

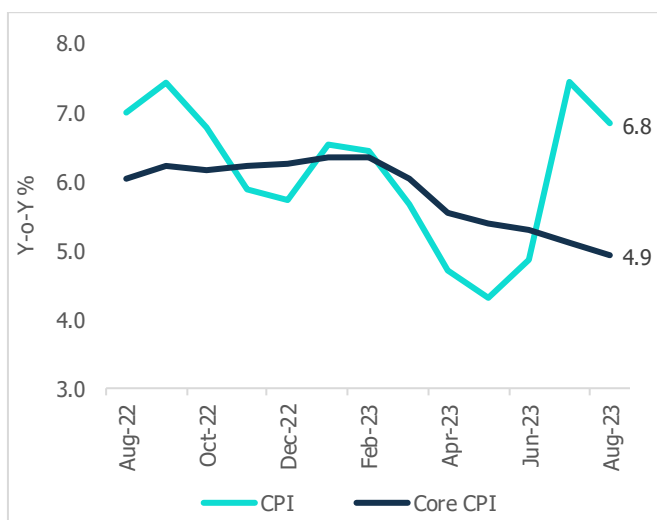
CPI Inflation Eases But Stays Above RBI's Upper Tolerance

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India's retail inflation moderated to 6.8% y-o-y in August from a high of 7.4% in July. The sharp surge in food inflation in July, owing to skyrocketing prices of vegetables, witnessed some moderation last month owing to government's active intervention. However, the contribution of food and beverages to the overall inflation was at a high of 62% in August.

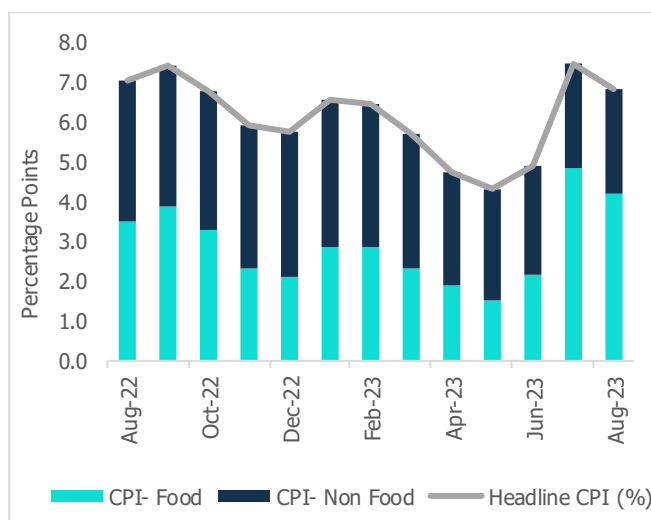
On a positive note, core inflation moderated to 4.9% y-o-y in August (vs 5.1% in July), with easing of inflation in segments such as housing, personal care & effects and recreation.

CPI Inflation: Headline vs. Core



Source: MOSPI and CareEdge

Contribution to Headline CPI



Source: MOSPI and CareEdge

Food inflation eased from double-digit growth of 10.6% y-o-y in July, to 9.2% y-o-y in August. The moderation was on account of softening of vegetables inflation, which on a sequential basis registered contraction. Inflation in key items such as tomatoes, potato and onions eased on a sequential basis in August. While inflation in tomato prices contracted 22%, that of potatoes and onions eased to 2.3% (vs 10.9% prior) and 12.3% (vs.18.9% prior), respectively. Tomato prices eased after the sharp surge seen in July, owing to arrivals of fresh crop and government intervention. There was a rise in price of onions in August and that can be attributed to weak domestic supply of the item following high rainfall in key producing states such as Maharashtra and Karnataka in July. However, the government has intervened by offloading onion buffer stocks in various wholesale markets and the government has also imposed a 40% duty on the export of onions to improve the availability of the item in domestic markets.

