

CONSUMER PRICE INDEX

CPI inflation recorded sharper-than-expected fall to 6.8% in August 2023, suggesting hawkish pause in Oct 2023 policy review

SEPTEMBER 2023





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The YoY CPI inflation eased to 6.8% in Aug 2023 from 7.4% in July 2023

Vegetables contributed 28 bps in the total 61 bps fall in YoY headline inflation prints

CPI inflation is expected to soften to 5.3-5.5% in Sep 2023 amidst a favourable base

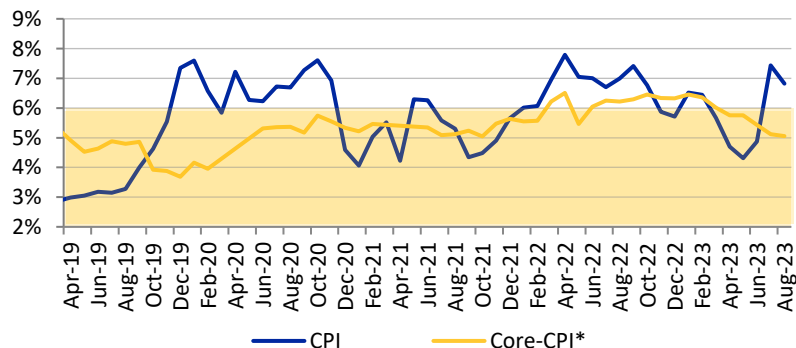
Q2 FY2024 CPI inflation to overshoot MPC's forecast of 6.2%; ICRA expects status quo in Oct 2023 policy

The headline CPI inflation recorded a mildly sharper-than-expected dip to 6.8% in August 2023 (ICRA's exp: +6.9%) in year-on-year (YoY) terms from the 15-month high of 7.4% in July 2023. This was largely led by vegetables, amidst some moderation in the prints for clothing and footwear, housing as well as miscellaneous items. While ICRA expects the CPI inflation to print in the range of 5.3-5.5% in September 2023, this will still entail an average of 6.6% for Q2 FY2024, well above the Monetary Policy Committee's (MPC's) August 2023 forecast of 6.2% for the quarter. ICRA expects the MPC to maintain status quo in October 2023, while continuing to demonstrate caution amid a cloudy outlook for food inflation and elevated crude oil prices.

- **CPI inflation softened to 6.8% in August 2023, while remaining above MPC's 6% tolerance level:** The headline CPI inflation eased to lower-than-expected 6.8% on a YoY basis in August 2023 (ICRA's exp: +6.9%) from 7.4% in July 2023. However, the August 2023 print remained above the MPC's 6% tolerance level for the second straight month. Encouraging, the core-CPI inflation softened for the third consecutive month, to 5.06% from 5.12%, respectively.
- **Vegetables accounted for nearly half of the dip in the YoY headline inflation print:** Food and beverages inflation moderated to 9.2% in August 2023 from the 42-month high of 10.6% in July 2023, driven by vegetables, which contributed as much as 28 bps in the fall of 61 bps in YoY headline prints between these months.
- **ICRA expects status quo in Oct 2023 policy:** While ICRA expects the CPI inflation to print in the range of 5.3-5.5% in September 2023, this will still entail an average of 6.6% for Q2 FY2024, well above the MPC's August 2023 forecast of 6.2% for the quarter. ICRA expects the MPC to remain on hold in October 2023, while continuing to demonstrate caution amid a cloudy outlook for food inflation and elevated crude oil prices.
- **Food inflation outlook remains uncertain amid uneven and deficient monsoon:** Notwithstanding the reversal of the relatively transient spike in tomato prices, the outlook for food inflation remains bleak, on account of other vegetables like onions, as well as kharif crops with a YoY lag in sowing such as pulses. Well distributed rainfall in the rest of September 2023 could help to protect kharif yields, even as reservoir levels do not portend well for an early commencement of rabi sowing.

