

CONSUMER PRICE INDEX

CPI inflation soared to 15-month high 7.4% in July 2023; foreseen above 6.5% in Aug 2023 with uninterrupted rise in food prices

AUGUST 2023





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The YoY CPI inflation soared to 15-month high of 7.4% in July 2023

Food items drove the surge in the headline print relative to June 2023, particularly vegetables and pulses

CPI inflation is expected to print above 6.5% in August 2023 amidst no respite from uptick in food prices

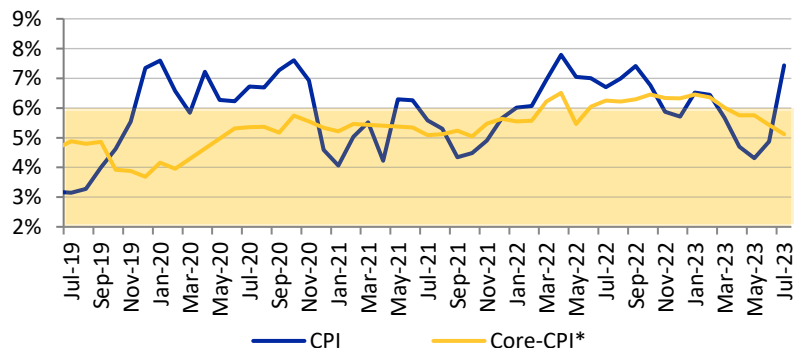
MPC's increased hawkishness and revised inflation forecast to delay rate cuts to Q2 FY2025

Owing to the vegetable price shock, the headline CPI inflation soared to a 15-month high 7.4% in July 2023 (ICRA's exp: +6.5%) in year-on-year (YoY) terms from 4.9% in June 2023. However, excluding vegetables, the rise in the CPI inflation was contained to 5.4% in July 2023 from 5.2% in the prior month. Moreover, the core-CPI inflation dipped to a 21-month low 5.1% in July 2023. However, the continued sequential rise in prices of most food items in August 2023 suggests that the CPI inflation will remain above 6.5% in the month, posing upside risks to the Monetary Policy Committee's (MPC's) estimate for Q2 FY2024. On the other hand, the MPC's latest forecasts suggest inflation will remain above 5% through Q1 FY2025, based on which we have pushed out our forecast for the start of a shallow rate cut cycle to Q2 FY2025.

- **CPI inflation soared to a 15-month high 7.4% in July 2023:** The headline CPI inflation jumped to a sharper-than-expected 7.4% on a YoY basis in July 2023 (ICRA's exp: +6.5%) from 4.9% in June 2023.
- **Vegetables drove the YoY surge in CPI inflation:** Excluding vegetables, the increase in the headline CPI inflation print was relatively contained, to 5.4% in July 2023 from 5.2% in the previous month. Barring food and beverages, and pan, tobacco and intoxicants, the inflation in all other groups eased in July 2023, offering some relief.
- **CPI inflation may print above 6.5% in August 2023:** The data for early-August 2023 reflects a further sequential increase in most of the food items, and hence, ICRA expects the CPI inflation to remain above 6.5% in the ongoing month. Accordingly, the MPC's revised inflation forecast for Q2 FY2024 of 6.2% appears to be at risk of being overshoot, as the vegetable price shock may not reverse adequately before the next harvest.
- **Rate cuts to be delayed to Q2 FY2025:** While the MPC had emphasised the need to be vigilant and to be ready to act appropriately to ensure that the effects of shocks do not persist, the bar for a rate hike would be quite high. In ICRA's view, inflation would need to persist above 6.0% for at least two quarters, amid transmission of pressures to core inflation, to set the stage for a rate hike. The MPC's latest forecasts suggest inflation will remain above 5% through Q1 FY2025, based on which we have pushed out our forecast for the earliest cut to Q2 FY2025. Moreover, we continue to anticipate the rate cut cycle to be shallow, limited to 50-75 bps.

