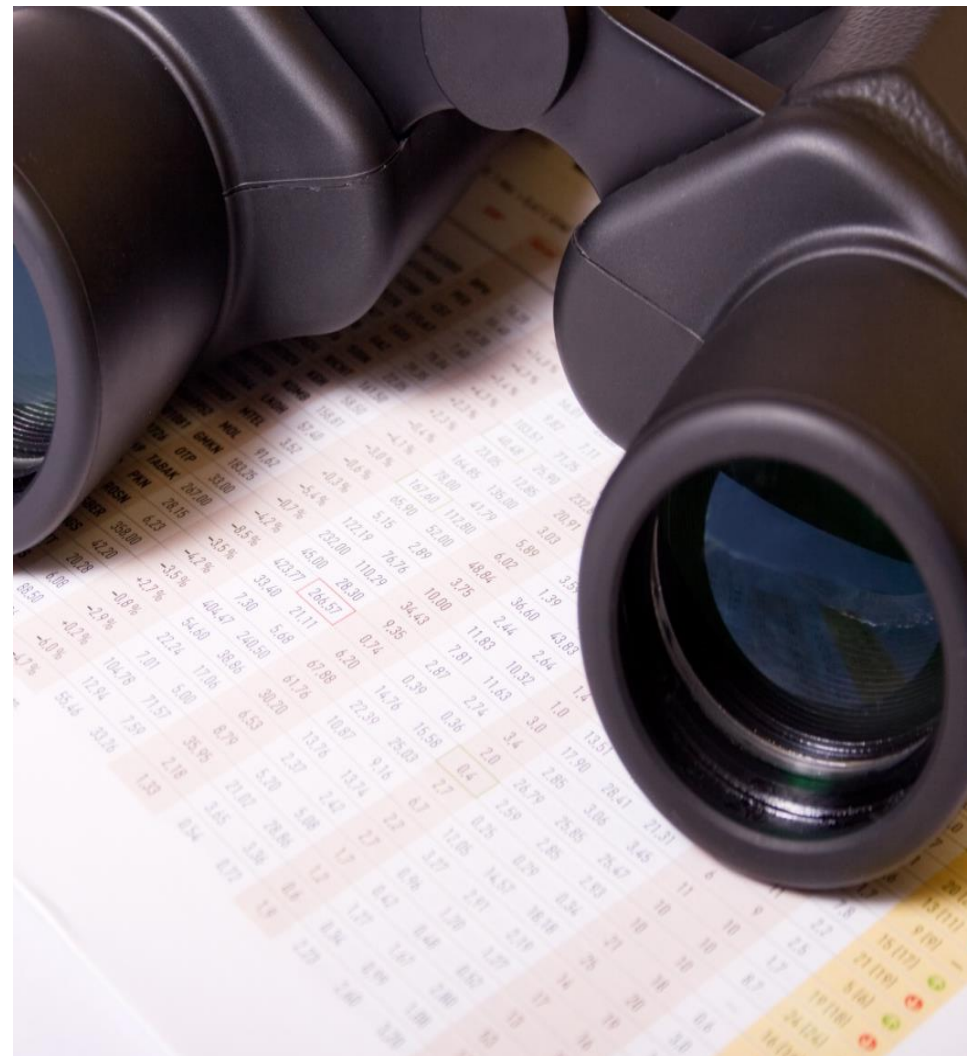
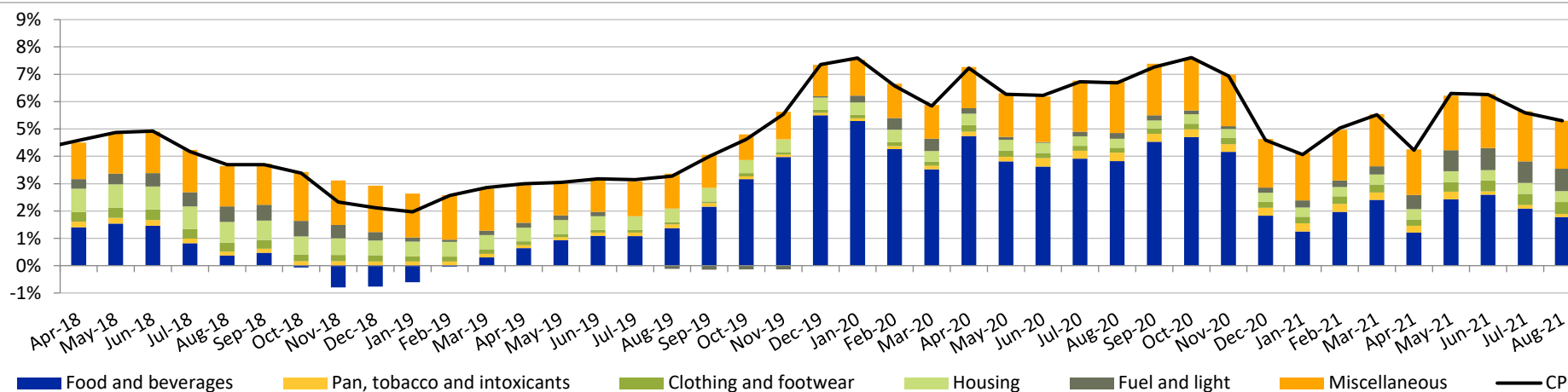