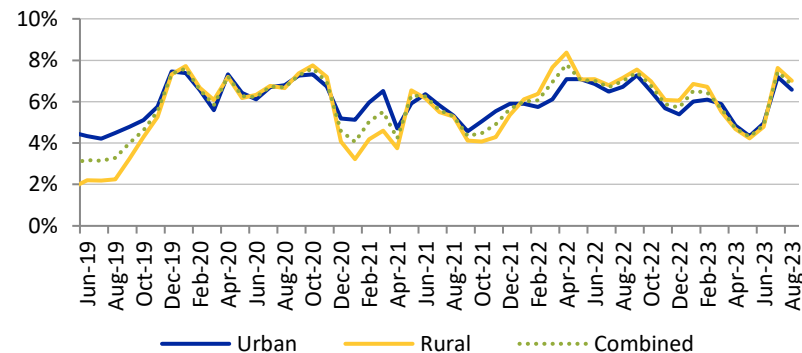
Headline CPI inflation eased to 6.8% in Aug 2023 from 15-month high 7.4% in July 2023, while remaining above MPC's 6% tolerance level

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)

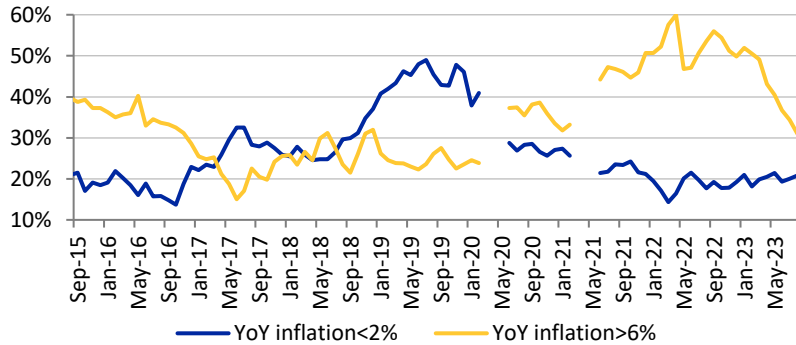


Source: NSO; CEIC; ICRA Research

- The headline CPI inflation recorded a mildly sharper-than-expected dip to 6.8% on a YoY basis in August 2023 (ICRA exp: +6.9%; +7.0% in August 2022) from the 15-month high of 7.4% in July 2023 (+6.7% in July 2022), benefitting from the correction in vegetable prices in the second half of the month and a favourable base. However, the August 2023 CPI print exceeded the 6.0% threshold of the MPC's medium-term forecast range of 2.0-6.0% for the second straight month.
- Encouragingly, the core-CPI inflation was largely stable at 5.1% in August 2023, trailing the headline inflation for the second consecutive month. The wedge between the two narrowed to 177 bps from 232 bps in July 2023, with the latter index being largely influenced by the softening in prices of food items.
- The CPI inflation in rural areas softened to 7.0% in August 2023 from 7.6% in July 2023, in line with the extent of correction seen in the inflation in urban areas (to +6.6% from +7.2%). However, the rural inflation continued to outpace the urban inflation for the second consecutive month in August 2023.

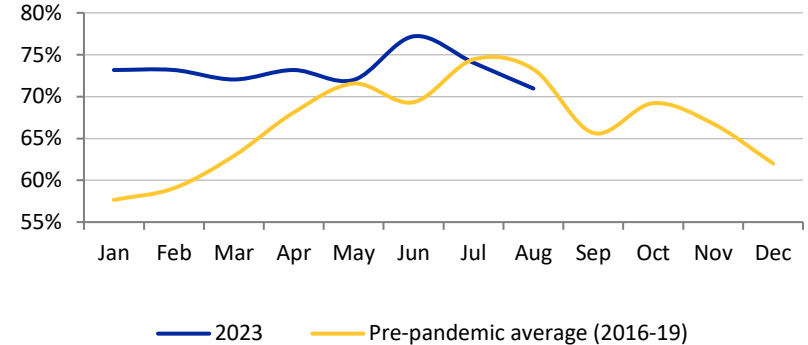
Share of items in CPI basket that reported sequential increase in prices dipped in Aug 2023, led by food items

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 (%)