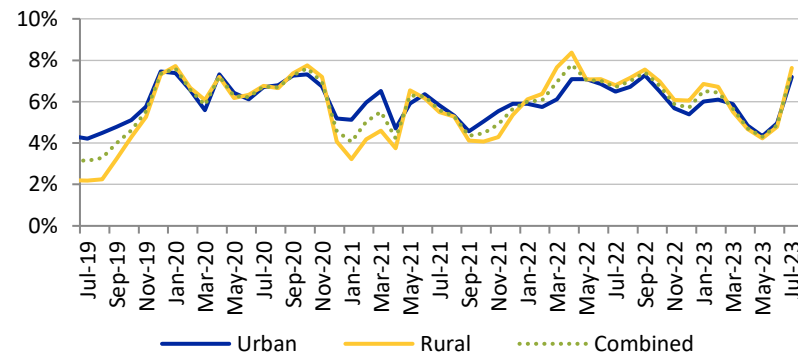
Headline CPI inflation soared to 7.4% in July 2023, highest since Apr 2022, amid surge in vegetable prices

EXHIBIT: Headline and Core CPI Inflation (YoY)



*Since the detailed data for May-June 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 May-June 2021;
Source: NSO; CEIC; ICRA Research

EXHIBIT: Rural and Urban CPI Inflation (YoY)

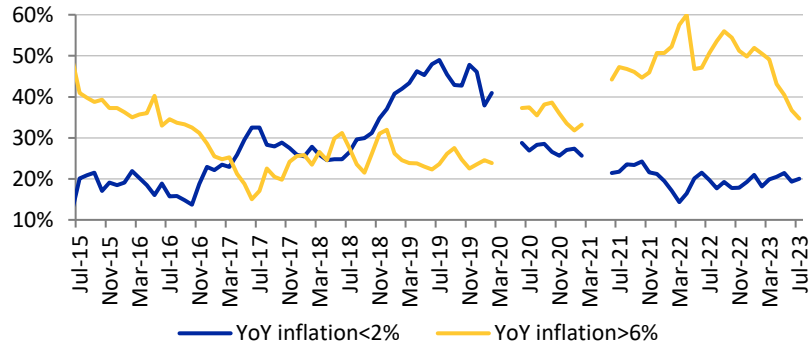


Source: NSO; CEIC; ICRA Research

- The headline CPI inflation jumped to a 15-month high of 7.4% on a YoY basis in July 2023 (+6.7% in July 2022) from 4.9% in June 2023 (+7.0% in June 2022), predominantly led by a surge in vegetable inflation. Moreover, the July 2023 CPI print exceeded ICRA's forecast of 6.5% and surpassed the 6.0% threshold of the MPC's medium-term forecast range of 2.0-6.0% after a gap of four months.
- The core-CPI inflation (at +5.1%) trailed the headline inflation after a gap of four months in July 2023, and the wedge between the two widened to 232 bps (56 bps in June 2023), the steepest delta since Feb 2020 (barring Covid months), with the latter being largely influenced by a sharp spike in food items.
- There was a sharper increase in the CPI inflation in rural areas (to +7.6% from +4.8%), compared to the urban areas (to +7.2% from +5.0%) in July 2023, relative to June 2023, driven by an uptick in rural inflation for fuel and light, in contrast to the fall in urban inflation for this segment.

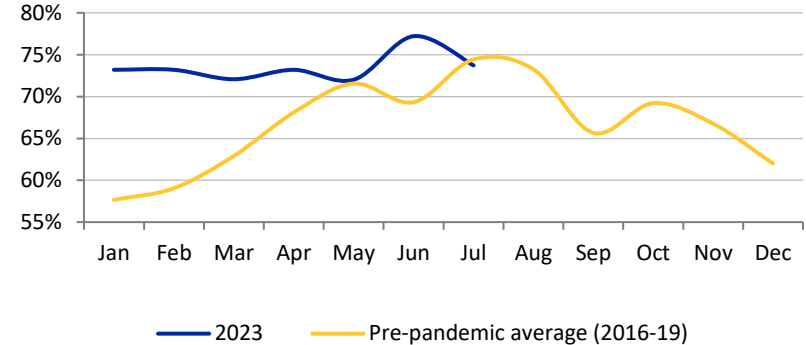
However, share of items in CPI basket that reported sequential increase in prices dipped in July 2023, led by non-food items

EXHIBIT: Share of items in the CPI* with YoY inflation outside the MPC's target range of 2.0-6.0% (%)



**Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research*

EXHIBIT: Share of items in the CPI basket* reporting a sequential increase in prices (%)