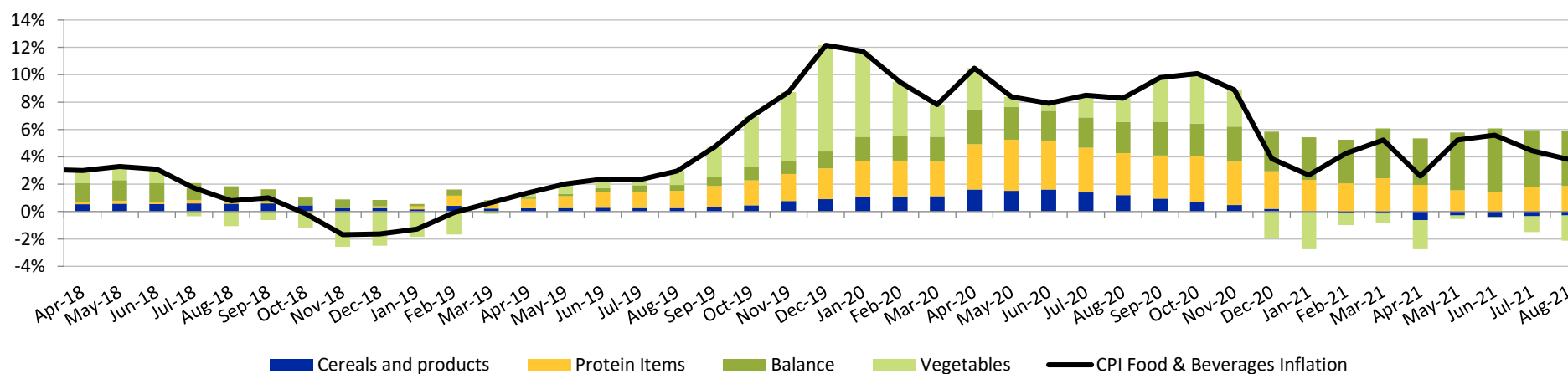
EXHIBIT 1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		June-21 Final	July-21 Provisional	July-21 Final	August-21 Provisional	August-21 Provisional	August-21 Provisional
CPI (combined)	100.00	6.3%	5.6%	5.6%	5.3%	0.2%	3.9%
Food and beverages	45.86	5.6%	4.5%	4.5%	3.8%	0.0%	4.7%
Cereals and products	9.67	-1.9%	-1.7%	-1.7%	-1.4%	-0.1%	1.5%
Meat and fish	3.61	4.8%	8.3%	8.3%	9.2%	-1.2%	6.3%
Egg	0.43	19.4%	20.8%	20.8%	16.3%	-2.6%	8.3%
Milk and products	6.61	1.9%	2.7%	2.7%	2.9%	0.3%	2.0%
Oils and fats	3.56	34.8%	32.5%	32.5%	33.0%	0.9%	12.1%
Fruits	2.89	11.8%	8.9%	9.0%	6.7%	-1.8%	4.7%
Vegetables	6.04	-0.7%	-7.7%	-7.8%	-11.7%	0.4%	10.3%
Pulses and products	2.38	10.0%	9.0%	9.0%	8.8%	-0.6%	2.0%
Sugar and confectionary	1.36	0.8%	-0.5%	-0.5%	-0.6%	1.0%	2.8%
Spices	2.50	5.6%	5.2%	5.2%	5.1%	0.1%	3.0%
Pan, tobacco and intoxicants	2.38	4.0%	4.7%	4.7%	4.0%	0.3%	1.9%
Clothing and footwear	6.53	6.1%	6.5%	6.4%	6.8%	0.6%	3.8%
Housing	10.07	3.7%	3.9%	3.9%	3.9%	0.6%	1.6%
Fuel and light	6.84	12.6%	12.4%	12.4%	12.9%	0.4%	3.8%
Miscellaneous	28.32	7.2%	6.7%	6.7%	6.4%	0.4%	3.8%
Household goods and services	3.80	5.7%	4.9%	5.0%	5.4%	0.6%	3.7%
Health	5.89	7.7%	7.7%	7.7%	7.8%	0.4%	3.7%
Transport and communication	8.59	11.6%	10.5%	10.5%	10.2%	0.5%	5.3%
Recreation and amusement	1.68	4.5%	6.4%	6.4%	6.5%	0.5%	2.3%
Education	4.46	3.4%	3.0%	3.0%	3.8%	0.2%	2.1%
Personal care and effects	3.89	4.7%	3.8%	3.8%	1.0%	-0.1%	4.0%
CPI-Food	36.55	5.1%	4.0%	4.0%	3.1%	-0.1%	5.0%
CPI-Core	47.30	5.9%	5.7%	5.7%	5.5%	0.4%	2.0%
CPI Rural		6.2%	5.5%	5.5%	5.3%	0.2%	4.4%
CPI Urban		6.4%	5.8%	5.8%	5.3%	0.2%	3.4%

