

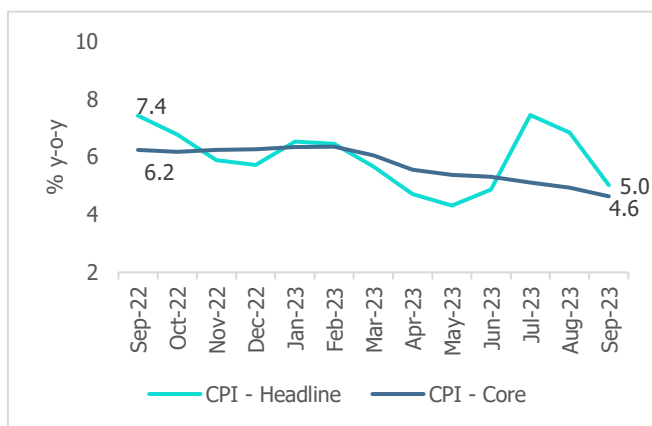
# CPI Inflation Slips to 5% in Sept, Back Within RBI's Target Range

October 12, 2023 | Economics

India's retail inflation moderated for the second consecutive month in September helped by a sharp correction in vegetables prices and lower LPG prices. After overshooting the RBI's target range by a wide margin in July and August, CPI inflation printed at a 3-month low of 5% in September finding its way back to the 2-6% range. A high statistical base also helped the inflation number. The underlying core pressures eased to their lowest level in 3.5 years with core inflation falling to 4.6%. This was due to a broad-based easing across segments such as housing, clothing and footwear and other services categories.

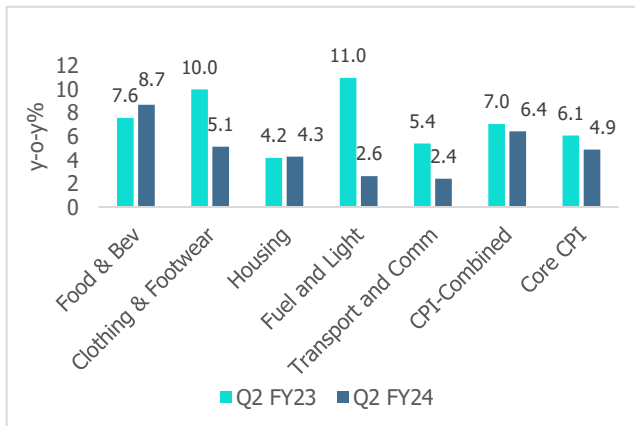
With the September inflation number, the CPI inflation has averaged 6.4% in Q2 FY24, in line with the RBI's estimate. Inflation in the second quarter has been mainly driven by the food segment as the contribution of 'food and beverages' in overall inflation rose to 61.5% from about 49% a year ago. The categories such as fuel and light and clothing and footwear saw significant moderation in inflation compared to a year ago level.

**CPI Inflation: Headline vs. Core**



Source: MOSPI, CareEdge; Note: Core index is calculated excluding food, fuel and light and petrol and diesel

**CPI Inflation: Major Categories**



Source: MOSPI, CareEdge

Food and beverages inflation (CPI) eased to 6.3% from 9.2% a month ago due to easing prices for vegetables and deflation in edible oils. However, the decline was not broad-based as price pressures for cereals, pulses and spices, which are more persistent in nature, remained elevated. Even within vegetables, while the sharp correction in tomato prices continued in September on the back of improved supply, Onion prices marched higher due to tightened supply and reduced shelf life. On August 19 the government imposed a 40% export duty on Onions to improve domestic availability and contain Onion prices.

With fresh supply (Kharif) entering market October onwards coupled with various government measures aimed at taming inflation, further moderation in food inflation is expected. However, the downside could be limited due to sustained inflationary pressure for certain food items. The lower kharif sowing of essential crops like pulses (4.2%) and oilseeds (1.6%) this season is worrisome. Though deflation in the edible oil category continues, lower domestic production along with the potential risk of tight global supply due to drier weather conditions in major exporting countries (Indonesia, Malaysia) could lead to rally in edible oil prices.

The fuel and light category witnessed a marginal deflation (0.1%) in September for the first time in around four years due to a reduction in LPG prices. To provide relief to consumers ahead of the festive season, the government has cut the LPG cylinder price for households by Rs 200 effective from August 30 and for commercial LPG cylinders by Rs 158 starting September. Further, the subsidy to poor households (under the Pradhan Mantri Ujjwala Yojana) was also raised by Rs 100 to Rs 300 per cylinder in October. As a result of these announcements, fuel inflation is expected to further ease in the coming months.

#### Component-Wise Retail Inflation (% y-o-y)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Total
<b>Weight</b>	<b>45.86</b>	<b>2.38</b>	<b>6.53</b>	<b>10.07</b>	<b>6.84</b>	<b>28.32</b>	<b>100.00</b>
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
Sep-23	6.3	3.9	4.6	4.0	-0.1	4.8	5.0

Source: MOSPI

#### Way Forward

The correction in food prices, particularly vegetables, has helped in significant moderation in inflation prints in the past two months. With the arrival of fresh harvest in the market from October onwards and expected moderation in fuel inflation, the CPI inflation is likely to fall further. However, given the looming uncertainties regarding the Kharif harvest and the festive-led boost in demand, inflation is expected to remain range-bound in the coming months. The first advance estimate of foodgrains production for crop year 2023-24, will provide a greater clarity on the supply situations, especially for pulses, cereals and sugar. Further, the near-term risks to our inflation outlook have worsened due to volatility in global crude oil prices. Though we don't expect any rate hike this fiscal, RBI will actively manage inflationary pressures through its liquidity measures.

## Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Shambhavi Priya	Associate Economist	shambhavi.priya@careedge.in	+91 - 22 - 6754 3493
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

## CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

## About Us:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.

## Disclaimer:

This report has been prepared by CareEdge (CARE Ratings Limited). CareEdge has taken utmost care to ensure accuracy and objectivity based on information available in the public domain. However, neither the accuracy nor completeness of the information contained in this report is guaranteed. CareEdge is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of the information contained in this report and especially states that CareEdge has no financial liability whatsoever to the user of this report.