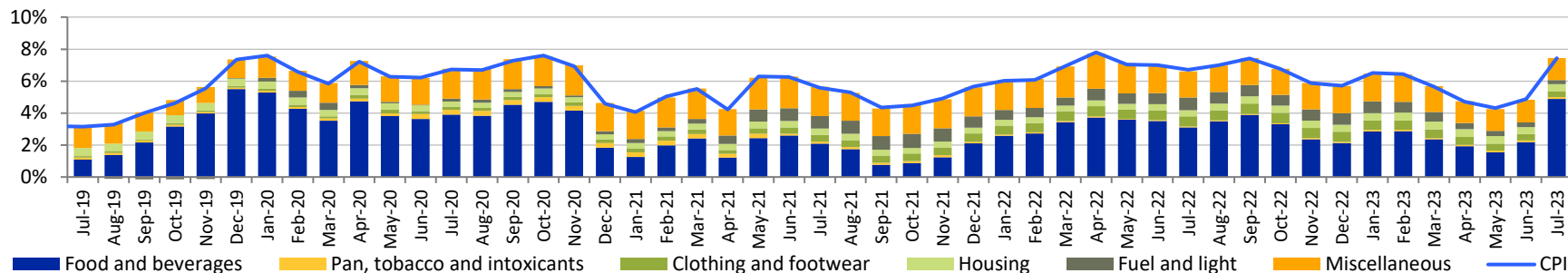


**Based on the 299 items covered in the CPI basket; on financial-year basis; Source: NSO; CEIC; ICRA Research*

- The share of items in the CPI basket that witnessed a sequential increase in prices eased to ~74% in July 2023 from ~77% in June 2023 led by non-food items. Moreover, it was lower than the average level recorded in the pre-pandemic period (FY2017-20 for July: 74.4%), after exceeding the same in the first six months of 2023.
- Additionally, the share of items in the CPI basket that reported a YoY inflation rate above the MPC's upper limit of 6.0% eased to 34.7% in July 2023 from 36.1% in June 2023. Besides, the share of items that reported a YoY inflation below the 2.0% mark rose to 20.1% in July 2023 from 19.4% in June 2023.
- Notwithstanding the unfavourable headline inflation print for July 2023 on account of the vegetable shock, the broader momentum in the prices of the items in the CPI basket was largely favourable in the month.

Food dominated the YoY surge in CPI inflation in July 2023 vs. June 2023; excluding vegetables, CPI inflation rose mildly to 5.4% from 5.2%

EXHIBIT: Composition of CPI Inflation (YoY)

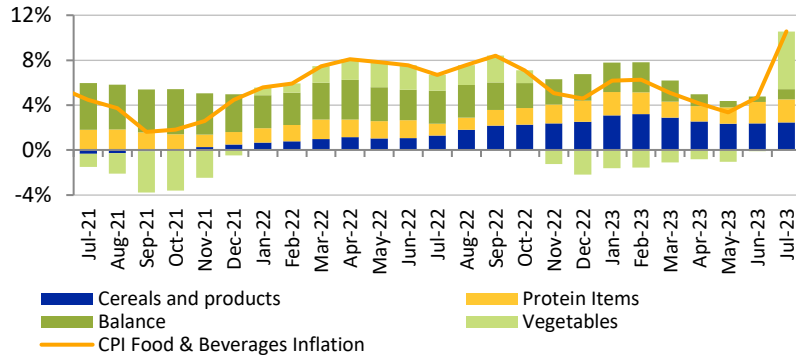


Source: NSO; CEIC; ICRA Research

- Food and beverages dominated the YoY surge in CPI inflation in July 2023 relative to June 2023, with the inflation of this sub-group hardening sharply to a 42-month high of 10.6%, after recording sub-5% levels in the previous three months (+4.7% in June 2023), on account of a spike in vegetable inflation (to +37.3% from -0.7%).
- While the YoY inflation for pan, tobacco and intoxicants (to +3.8% from +3.7%) reported a marginal increase between these months, that for other four major sub-groups, namely, miscellaneous items (to +5.0% from +5.2%), fuel and light (to +3.7% from +3.9%), clothing and footwear (to +5.6% from +6.1%) and housing (to +4.5% from +4.6%) softened, offering some relief.
- Of the 257 bps increase in the headline CPI inflation print between June 2023 and July 2023, 241 bps was on account of vegetables alone. In fact, excluding vegetables, the increase in the headline CPI inflation print was relatively modest, to 5.4% in July 2023 from 5.2% in the previous month.