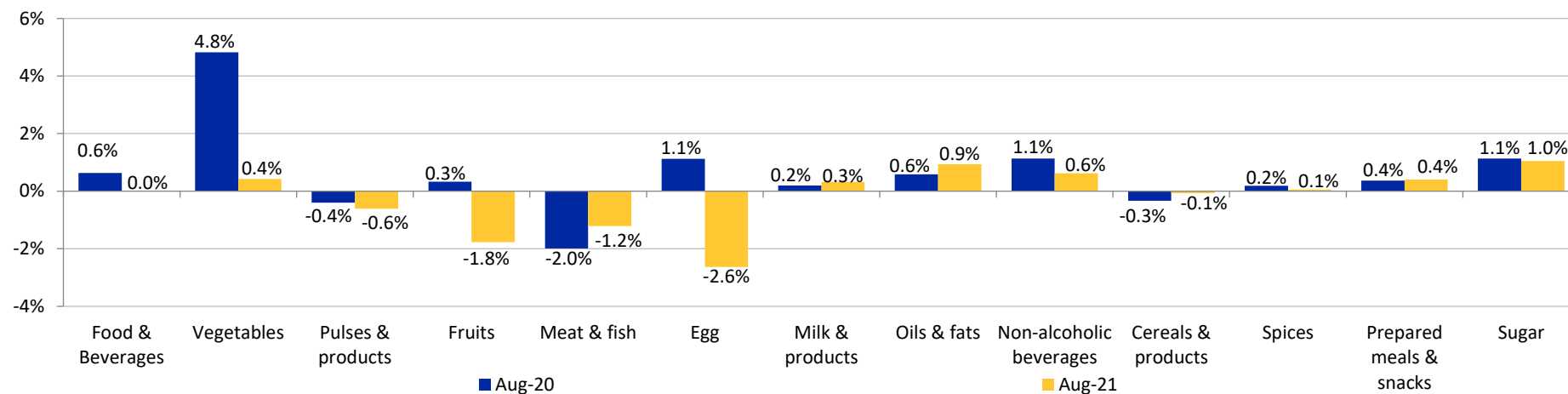
Source: National Statistical Office (NSO); CEIC; ICRA research

