

CPI Inflation Rises to 5.5% in September

October 14, 2024 | Economics

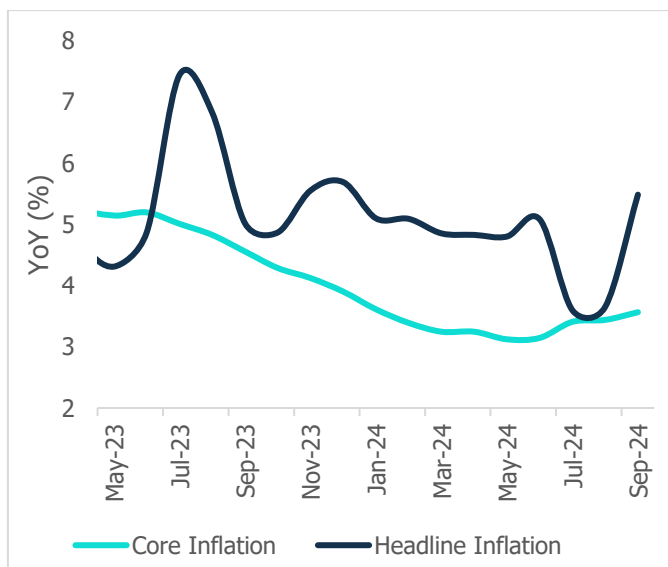
High Food Inflation Keeps Headline Inflation Elevated

The CPI inflation increased to 5.5% in September, up from 3.7% in August. Core inflation also saw a minor uptick of 10 bps to 3.5% in September. Nonetheless, it remained relatively benign, remaining below the 4% threshold for the eleventh consecutive month. Among major non-food categories, inflation remained high for personal goods (9% in September vs 8% in August).

Food inflation remains a concern as it increased to 8.4% in September up from 5.3% in August. Food inflation remain elevated as the favourable base effects from the previous two months waned. Vegetable inflation has reached its highest level in the past 14 months and edible oils have exited deflation for the first time in 19 months. Sequential momentum continues to be strong in certain categories, including vegetables (3.5% MoM), edible oils (2.9% MoM), eggs (1.6% MoM) and pulses (0.6% MoM).

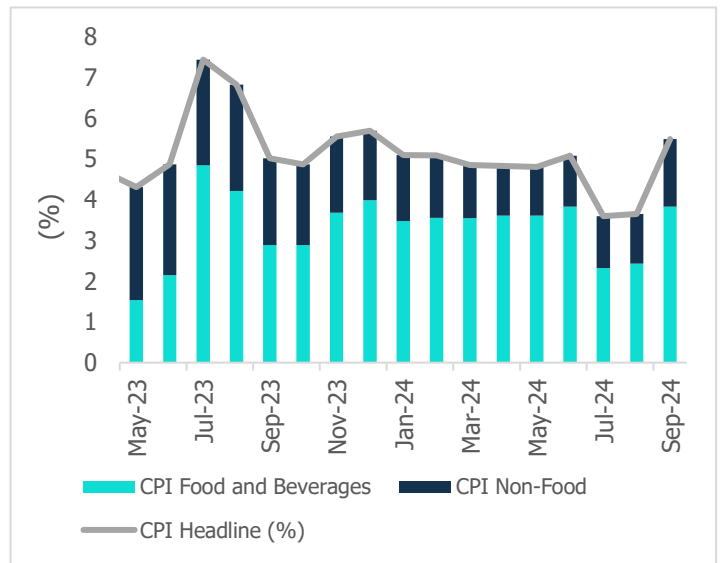
Risks to food inflation have not fully abated completely and need monitoring. Factors such as uneven monsoon, pre-harvest rainfall, and an increase in global edible oil prices add to the risks to food inflation. Although the monsoon was ~ 8% above normal, distribution issues persisted. Key agrarian regions such as Punjab, Haryana, Eastern UP, Bihar and Gangetic West Bengal witnessed a deficit rainfall during the sowing season. Additionally, the Kharif sowing for pulses and some oilseeds has been below the historical average, which is concerning given their import dependence. The extended monsoon season and recent pre-harvest showers further increased the risk of crop damage. The vegetable prices, that have a weight of 6% in CPI basket, have remained most volatile, and this is of concern as they also have a strong bearing on the household inflationary expectations.

CPI: Headline vs. Core Inflation



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

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Source: MOSPI, CareEdge

Monitoring External Risks is Crucial

Apart from food price pressures, additional inflation risks arise from the external sector. The potential for a broadening conflict in the Middle East could disrupt supply chains and impact global energy prices, which would have ripple effects on the domestic economy. Furthermore, the announcement of economic stimulus in China has led to an increase in global commodity prices over the past couple of weeks. Brent Crude oil rose by ~10% to USD 78 per barrel since the end of September. It would be crucial to monitor geopolitical developments as they can have an 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
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	-3.6	3.4	5.1
Jul-24	5.1	3.0	2.7	2.7	-5.5	3.8	3.6
Aug-24	5.3	2.7	2.7	2.7	-5.3	3.9	3.7
Sep-24	8.4	2.5	2.7	2.8	-1.4	4.0	5.5

Source: MOSPI

Way Forward

We believe that food inflation continues to pose a significant threat to overall headline inflation. Looking ahead, the arrival of the Kharif harvest is expected to alleviate some pressure on food prices. Additionally, the base effects are anticipated to remain favourable in October and November. However, it is crucial to manage food inflation, as it directly impacts household inflation expectations. This situation underscores the need for the government to implement supply-side measures to stabilize food prices. On the external side, it would be essential to monitor the risks emanating from the geopolitical tensions in the Middle East. For FY25, we expect inflation to average 4.8%. We anticipate that there are chances of a shallow rate cut of 25 bps in the December policy, followed by another 25 bps in the February policy, provided food inflation moderates.

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Sarbartho Mukherjee	Senior Economist	sarbartho.mukherjee@careedge.in	+91 - 22 - 6754 3493
Akanksha Bhende	Associate Economist	akanksha.bhende@careedge.in	+91 - 22 - 6754 3424
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

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