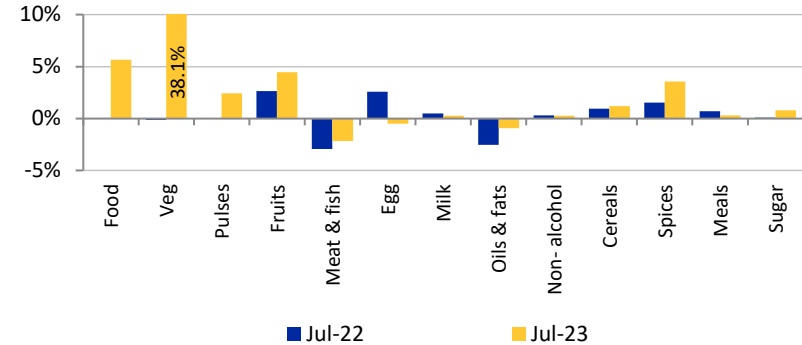
Food and beverages inflation rose to a 42-month high ~11% in July 2023 amid a surge in YoY print for vegetables

EXHIBIT: Composition of Food and Beverages Inflation (YoY)



Proteins comprises meat and fish, egg, milk and products, pulses and products; Balance comprises oil and fats, fruits, sugar and confectionary, spices, non- alcoholic beverages, prepared meals, snacks ,sweets etc.; Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM Change in Food and Beverage Sub-Index

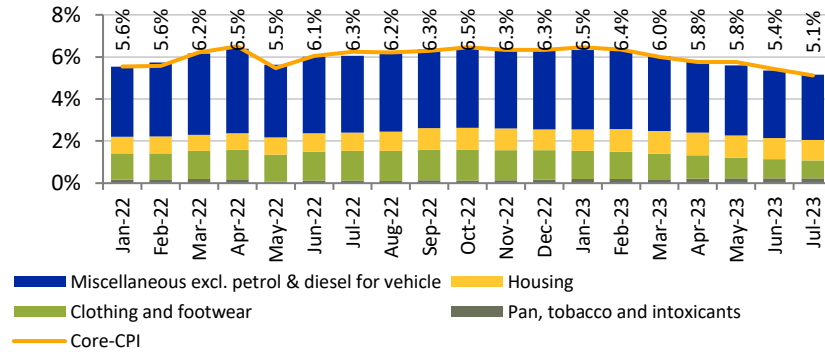


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non- alcohol: Non- alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- The inflation for food and beverages (with a weight of 45.9% in the CPI) surged to a 42-month high 10.6% in July 2023 (+6.7% in July 2022) from 4.7% in June 2023 (+7.6% in June 2022). The YoY prints in eight of the 12 sub-groups rose in the month (with a sizeable weight of 32.0% in the CPI basket), led by vegetables (to a 42-month high +37.3% in July 2023 from -0.7% in June 2023), pulses and products (to a 30-month high +13.3% from +10.6%, led by tur dal), meat and fish (to +2.3% from +1.5%), spices (to series-high +21.6% from +19.2%), oils and fats (to -16.8% from -18.2%; albeit recording deflation for sixth straight month), etc.
- In contrast, the inflation for eggs (to +3.8% from +7.0%), milk and products (to +8.3% from +8.6%), etc. moderated in July 2023, vis-à-vis June 2023.
- In MoM terms, the index of food and beverages surged by 5.7% in July 2023, considerably higher than the 0.1% increase seen in July 2022, reflecting the trend for vegetables (+38.1% in July 2023 vs. -0.1% in July 2022), pulses (+2.4% vs. no change), spices (+3.6% vs. +1.5%), etc.

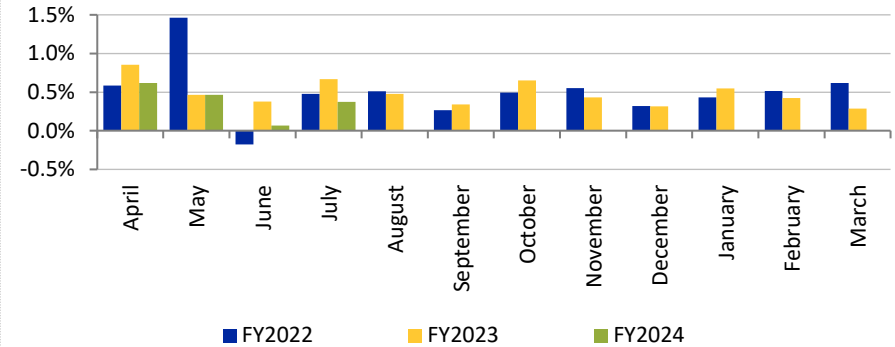
Encouragingly, the core-CPI inflation eased to 21-month low of 5.1% in July 2023