EXHIBIT 2: Composition of CPI Inflation (YoY)


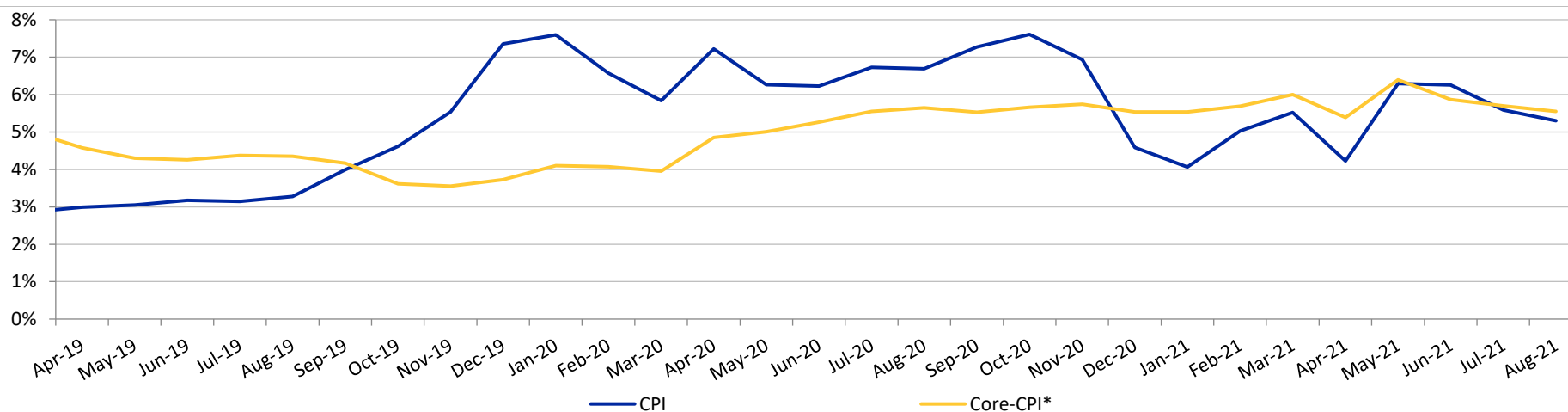
Source: NSO; CEIC; ICRA research

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


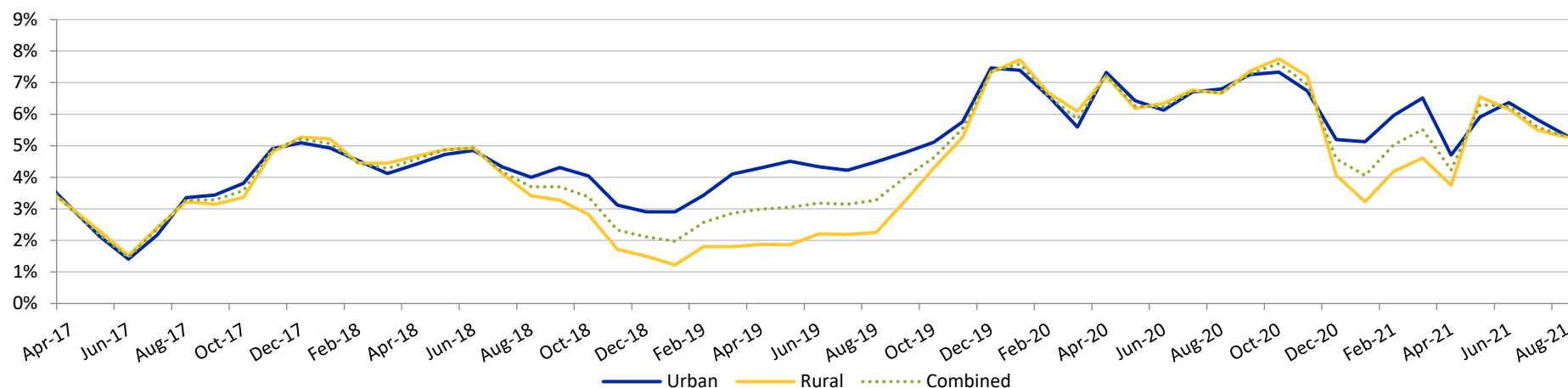
Source: NSO; CEIC; ICRA research

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


Source: NSO; CEIC; ICRA research

EXHIBIT 5: Headline and Core CPI Inflation (YoY)