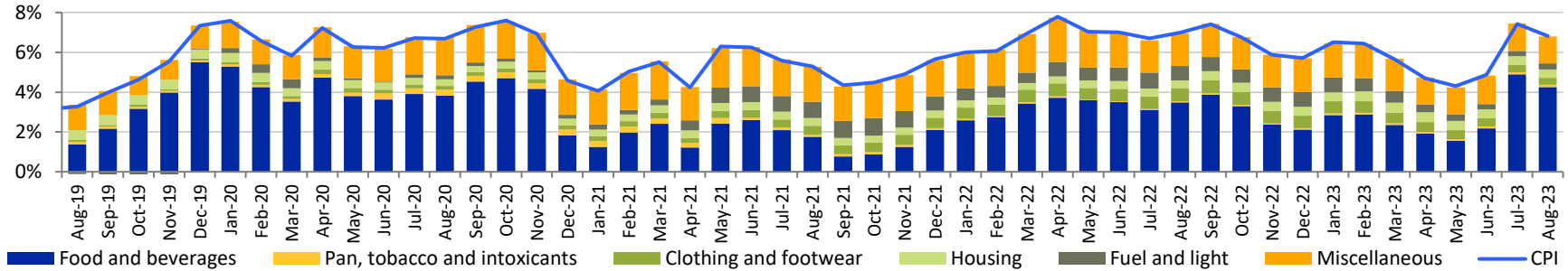


*Based on the 299 items covered in the CPI basket; on financial-year basis; Source: NSO; CEIC; ICRA Research

- The share of items in the CPI basket that witnessed a sequential increase in prices eased to 71% in Aug 2023 from 74% in July 2023. Moreover, it was lower than the average level recorded in the pre-pandemic period (FY2017-20 for Aug: 73%), although this was led by correction in food items, particularly vegetables.
- 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 for the sixth consecutive month to 31.1% in Aug 2023 from 34.4% in July 2023; this metric has witnessed a sharp fall since the beginning of the current fiscal from over 50% in February 2023. Besides, the share of items that reported a YoY inflation below the 2.0% mark rose to 20.8% from 20.1%, respectively.
- Overall, the broader momentum in prices has remained favourable in the last two months, notwithstanding the unfavourable headline inflation prints.

Food dominated the YoY dip in CPI inflation in Aug 2023 vs. July 2023; excluding vegetables, CPI inflation rose marginally to 5.5% from 5.4%

EXHIBIT: Composition of CPI Inflation (YoY)

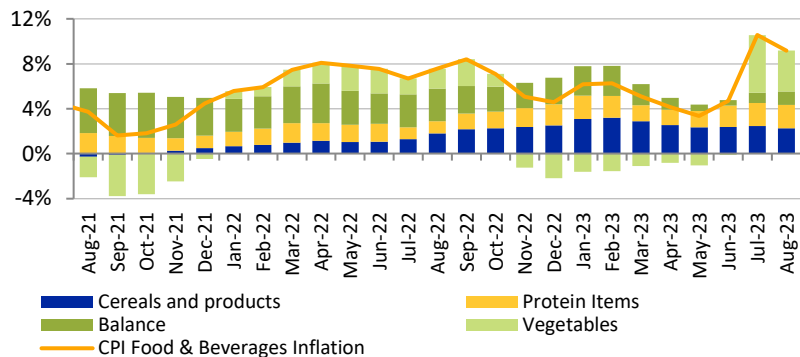


Source: NSO; CEIC; ICRA Research

- Food and beverages dominated the YoY softening in CPI inflation in August 2023 relative to July 2023, with the inflation of this sub-group dipping to 9.2% in the month after hitting a 42-month high of 10.6% in July 2023, majorly on account of vegetables.
- While the YoY inflation for fuel and light (to +4.3% from +3.7%), pan, tobacco and intoxicants (to +4.1% from +3.8%) reported an uptick between these months, that for other four major sub-groups, namely, miscellaneous items (to +4.9% from +5.0%), clothing and footwear (to +5.2% from +5.6%) and housing (to +4.4% from +4.5%) softened, offering some relief.
- Of the 61 bps drop in the headline CPI inflation print between August 2023 and July 2023, 28 bps was on account of vegetables. Excluding vegetables, the headline CPI inflation rose albeit marginally to 5.5% in August 2023 from 5.4% in the previous month.**