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

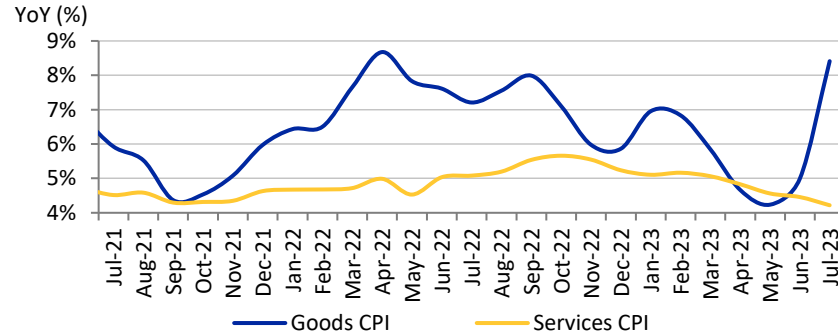


Source: NSO; CEIC; ICRA Research

- The core-CPI inflation eased to a 21-month low of 5.1% in July 2023 (+6.3% in July 2022) from 5.4% in June 2023 (+6.1% in June 2022), partly on account of a high base. This was driven by a softening in the inflation prints for the higher weighted sub-groups, including clothing and footwear (to +5.6% from +6.1%), miscellaneous items excluding petrol, diesel for vehicles (to +5.4% from +5.6%), and housing (to +4.5% from +4.6%). In contrast, the inflation for pan, tobacco and intoxicants (to +3.8% from +3.7%) witnessed a marginal uptick between these months.
- In MoM terms, the core-CPI rose by 0.4% in July 2023, lower than the 0.7% increase seen in July 2022.

Services inflation eased to 43-month low of 4.2% in July 2023, even as goods inflation reported an uptick on account of food

EXHIBIT: YoY Trends in Goods and Services CPI



Services items constitute to 23.4% weight in the CPI basket; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY Trends in services – top 5 items by weight

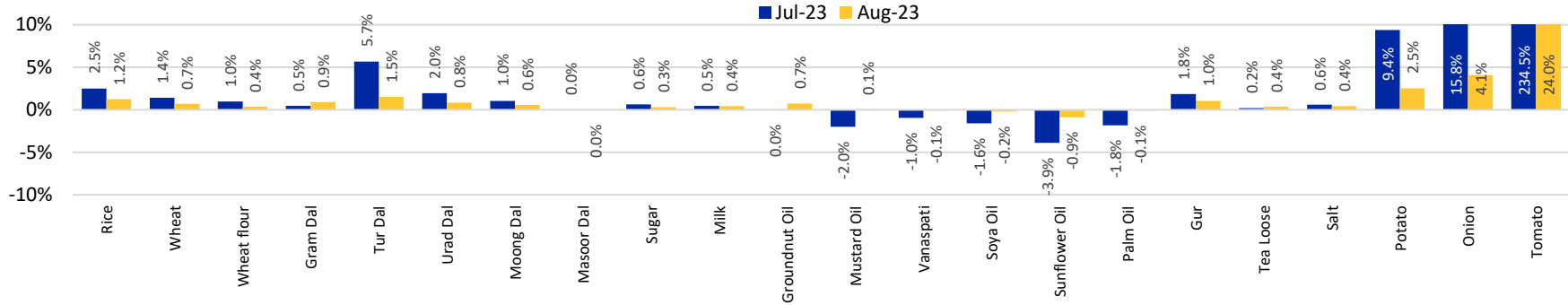
Services item	Weight in CPI	YoY (%)		
		May-2023	June-2023	July-2023
House rent, garage rent	9.51	4.8%	4.6%	4.4%
Tuition and other fees	2.90	5.9%	6.4%	5.7%
Telephone charges: mobile	1.84	1.3%	1.2%	1.4%
Bus/tram fare	1.37	3.5%	2.9%	2.1%
Cable TV connection charges	0.82	2.5%	2.6%	2.8%

Source: NSO; CEIC; ICRA Research

- In terms of a services vs. goods approach to assessing the CPI, services inflation (with a weight of 23.4% in the CPI) softened to a 43-month low of 4.2% in July 2023 (+5.1% in July 2022) from 4.5% in June 2023 (+5.0% in June 2022). The YoY inflation moderated in July 2023 relative to June 2023 for as many as 21 of the 34 services items covered in the CPI basket (19.1% weight in the CPI), including house rent (weight: 9.5%; to +4.4% from +4.6%), bus/tram fare (weight: 1.4%; to +2.1% from +2.9%), domestic servant (weight: 0.6%; to +3.8% from +4.3%), taxi/auto-rickshaw fare (weight: 0.6%; to +3.9% from +4.4%), etc.
- In contrast, the inflation in the goods segment (with a weight of 76.6% in the CPI) reported an uptick to a 15-month high of 8.4% in July 2023 from 5.0% in June 2023. The increase in the latter was entirely driven by food and beverages (weight: 45.9%; to 42-month high +10.6% from +4.7%), as the balance goods (weight: 30.8%; to +5.1% from +5.5%) reported a marginal decline between these months.

