

CONSUMER PRICE INDEX

CPI inflation surprisingly inched up to 3.7% in August 2024, led by food; expected to harden further to 4.8% in September 2024

SEPTEMBER 2024





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CPI inflation inched up to 3.7% in August 2024 from 3.6% in July 2024, driven by food and beverage segment

ICRA expects CPI inflation to rise to 4.8% in September 2024, amid fading of favourable base

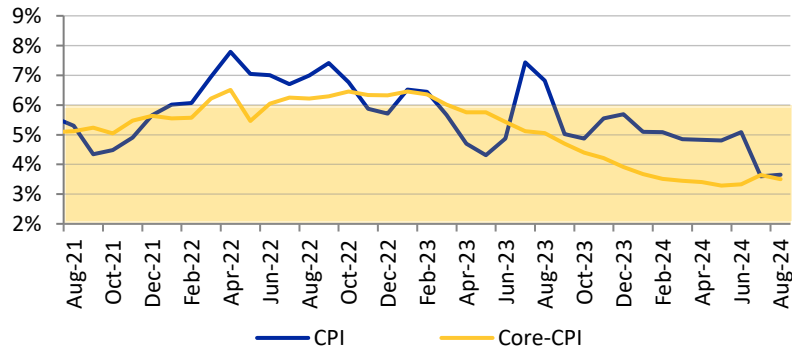
With Q1 FY2025 GDP print having undershot MPC's forecast, a change in policy stance in Oct 2024 meeting can not be entirely ruled out

Belying expectations of a further softening, the headline CPI inflation inched up to 3.7% in August 2024 from 3.6% in July 2024, led by the food and beverage segment, amid a shallower-than-expected sequential fall in vegetable prices. Looking ahead, ICRA projects the headline CPI inflation to rise to ~4.8% in September 2024 from 3.7% in August 2024, on account of the impact of base normalisation in the food and beverages segment (+6.3% in Sep 2023 vs. +9.2% in Aug 2023). Notwithstanding the anticipated hardening in September 2024, the average CPI inflation will undershoot the Monetary Policy Committee's (MPC's) Q2 FY2025 estimate of 4.4%. Given this, and the Q1 FY2025 GDP growth print (+6.7%) having trailed the MPC's forecast for the quarter (+7.1%), a change in stance in the October 2024 policy meeting can not be entirely ruled out.

- **Unexpected rise in CPI inflation to 3.7% in August 2024:** The CPI inflation inched up to 3.7% in August 2024 from 3.6% in July 2024, in contrast with ICRA's forecast of an easing (+3.2%), led by the food and beverages group. The MoM dip in vegetable prices (-2.5%) in August 2024 was much smaller than our expectations.
- **Core-CPI inflation displayed a transient dip in August 2024; expected to rise gradually in rest of FY2025:** Although the core-CPI (CPI excluding food and beverage, fuel and light, and petrol and diesel for vehicles) inflation eased slightly to 3.5% in August 2024 from 3.6% in July 2024, this is likely to be an intermittent dip; we expect the core-CPI inflation print to inch up through the rest of the fiscal, in spite of the recent moderation in commodity prices, on account of demand for services, as well as the YoY decline in the sowing of cotton.
- **Normalising base to push up CPI inflation to 4.8% in September 2024:** ICRA estimates the headline CPI inflation to rise to ~4.8% in September 2024 from 3.7% in August 2024, led by a sharp uptick in the food and beverages inflation print amid the fading of the elevated base (food and beverages inflation: +6.3% in Sep 2023 vs. +9.2% in Aug 2023). Notwithstanding the anticipated hardening in September 2024, the average CPI inflation will undershoot the MPC's Q2 FY2025 estimate of 4.4%. With the Q1 FY2025 GDP growth print (+6.7%), having trailed the MPC's forecast for the quarter (+7.1%), a change in stance in the October 2024 policy meeting can not be entirely ruled out. ICRA remains watchful of the impact of heavy rains on the food inflation trajectory, even as kharif sowing has displayed a favourable picture, with overall area rising by 2.2% YoY as on September 6, 2024.