*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 March-May 2021; Source: NSO; CEIC; ICRA research

EXHIBIT 6: Rural and Urban CPI Inflation (YoY)


Source: NSO; CEIC; ICRA research

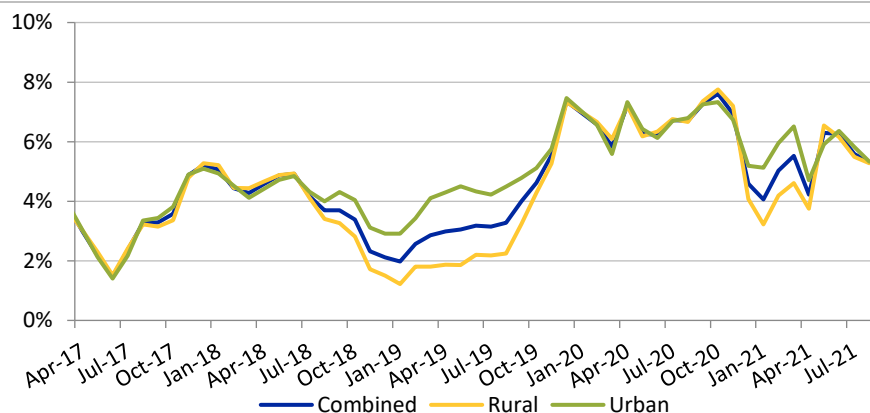
EXHIBIT 7: Sub-sectors with major contribution in CPI Inflation

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

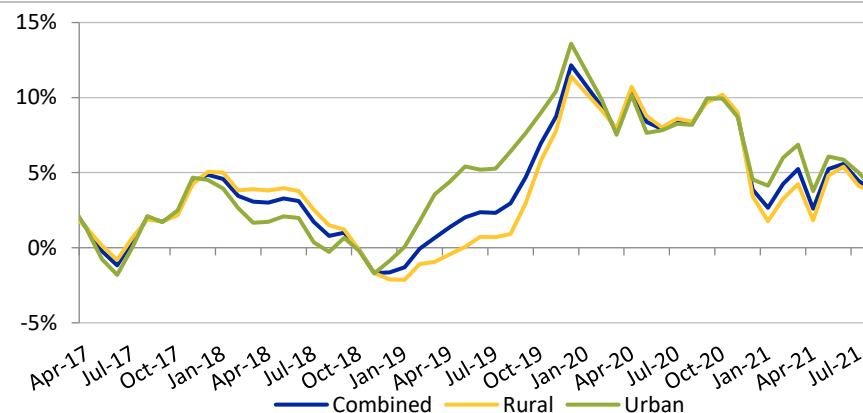
ANNEXURE

EXHIBIT 8: CPI Inflation (YoY)