OUTLOOK: No respite from uptick in food prices in the last fortnight; headline CPI inflation may print above 6.5% in August 2023

EXHIBIT: Early MoM trends in retail prices in July 2023 and August 2023*

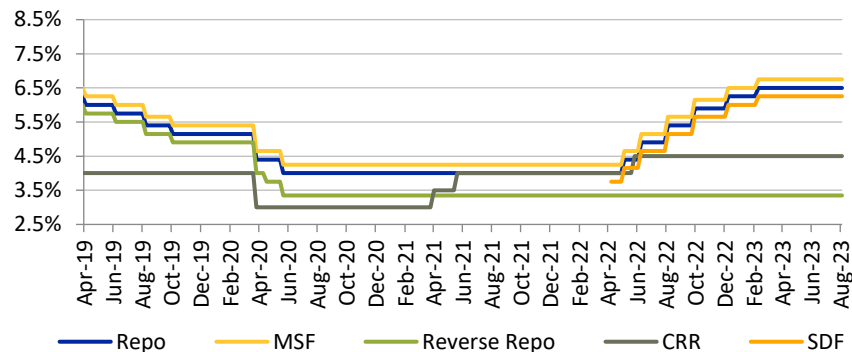


*Till Aug 11, 2023; Source: CEIC; ICRA Research

- As per the early data, the average retail price of tomato has hardened by double-digits on a sequential basis in the ongoing month, after the considerable spike in July 2023, reflecting the supply disruptions caused by excess rainfall, white fly disease in some producing states and seasonal trends. Moreover, the average prices of other vegetables (onion and potato), rice, wheat, milk (demand outpacing supply) and most pulses (amid large YoY lag in the kharif sowing of arhar, urad and moong) have risen modestly in August 2023 in sequential terms, whereas the average prices of edible oils continued to soften. **The Centre's decision to off-load stocks of rice (2.5 MT) and wheat (5.0 MT) augurs well in limiting the uptrend in the prices of these items.**
- In YoY terms, the average prices of 11 of the 22 food items have seen an uptick in August 2023 so far, relative to July 2023. **Looking ahead, the prices of some vegetables such as tomatoes may start to moderate in the coming weeks after the arrival of fresh harvest. However, the continuing YoY lag in the sowing of pulses would continue to put an upward pressure on prices of those items.**
- Overall, ICRA expects the headline CPI inflation to print well above the 6.5% mark in August 2023, before cooling off materially in Sep 2023.

OUTLOOK: Repo rate kept unchanged in Aug 2023 policy; heightened vigil and revised inflation forecast signal a delay in rate cuts to Q2 FY2025

EXHIBIT: Movement in Key Rates



Source: RBI; CEIC; ICRA Research

EXHIBIT: RBI's GDP growth and CPI inflation forecasts

YoY (%)	CPI Inflation		GDP Growth	
MPC Policy Reviews	June 2023	Aug 2023	June 2023	Aug 2023
Q1 FY2024			8.0%	8.0%
Q2 FY2024	5.2%	6.2%	6.5%	6.5%
Q3 FY2024	5.4%	5.7%	6.0%	6.0%
Q4 FY2024	5.2%	5.2%	5.7%	5.7%
FY2024	5.1%	5.4%	6.5%	6.5%
Q1 FY2025		5.2%		6.6%

Source: RBI; ICRA Research

- The MPC unanimously decided to keep the policy rates unchanged for the third consecutive time in its August 2023 policy meeting. The CPI inflation projection was raised by 30 bps to 5.4%, slightly higher than ICRA's estimate of 5.3%. However, the GDP growth forecast for FY2024 was expectedly retained at 6.5%.
- Given the CPI inflation print for July 2023, the MPC's revised forecast for inflation for Q2 FY2024 of 6.2% appears to be at risk of being overshoot, as the vegetable price shock may not reverse adequately before the next harvest. Moreover, rainfall has been deficient in August 2023 so far, which is likely to put upward pressure on food prices, amid the lags in kharif sowing across some crops.
- While the MPC had emphasised the need to be vigilant and to be ready to act appropriately to ensure that the effects of shocks do not persist, the bar for a rate hike would be quite high. In ICRA's view, inflation would need to persist above 6.0% for at least two quarters, amid transmission of pressures to core inflation, to set the stage for a rate hike. The MPC's latest forecasts suggest inflation will remain above 5% through Q1 FY2025, based on which we have pushed out our forecast for the earliest cut to Q2 FY2025. Moreover, ICRA continues to anticipate the rate cut cycle to be shallow, limited to 50-75 bps.