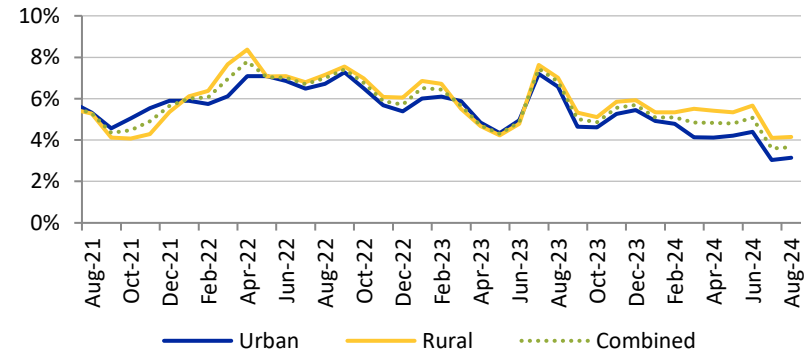
CPI inflation saw a surprising uptick to 3.7% in August 2024 from 3.6% in July 2024, led by food and beverages

EXHIBIT: Headline and Core CPI Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Rural and Urban CPI Inflation (YoY)

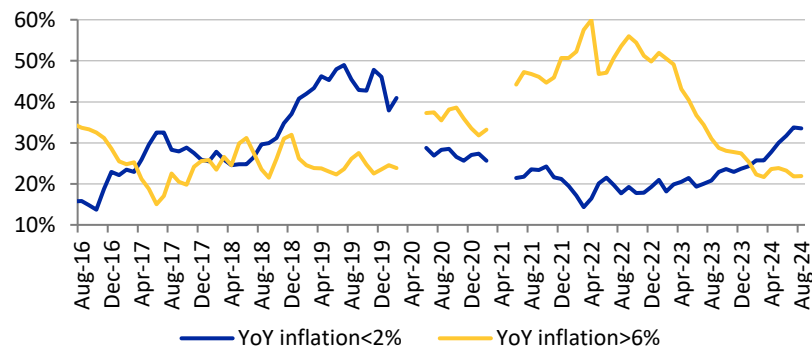


Source: NSO; CEIC; ICRA Research

- Contrary to ICRA's expectation of a further softening (+3.2%), the headline CPI inflation inched up marginally to 3.65% in August 2024 (+6.8% in August 2023) on a YoY basis from upwardly revised 3.60% in July 2024 (+7.4% in July 2023). This was on account of an uptick in the food and beverage inflation (to +5.3% in Aug 2024 from +5.1% in July 2024).
- Nevertheless, the core-CPI inflation (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) eased mildly to 3.5% in August 2024 from 3.6% in July 2024. Consequently, the wedge between the core-CPI and the headline CPI inflation widened to (-) 15 bps from (+) 5 bps, respectively.
- The CPI inflation in urban areas witnessed a slightly faster uptick (to +3.14% in August 2024 from +3.03% in July 2024) in August 2024 relative to July 2024, compared to that in rural areas (to +4.16% from +4.10%). The gap between the two narrowed slightly to 102 bps from 113 bps in July 2024.
- On a sequential basis, the CPI remained flat in August 2024, as opposed to the marginal dip of 0.1% in August 2023, owing to the narrower moderation in food and beverage index (-0.3% vs. -0.5%), on account of vegetables (-2.5% vs. -5.9%) and fruits (+2.6% vs. +0.1%).

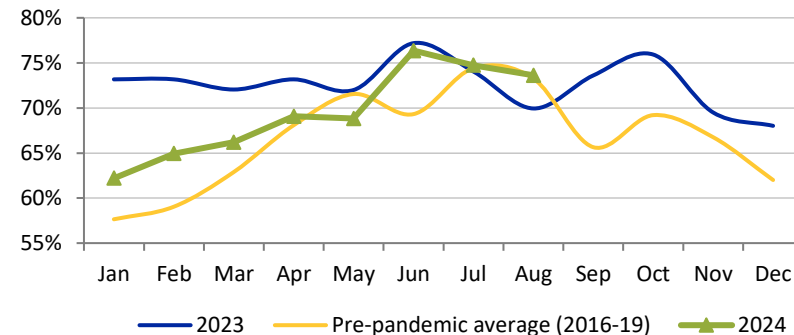
Share of items in CPI basket that witnessed a sequential rise in prices eased in August 2024

