

CPI Inflation Up Marginally to 3.7% in August

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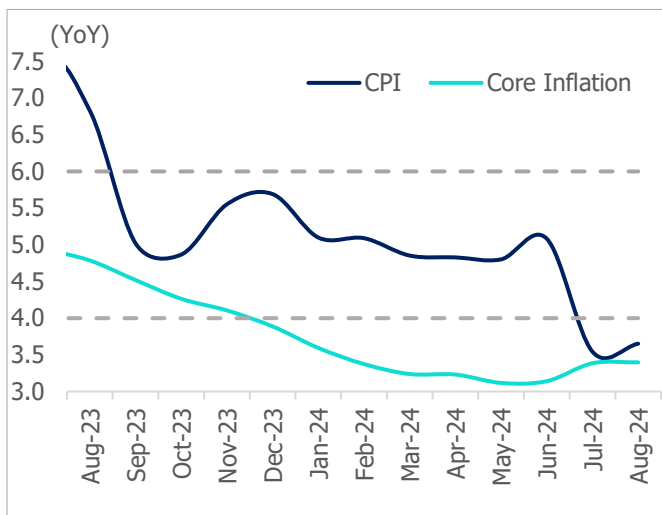
Headline Inflation Inches Up as Inflation in Food Basket Rises

In line with our expectations, the CPI inflation inched up marginally to 3.7% in August up from 3.5% in July, largely on account of an uptick in food inflation. Fuel and light segment continued to remain in deflation, continuing the trend observed over the past one year. Core inflation remained largely benign, remaining steady at 3.4% in August.

Food and Beverages inflation rose to 5.3% in August up from 5.1% in the previous month. Despite a sequential decline in food prices, unfavourable base effect kept food prices elevated in August. Within the food basket, inflation in pulses (13.6%), vegetables (10.7%) and cereals (7.3%) continue to remain high. On one hand, the ongoing deflation in the oil and fat category has narrowed further to 0.9% from 1.1% in the previous month, on the other hand deflation in spices have deepened further to 4.4% in August from 1.4% in July. While early arrival of Kharif harvests in the second half of September is expected to reduce price pressures in the food basket, risks to food inflation continues to remain.

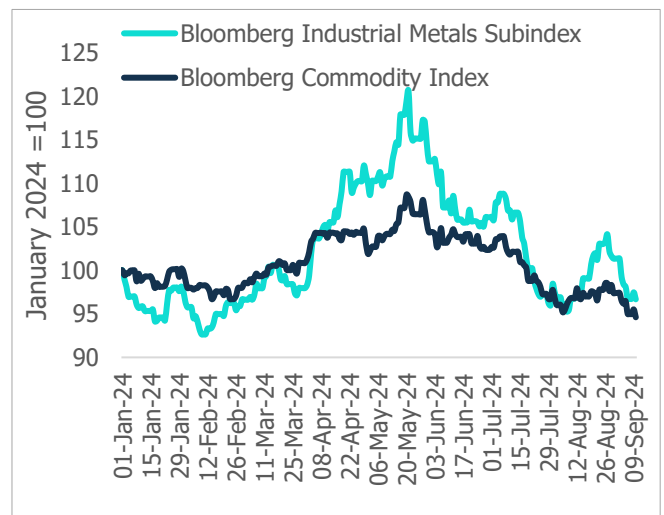
The overall outlook for the agriculture sector has brightened due to a good monsoon and improved kharif sowing. However, challenges remain, particularly with the uneven distribution of the rainfall. Several key agrarian regions are experiencing double digit deficit in cumulative rainfall, including Bihar (-28%), Punjab (-25%), Gangetic West Bengal (-17%), Eastern Uttar Pradesh (-16%), and Assam (-11%). Additionally, reservoir levels in northern India are significantly below both the normal levels and those of last year. This is concerning as rabi sowing is largely irrigation dependent.

CPI: Headline vs. Core Inflation



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

Global Commodity Prices Have Eased



Source: Eikon, CareEdge

Furthermore, recent data show that the sowing of pulses and few oilseeds has lagged compared to years with normal monsoon, potentially adding to price pressures given their import dependence. The ongoing deflation in domestic edible oil prices has so far counteracted the price pressures in other components of the food basket.

However, global edible oil prices have recently exited a deflationary period due to global factors, and the risk of these prices passing through to the domestic consumption basket remains a key concern. Hence, monitoring the food prices is crucial going ahead, as risks to food inflation have not been entirely mitigated. Controlling price pressures in the food basket is essential, as they can significantly influence households' inflationary expectations.

Globally, a recent decrease in crude oil and industrial metal prices is expected to reduce price pressures. Concerns about global demand have led to a moderation in global commodity prices. Brent crude prices have fallen to about USD 70 per barrel, down from USD 80 per barrel in the last week of August. Additionally, industrial metal prices have decreased by around 11% over the past three months. However, it would be crucial to monitor geopolitical developments as they can have impact on the global commodity prices.

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

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Headline Inflation
Weight	45.86	2.38	6.53	10.07	6.84	28.32	100
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
Oct-23	6.3	3.9	4.3	3.8	-0.4	4.5	4.9
Nov-23	8.0	3.8	3.9	3.6	-0.8	4.4	5.6
Dec-23	8.7	3.6	3.6	3.6	-1.0	4.1	5.7
Jan-24	7.6	3.3	3.4	3.2	-0.6	3.8	5.1
Feb-24	7.8	3.1	3.1	2.9	-0.8	3.6	5.1
Mar-24	7.7	3.1	3.0	2.7	-3.4	3.5	4.9
Apr-24	7.9	3.0	2.9	2.7	-4.0	3.5	4.8
May-24	7.9	3.0	2.7	2.6	-3.7	3.4	4.8
Jun-24	8.4	3.1	2.7	2.7	-3.7	3.4	5.1
Jul-24	5.1	3.0	2.7	2.7	-5.5	3.8	3.5
Aug-24	5.3	2.7	2.7	2.7	-5.3	3.9	3.7

Source: MOSPI

Way Forward

Looking ahead, the base effect will turn unfavourable in September ahead of an early festive season this year. A benign core inflation underscores the fact that the healthy growth momentum has largely been disinflationary. Even though outlook of food inflation has improved, risks to food inflation have not been entirely mitigated. Despite a surplus rainfall at a national level, distribution of the monsoon has remained skewed with significant deficit in key agrarian areas. Having said that, arrival of early Kharif harvest from mid of September will help in mitigating upward price pressures to some extent. Additionally, it's also important to monitor the external risks to the inflationary outlook stemming from geopolitical uncertainties. For FY25, we expect inflation to average 4.8%. If price pressures on food basket moderates, we anticipate that the RBI may initiate a shallow rate cut cycle in the second half of the fiscal year.

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