Annexure A.1

Table A.1: Trend in CPI Inflation (YoY)

Weight		Y-o-Y Inflation 2012 Base				M-o-M	Build-Up
		May-23	June-23	June-23	July-23	July-23	July-23
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	4.3%	4.8%	4.9%	7.4%	2.9%	5.1%
Food and beverages	45.86	3.3%	4.6%	4.7%	10.6%	5.7%	9.3%
Cereals and products	9.67	12.7%	12.7%	12.8%	13.0%	1.2%	1.4%
Meat and fish	3.61	-1.2%	1.4%	1.5%	2.3%	-2.2%	4.9%
Egg	0.43	6.7%	7.0%	7.0%	3.8%	-0.5%	3.8%
Milk and products	6.61	8.9%	8.6%	8.6%	8.3%	0.3%	1.8%
Oils and fats	3.56	-16.0%	-18.1%	-18.2%	-16.8%	-0.9%	-9.1%
Fruits	2.89	0.7%	1.4%	1.4%	3.2%	4.5%	6.0%
Vegetables	6.04	-7.9%	-0.9%	-0.7%	37.3%	38.1%	63.7%
Pulses and products	2.38	6.6%	10.5%	10.6%	13.3%	2.4%	8.8%
Sugar and confectionary	1.36	2.5%	3.0%	3.0%	3.8%	0.8%	3.8%
Spices	2.50	17.9%	19.2%	19.2%	21.6%	3.6%	10.2%
Pan, tobacco and intoxicants	2.38	3.6%	3.7%	3.7%	3.8%	0.2%	1.3%
Clothing and footwear	6.53	6.6%	6.2%	6.1%	5.6%	0.3%	1.2%
Housing	10.07	4.8%	4.6%	4.6%	4.5%	0.5%	1.0%
Fuel and light	6.84	4.7%	3.9%	3.9%	3.7%	1.8%	2.4%
Miscellaneous	28.32	4.9%	5.2%	5.2%	5.0%	0.4%	1.6%
Household goods and services	3.80	6.1%	5.5%	5.6%	5.2%	0.2%	1.1%
Health	5.89	6.2%	6.2%	6.2%	6.2%	0.4%	1.4%
Transport and communication	8.59	1.1%	2.5%	2.5%	2.4%	0.2%	0.8%
Recreation and amusement	1.68	3.7%	3.6%	3.6%	3.7%	0.4%	1.3%
Education	4.46	5.5%	5.9%	6.0%	5.5%	1.0%	3.4%
Personal care and effects	3.89	10.0%	9.0%	9.0%	9.0%	0.1%	2.2%
CPI-Food	36.55	3.0%	4.5%	4.5%	11.5%	6.7%	10.8%
CPI-Core	44.97	5.8%	5.4%	5.4%	5.1%	0.4%	1.5%
CPI Rural		4.2%	4.7%	4.8%	7.6%	3.1%	5.4%
CPI Urban		4.3%	5.0%	5.0%	7.2%	2.7%	4.8%

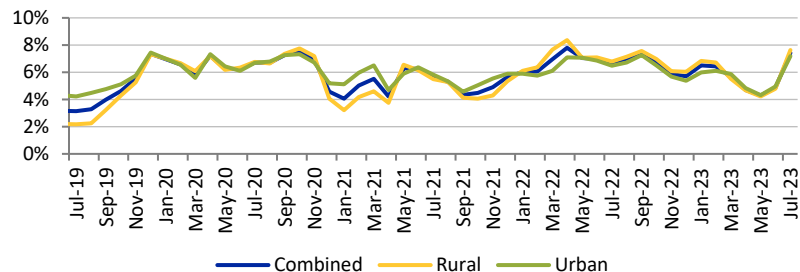
Source: National Statistical Office (NSO); CEIC; ICRA Research

Table A.2: 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

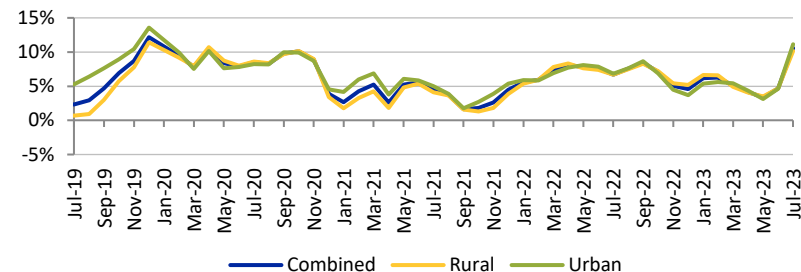
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