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 (%)

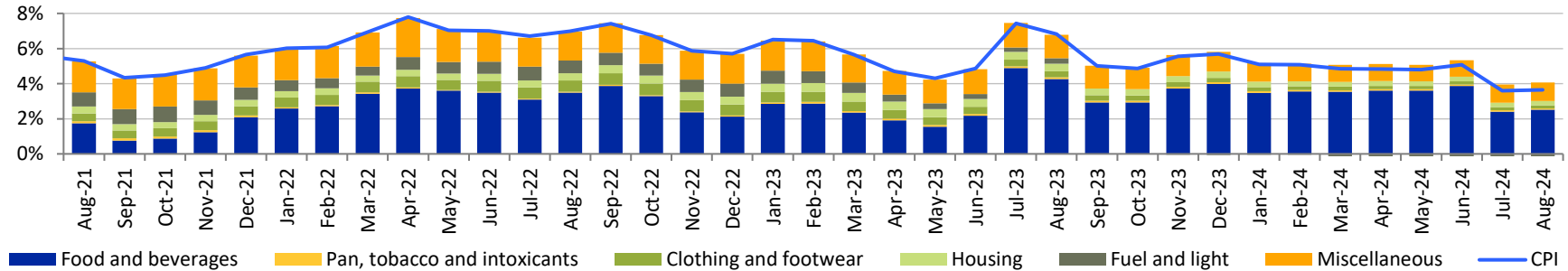


**Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research*

- The share of items in the CPI basket that witnessed a sequential increase in prices eased slightly to 73.6% in August 2024 from 74.7% in July 2024, hovering around the average level recorded in the pre-pandemic period during the month (FY2017-20 for August: 73.3%, July: 74.4%) for the second consecutive month.
- In addition, the share of items in the CPI basket that reported a YoY inflation below the 2.0% mark eased slightly to 33.6% in August 2024 from 34.1% in July 2024. However, the share of items that reported a YoY inflation rate above the MPC's upper limit of 6.0% inched up slightly between these months (to 21.9% from 21.5%, respectively).

Food and beverages group pushed up CPI inflation in August 2024 compared to July 2024

EXHIBIT: Composition of CPI Inflation (YoY)



Source: NSO; CEIC; ICRA Research

- The surprising, albeit, marginal rise in the headline inflation in August 2024, compared to the prior month was largely driven by food and beverages (to +5.3% from +5.1%), fuel and light (to -5.3% from -5.5%) and miscellaneous items (to +3.9% from +3.8%), even as the YoY inflation for other categories either softened or remained stable, including pan, tobacco and intoxicants (to +2.7% from +3.0%), clothing and footwear (at 2.7%) and housing (at +2.7%) in August 2024, compared to July 2024.
- In terms of contribution, the food and beverage (+10 bps) category drove the uptick in CPI inflation between July 2024 and August 2024.

Uptick in food and beverages inflation to 5.3% in August 2024 was driven by perishable prices

EXHIBIT: Composition of Food and Beverages Inflation (YoY)