Cereal inflation registered double-digit growth for the 12th straight month in August, amidst firming of sequential momentum (1.4% m-o-m) as well. The government's export ban on non-basmati white rice, along with imposition of a 20% export duty on parboiled rice in the last one month and continued offloading of wheat and rice stocks under the Open Market Sale Scheme (OMSS) were measures taken to stabilise prices. In fact, kharif sowing of paddy so far (as on 8 September) is 3% higher than a year ago, which is encouraging. Meanwhile, pulses inflation remained unchanged from a month ago at 13% y-o-y in August. Retail price of tur daal continues to remain elevated

(+27% y-o-y in August), despite government's efforts to improve availability through recent imposition of stock limits and offloading of its buffer stocks.

Although milk inflation moderated to 7.7% y-o-y in August (vs. 8.3% prior), sequential momentum has registered an uptick. That said, moderation of fodder inflation (as seen in the WPI basket) over the course of the year to 7.2% y-o-y in July, from 24% a year ago, could alleviate some price pressure seen in milk prices.

We believe food inflation continues to pose a threat to the headline inflation number. As of 11th September, cumulative rainfall is at a deficit of 10%. As a result, sowing patterns of kharif crops such as pulses, oilseeds and cotton remain lower from a year ago. More importantly, the threat of El Nino's impact on inflation still lingers. Poor rainfall resulting in lower reservoir levels could in turn also hurt rabi output. As per Central Water Commission (CWC), water storage in 146 monitored reservoirs stands at 62% of their total capacity, as on 6th September. This compares to 85% during the same period a year ago.

Meanwhile, fuel and light inflation firmed to 4.3% y-o-y in August, from a 31-month low of 3.7% y-o-y in July. The firming of prices in this category was largely on account of rise in electricity component. Electricity, which accounts for the largest share in fuel and light inflation, rose 13.5% y-o-y in August, reporting double-digit growth for the second straight month. Inflation in the LPG and kerosene (by PDS) segment however moderated in August. Going ahead, the announcement of government's LPG subsidy of Rs 200 per cylinder under the Pradhan Mantri Ujjwala Yojana (PMUY) is expected to soften price pressures in the fuel and light segment.

Way Forward

Despite the moderation in August, headline CPI at 6.83% continues to remain well above the central bank's comfort level. While the government's recent measures to put a lid on vegetable prices is taking effect, items such as cereals & pulses, milk and spices continue to remain elevated. As a result, inflation is likely to miss RBI's Q2 FY24 forecast of 6.2% and average around 7%. Food inflation could remain a pain point given the skewed rainfall distribution so far. We also remain watchful of the rise in global crude oil prices. Core inflation below 5% is however encouraging. Continued deflation in WPI will have a lagged impact on CPI inflation going forward, which is also reassuring. Consequently, we expect CPI inflation to moderate to 5.8% and 5.2% in Q3 FY24 and Q4 FY24, respectively. Having said that, RBI would remain cautious and adopt a wait and watch mode. We reaffirm our view that RBI would maintain an extended pause in 2023.

Component-Wise Retail Inflation (Y-o-Y%)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Total
Weight	45.86	2.38	6.53	10.07	6.84	28.32	100.00
Aug-22	7.6	1.7	9.9	4.1	10.8	6.0	7.0
Sep-22	8.4	2.0	10.2	4.6	10.4	6.1	7.4
Oct-22	7.1	1.9	10.2	4.6	9.9	5.9	6.8
Nov-22	5.1	2.1	9.8	4.6	10.6	6.0	5.9
Dec-22	4.6	2.5	9.6	4.5	10.9	6.2	5.7
Jan-23	6.2	3.1	9.1	4.6	10.8	6.2	6.5
Feb-23	6.3	3.2	8.8	4.8	9.9	6.1	6.4
Mar-23	5.1	3.0	8.2	5.0	8.8	5.8	5.7
Apr-23	4.2	3.5	7.5	4.9	5.5	4.9	4.7
May-23	3.3	3.6	6.6	4.8	4.7	4.9	4.3
Jun-23	4.7	3.7	6.1	4.6	3.9	5.2	4.9
Jul-23	10.6	3.9	5.6	4.5	3.7	5.0	7.4
Aug-23	9.2	4.1	5.2	4.4	4.3	4.9	6.8

Source: MOSPI

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