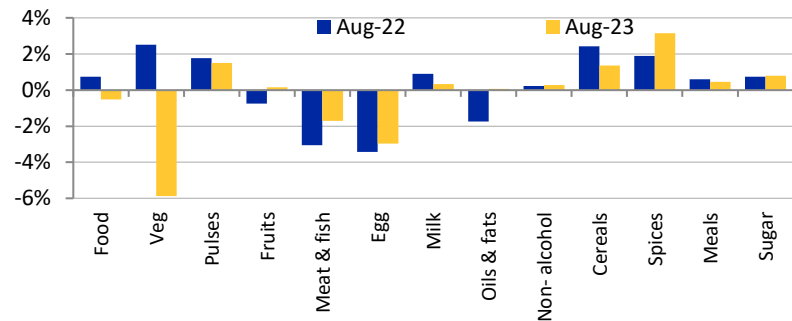
Food and beverages inflation dipped in August 2023, led by correction in vegetable prices in second half of the month

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

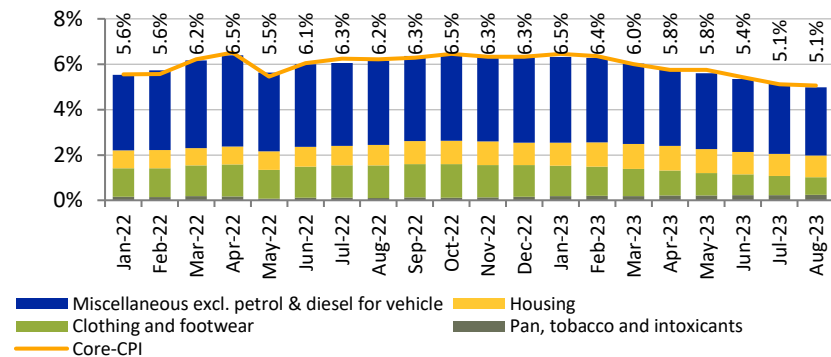


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non-alcohol: Non-alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- The inflation for food and beverages (with a weight of 45.9% in the CPI) declined to 9.2% in August 2023 (+7.6% in August 2022) from 42-month high 10.6% in July 2023 (+6.7% in July 2022). This was led by the downtick in YoY prints in just five of the 12 sub-groups, albeit with a sizeable weight of 30.3% in the CPI basket, namely vegetables (to +26.1% in Aug 2023 from +37.3% in July 2023, led by tomato, garlic, brinjal, green chilies, etc.), cereals and products (to +11.9% from +13.0%, led by non-PDS wheat), pulses and products (to +13.0% from a 30-month high +13.3%, led by tur dal), milk and products (to +7.7% from +8.3%), and prepared meals and snacks (to +5.3% from +5.5%). On the contrary, the inflation for seven of the 12 items, such as oils and fats (to -15.3% from -16.8%), spices (to +23.2% from +21.7%), etc. hardened in August 2023, vis-à-vis July 2023.
- In MoM terms, the index of food and beverages fell by 0.5% in August 2023, as opposed to the 0.7% increase seen in August 2022, reflecting the trend for vegetables (-5.9% in Aug 2023 vs. +2.5% in Aug 2022), spices (+3.2% vs. +1.9%), cereals (+1.4% vs. +2.4%) etc.

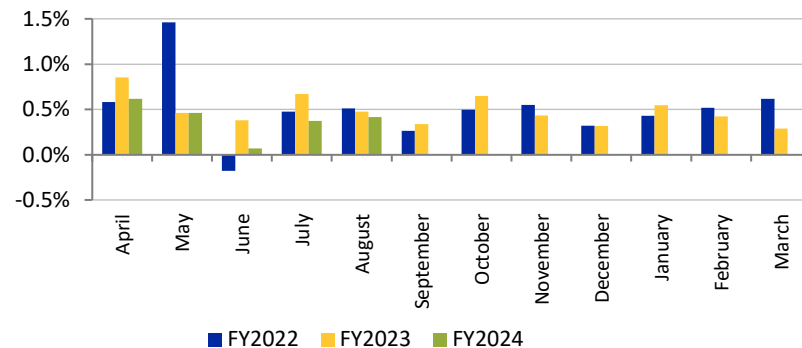
The core-CPI inflation softened slightly to 5.06% in August 2023 from 5.12% in July 2023