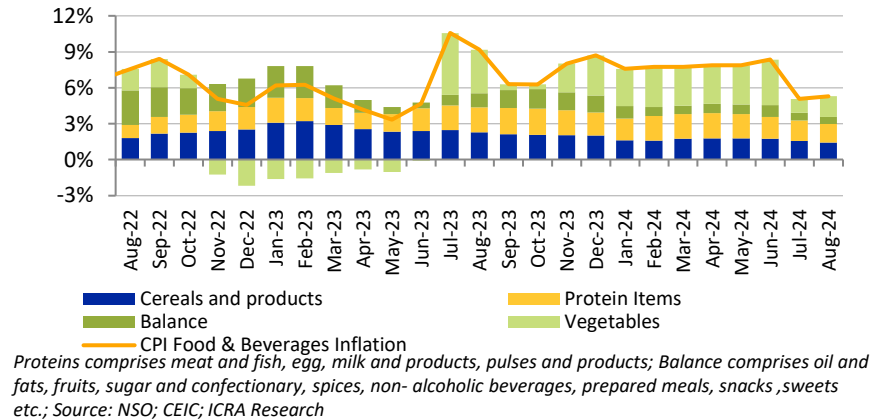
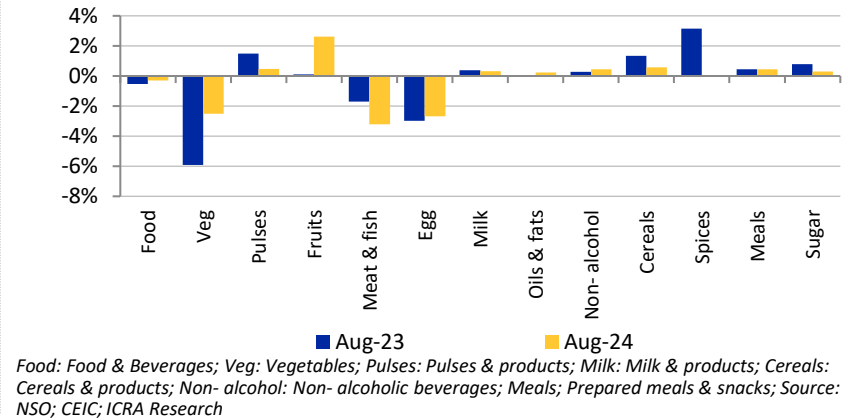


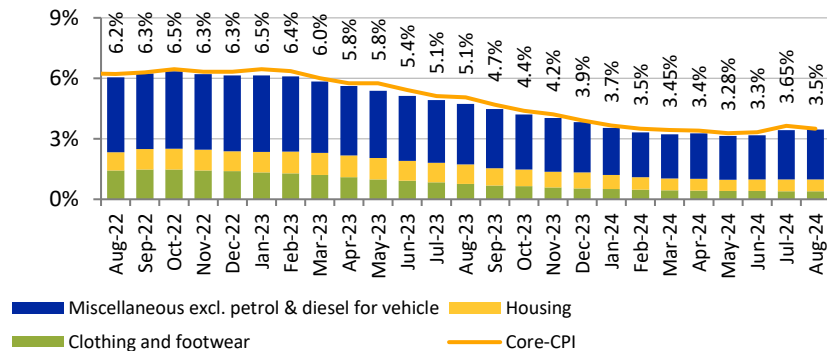
EXHIBIT: MoM Change in Food and Beverage Sub-Index



- The inflation in food and beverages (with a weight of 45.9% in the CPI) unexpectedly rebounded to 5.3% in August 2024 (+9.2% in August 2023) from 5.1% in July 2024 (+10.6% in July 2023).
- Only five the 12 sub-segments in this group (with a weight of 14.2% in CPI basket) witnessed an uptick in their YoY inflation rates in August 2024 compared to the previous month. These include perishables such as vegetables (to +10.7% from +6.8%) and fruits (to +6.5% from +3.8%) that witnessed a large increase in their YoY inflation rates, followed by mild upticks in eggs (to +7.1% from +6.8%), oils and fats (to -0.9% from -1.1%), and non-alcoholic beverages (to +2.4% from +2.0%). In contrast, pulses inflation saw a moderation (to +13.6% from +14.8%), though it remained in double digits for the 15th consecutive month in August 2024. Besides, the inflation in spices, meat and fish, cereals and products, and sugar also softened in August 2024.
- In MoM terms, the index of food and beverages eased, after a gap of six months, by 0.3% in August 2024, albeit shallower than the 0.5% fall in the year-ago month. This was led by a smaller dip in the prices of vegetables (-2.5% vs. -5.9%), and a larger rise in the prices of fruits (+2.6% vs. +0.1%).