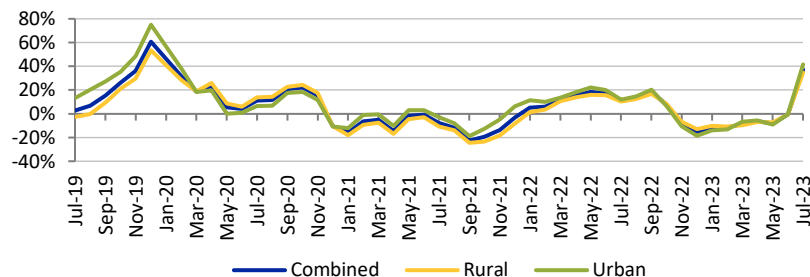
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



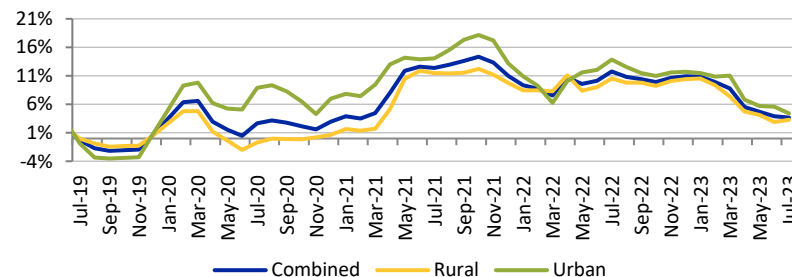
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



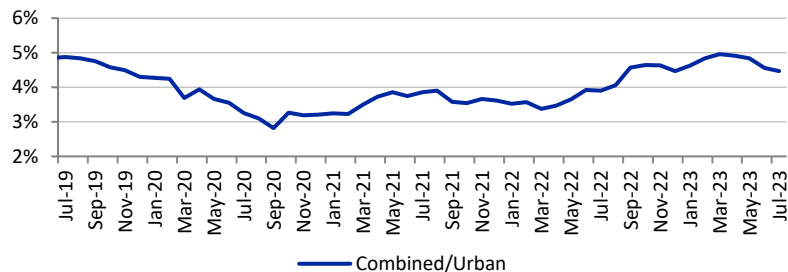
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



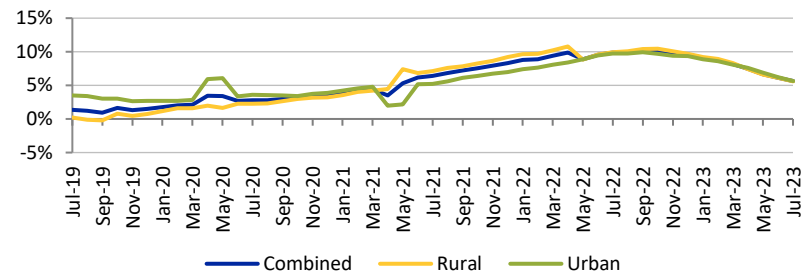
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



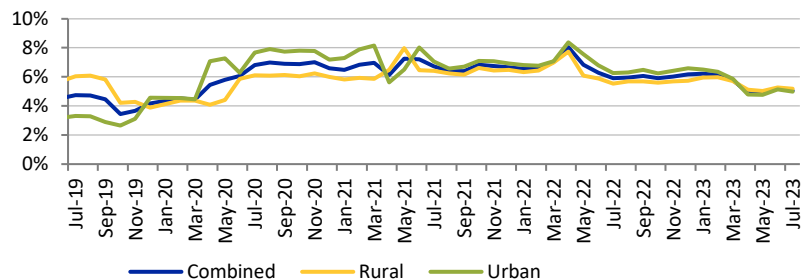
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



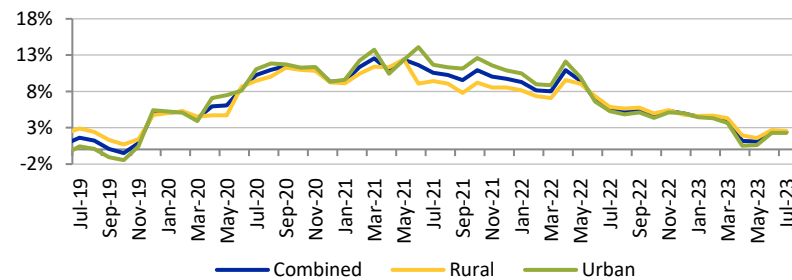
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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