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

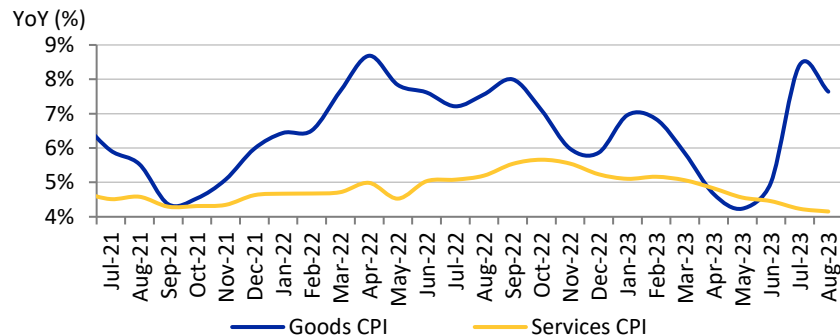


Source: NSO; CEIC; ICRA Research

- The core-CPI inflation eased for the third consecutive month to 5.06% in August 2023 (+6.2% in August 2022) from 5.12% in July 2023 (+6.3% in July 2022). This was driven by a dip in the inflation prints for the higher weighted sub-groups, including clothing and footwear (to +5.2% from +5.6%), miscellaneous items excluding petrol, diesel for vehicles (to +5.3% from +5.4%), and housing (to +4.4% from +4.5%). In contrast, the inflation for pan, tobacco and intoxicants (to +4.1% from +3.8%) witnessed an uptick between these months.
- In MoM terms, the core-CPI rose by 0.4% in August 2023, lower than the 0.5% increase seen in August 2022.

Services inflation remained steady at 4.2% in August 2023, suggesting no signs of generalisation of uptick in food prices yet

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

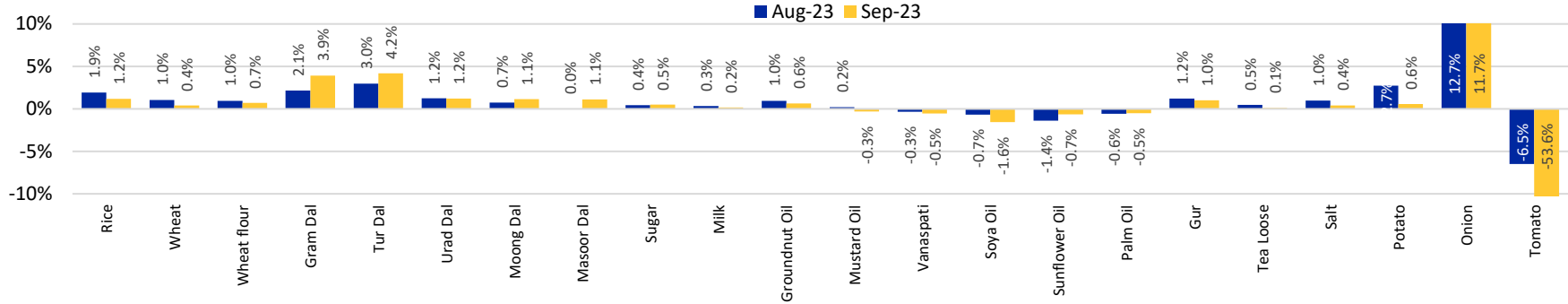
Services item	Weight in CPI	YoY (%)		
		June-2023	July-2023	August-2023
House rent, garage rent	9.51	4.6%	4.4%	4.3%
Tuition and other fees	2.90	6.4%	5.8%	5.6%
Telephone charges: mobile	1.84	1.2%	1.5%	1.3%
Bus/tram fare	1.37	2.9%	2.1%	2.5%
Cable TV connection charges	0.82	2.6%	2.8%	2.8%

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) remained unchanged at 4.2% in August 2023 (+5.2% in August 2022) vis-à-vis July 2023 (+5.1% in July 2022). The YoY inflation moderated in August 2023 relative to July 2023 for as many as 17 of the 34 services items covered in the CPI basket (albeit with a high weight of 19.5% in the CPI), including house rent (weight: 9.5%; to +4.3% from +4.4%), tuition and other fees (weight: 2.9%; to +5.6% from +5.8%), telephone charges: mobile (weight: 1.8%; to +1.3% from +1.5%), taxi/auto-rickshaw fare (weight: 0.6%; to +3.9% from +4.0%), etc.
- The inflation in the goods segment (with a weight of 76.6% in the CPI) eased to 7.6% in August 2023 from 8.4% in July 2023, entirely driven by food and beverages (weight: 45.9%; to +9.2% from +10.6%), as the balance goods (weight: 30.8%; to +5.3% from +5.1%) reported an uptick between these months.