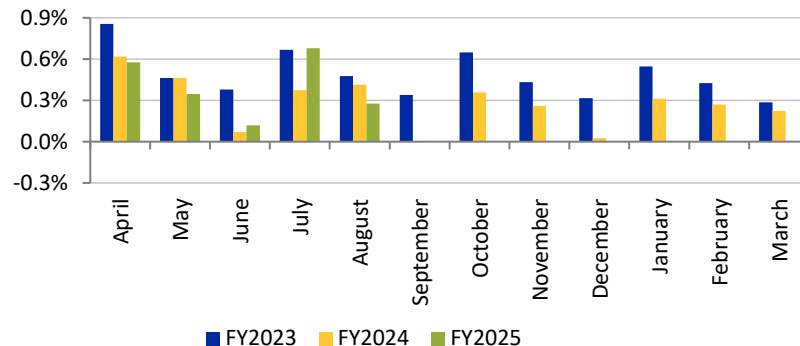
Core-CPI inflation posted a transient dip in August 2024; expected to rise gradually through the remaining part of the fiscal

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

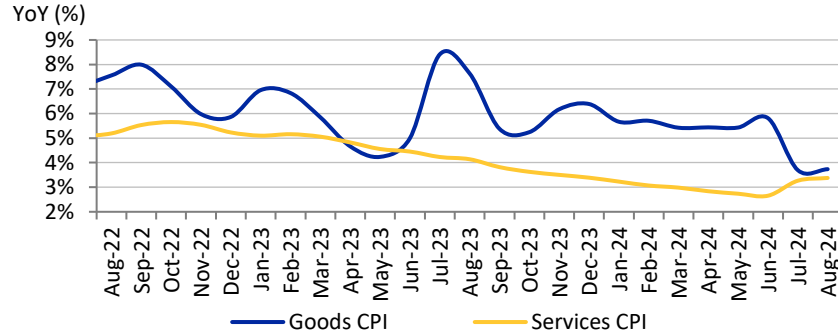


Source: NSO; CEIC; ICRA Research

- The core-CPI inflation softened to 3.5% in August 2024 from 3.6% in July 2024, although this seems to be transient. This was entirely driven by softening in pan, tobacco and intoxicants (to +2.7% from +3.0%). **ICRA expects the core inflation to inch up through the rest of the fiscal, in spite of the recent moderation in commodity prices, on account of demand for services, as well as the YoY decline in the sowing of cotton.**
- A stricter measure of core-CPI, computed as CPI excluding food and beverages, fuel and light, petrol and diesel indices for vehicles, and gold, also witnessed a slight dip in the YoY inflation to 3.1% in August 2024 from 3.2% in July 2024.
- The MoM momentum in core-CPI items stood at 0.3% in August 2024, lower than 0.4% seen in the same month of 2023, mirrored by the trend in pan, tobacco and intoxicants (+0.1% vs +0.4%).

Inflation in services inched up to 3.4% in August 2024 from 3.3% in July 2024, led by telecom charges

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

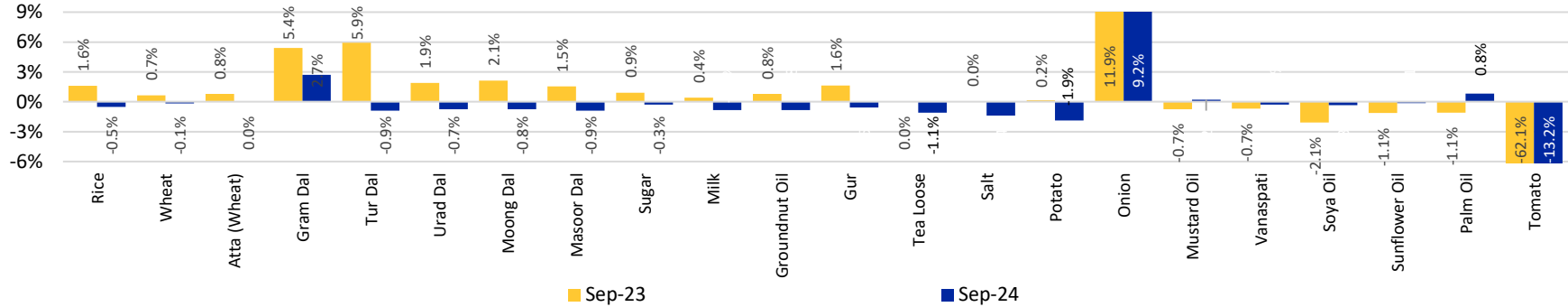
Services item	Weight in CPI	YoY (%)		
		June-2024	July 2024	August 2024
House rent, garage rent	9.51	2.6%	2.6%	2.6%
Tuition and other fees	2.90	3.8%	4.0%	4.2%
Telephone charges: mobile	1.84	1.0%	9.5%	10.5%
Bus/tram fare	1.37	1.4%	1.4%	0.9%
Cable TV connection charges	0.82	2.3%	2.3%	2.4%