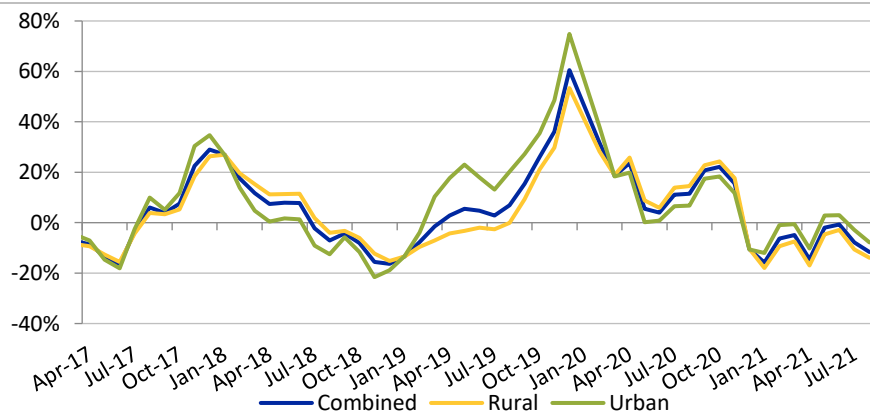
Source: NSO; CEIC; ICRA research

EXHIBIT 9: Food and Beverages Inflation (YoY)



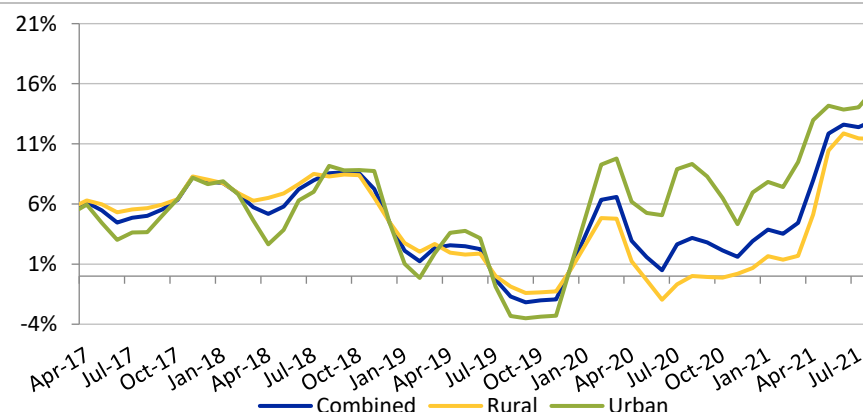
Source: NSO; CEIC; ICRA research

EXHIBIT 10: Vegetables Inflation (YoY)