OUTLOOK: Tomato prices corrected sharply in Sep 2023, while prices of pulses, rice and onions hardened; CPI inflation may ease to 5.3-5.5% in Sep 2023

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

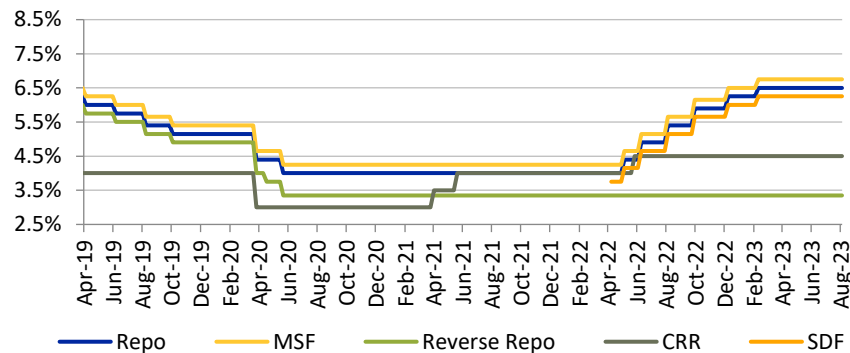


*Till Sep 11, 2023; Source: Department of Consumer Affairs (DCA); CEIC; ICRA Research

- As per the data released by the Department of Consumer Affairs (DCA), tomato prices nearly halved through Aug 2023, the full impact of which would be witnessed in the ongoing month (-53.6% MoM on average up to Sep 11, 2023). However, the average retail prices of other most essential commodities, such as rice, wheat, vegetables (onions, potatoes), sugar and pulses (persistent YoY lag in kharif sowing) have hardened sequentially in the ongoing month. In particular, the retail prices of onions have risen by double digits during Sep 1-11, 2023 (+11.7%) amid tight supply conditions.
- In YoY terms, the average prices of nine of the 22 food items have seen a lower print in September 2023 so far, relative to August 2023. **While the sharp correction in tomato prices and the reduction in prices of subsidised LPG cylinders (by Rs. 200/kg) offer relief, the outlook for food inflation remains on edge, on account of other vegetables like onions, as well as kharif crops with a YoY lag in sowing such as pulses. A well distributed rainfall in the rest of September 2023 could help to protect kharif yields, even as reservoir levels do not portend well for an early kick off of rabi sowing.**
- ICRA expects the headline CPI inflation to ease to 5.3-5.5% in September 2023 (+7.4% in September 2022) from 6.8% in August 2023 (+7.0% in August 2022), partly benefitting from a favourable base.

OUTLOOK: CPI inflation may overshoot MPC's forecast in Q2 FY2024; ICRA expects status quo in October 2023 policy meeting

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

- Given the CPI inflation print for July 2023 (+7.4%) and Aug 2023 (+6.8%) and ICRA's expectations for Sept 2023 (5.3-5.5%), the MPC's inflation forecast for Q2 FY2024 (+6.2%) appears to be at risk of being overshoot.
- We expect the MPC to remain on hold in October 2023 policy, while continuing to demonstrate caution amid a cloudy outlook for food inflation and elevated crude oil prices. 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 that inflation will remain above 5% through Q1 FY2025, based on which ICRA expects the earliest rate cut in Q2 FY2025. Moreover, ICRA continues to anticipate the rate cut cycle to be shallow, limited to 50-75 bps.

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

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Build-Up
		June-23	July-23	July-23	Aug-23	Aug-23	Aug-23
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	4.9%	7.4%	7.4%	6.8%	-0.1%	5.1%
Food and beverages	45.86	4.7%	10.6%	10.6%	9.2%	-0.5%	8.8%
Cereals and products	9.67	12.8%	13.0%	13.0%	11.9%	1.4%	2.8%
Meat and fish	3.61	1.5%	2.3%	2.3%	3.7%	-1.7%	3.1%
Egg	0.43	7.0%	3.8%	3.8%	4.3%	-3.0%	0.7%
Milk and products	6.61	8.6%	8.3%	8.3%	7.7%	0.3%	2.1%
Oils and fats	3.56	-18.2%	-16.8%	-16.8%	-15.3%	0.1%	-9.0%
Fruits	2.89	1.4%	3.2%	3.1%	4.0%	0.2%	6.1%
Vegetables	6.04	-0.7%	37.3%	37.4%	26.1%	-5.9%	54.1%
Pulses and products	2.38	10.6%	13.3%	13.3%	13.0%	1.5%	10.5%
Sugar and confectionary	1.36	3.0%	3.8%	3.8%	3.8%	0.8%	4.6%
Spices	2.50	19.2%	21.6%	21.7%	23.2%	3.2%	13.7%
Pan, tobacco and intoxicants	2.38	3.7%	3.8%	3.9%	4.1%	0.4%	1.8%
Clothing and footwear	6.53	6.1%	5.6%	5.6%	5.2%	0.2%	1.4%
Housing	10.07	4.6%	4.5%	4.5%	4.4%	0.6%	1.7%
Fuel and light	6.84	3.9%	3.7%	3.7%	4.3%	0.2%	2.5%
Miscellaneous	28.32	5.2%	5.0%	5.0%	4.9%	0.3%	1.9%
Household goods and services	3.80	5.6%	5.2%	5.2%	4.7%	0.2%	1.3%
Health	5.89	6.2%	6.2%	6.2%	6.2%	0.4%	1.8%
Transport and communication	8.59	2.5%	2.4%	2.5%	2.5%	0.2%	1.0%
Recreation and amusement	1.68	3.6%	3.7%	3.7%	3.6%	0.2%	1.5%
Education	4.46	6.0%	5.5%	5.5%	5.5%	0.4%	3.8%
Personal care and effects	3.89	9.0%	9.0%	8.9%	8.1%	0.2%	2.3%
CPI-Food	36.55	4.5%	11.5%	11.5%	9.9%	-0.7%	10.1%
CPI-Core	44.97	5.4%	5.1%	5.1%	5.1%	0.4%	2.0%
CPI Rural	4.8%	4.8%	7.6%	7.6%	7.0%	0.0%	5.4%
CPI Urban	5.0%	5.0%	7.2%	7.2%	6.6%	-0.1%	4.7%

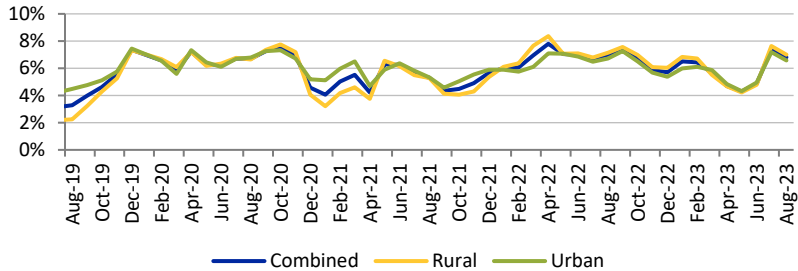
Source: National Statistical Office (NSO); CEIC; ICRA Research

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

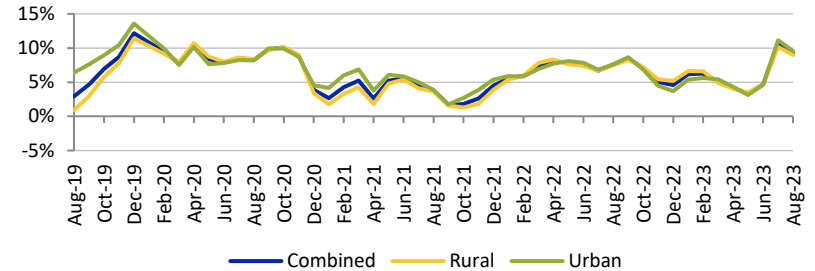
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