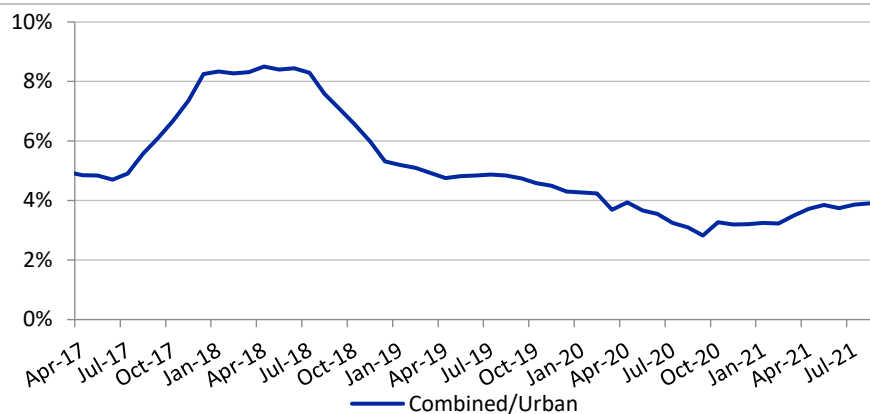


Source: NSO; CEIC; ICRA research

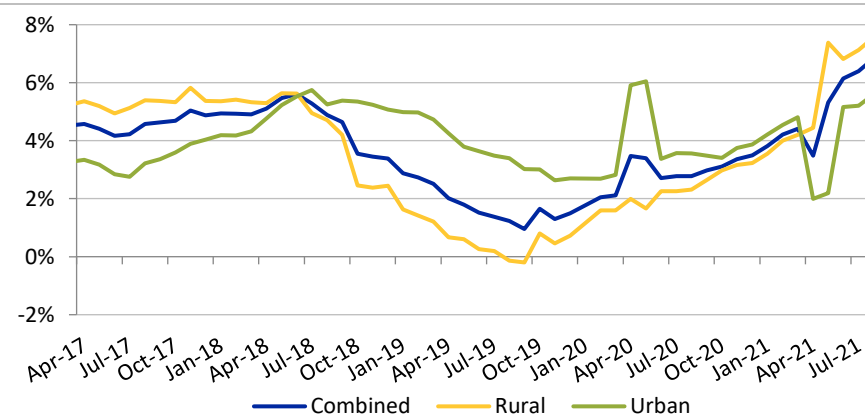
EXHIBIT 11: Fuel and Light Inflation (YoY)



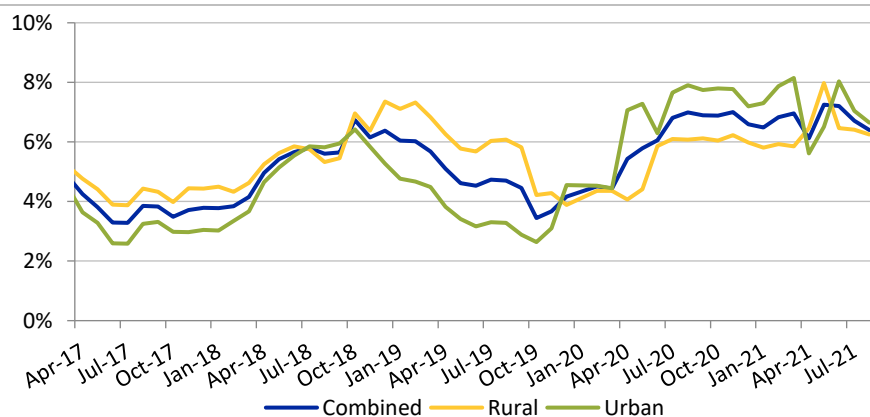
Source: NSO; CEIC; ICRA research

EXHIBIT 12: Housing Inflation (YoY)


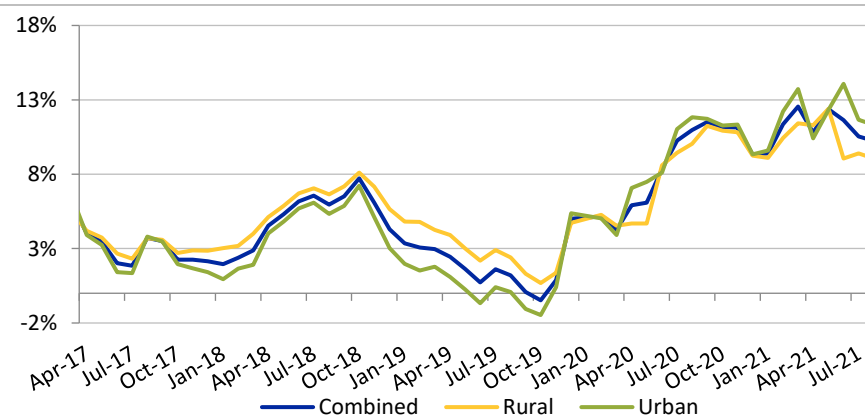
Source: NSO; CEIC; ICRA research

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



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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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