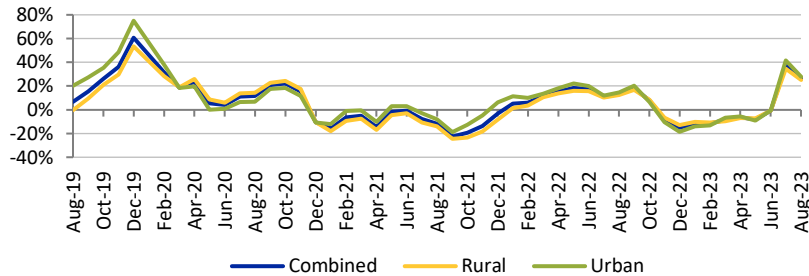
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



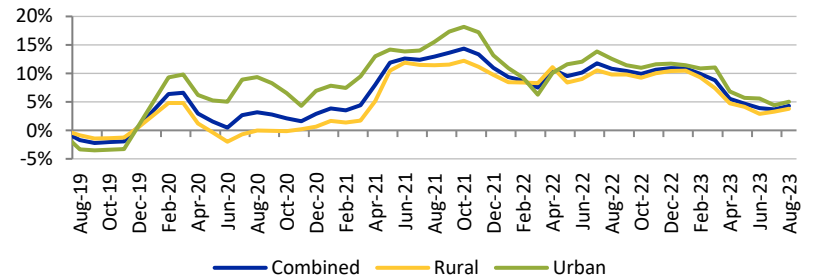
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



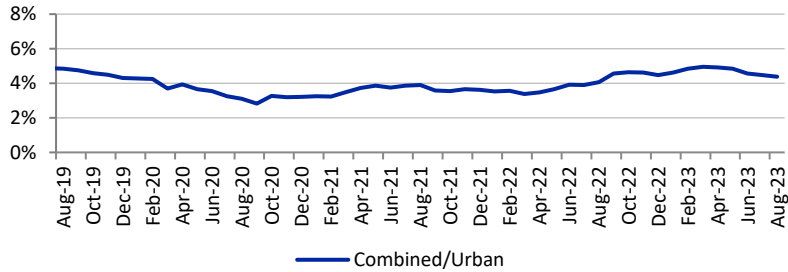
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



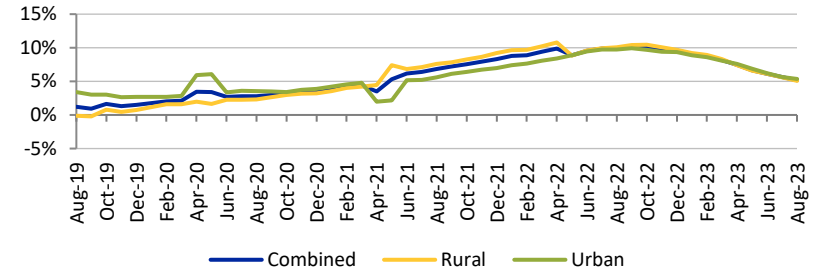
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



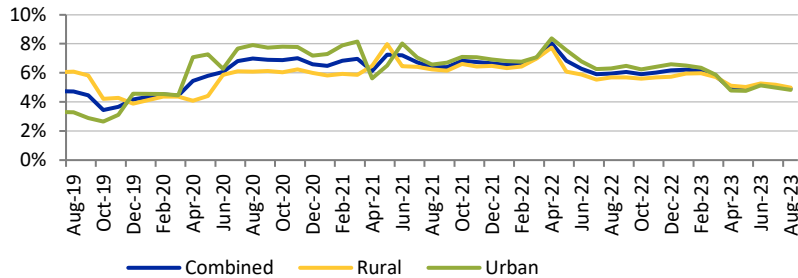
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



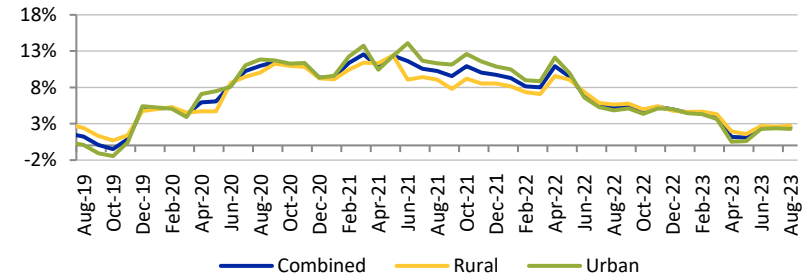
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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