Source: NSO; CEIC; ICRA Research

- In terms of a services vs. goods approach to assessing the CPI, the services inflation (with a weight of 23.4% in the CPI) inched up to an eight-month high 3.4% in August 2024 (+4.1% in August 2023) from 3.3% in July 2024 (+4.2% in July 2023). The uptick was not broad-based, with 18 of the 34 services items covered in the CPI basket (albeit with a considerable weight of 15.4% in the CPI) witnessing higher inflation between these months. For instance, the inflation for tuition and other fees (to +4.2% in August 2024 from +4.0% in July 2024) and telephone charges: mobile (to +10.5% from +9.5%) hardened between these months, with latter stemming from the impact of hikes in telecom tariffs w.e.f. July 2024.
- The inflation in the goods segment (with a weight of 76.6% in the CPI) was stable at 3.7% in August 2024, in line with the previous month, with uptick in the inflation for the food and beverages group (weight: 45.9%; to +5.3% from +5.1%) being entirely offset by the fall in non-food and beverages goods segment (30.8%; to +1.3% from +1.5%).

OUTLOOK: CPI inflation to rise to 4.8% in September 2024 amid the fading of favourable base

EXHIBIT: MoM trends in retail prices in September 2023 and September 2024*

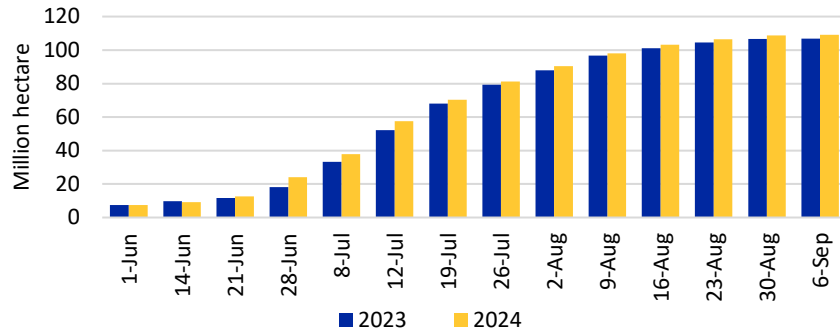


*Till September 10, 2024; Source: DCA; CEIC; ICRA Research

- The data released by the Department of Consumer Affairs (DCA) indicates that the average retail prices of 18 of the 22 essential commodities eased in September 2024 (till Sep 10, 2024) vis-à-vis August 2024, barring those for gram dal, some edible oils (mustard and palm oil) and onions. In September 2024 so far, onion prices have surged to a nine-month high of Rs. 49.12/kg (up +47.3% YoY and +9.2% MoM) prompting the Centre to release stocks at subsidised rates in the market. This is similar to the strategy deployed by the Gol in July 2024 to help cool tomato prices, which have now fallen to a three-month low of Rs. 43.72/kg (-13.2% MoM) in September 2024 so far (till Sep 19, 2024) and are likely to decline further on the back of fresh supplies from southern and western India.
- Further, 16 of the 22 items saw a lower MoM inflation in September 2024 vis-à-vis September 2023 including rice (-0.5% vs. +1.6%), most pulses, and veggies including potato (-1.9% vs. +0.2%) and onion (+9.2% vs. +11.9%). In contrast, most of the edible oil, barring groundnut oil, witnessed a higher MoM print in the ongoing month relative to September 2023. Likewise, the same set of 16 items reported an easing in their YoY inflation rates in September 2024 (till Sep 10, 2024) vs. August 2024.
- **Nevertheless, ICRA estimates the headline CPI inflation to rise to 4.8% in September 2024 from 3.7% in August 2024, led by a sharp uptick in the food and beverages inflation print amid the fading of the elevated base (food and beverages inflation: +6.3% in Sep 2023 vs. +9.2% in Aug 2023).**

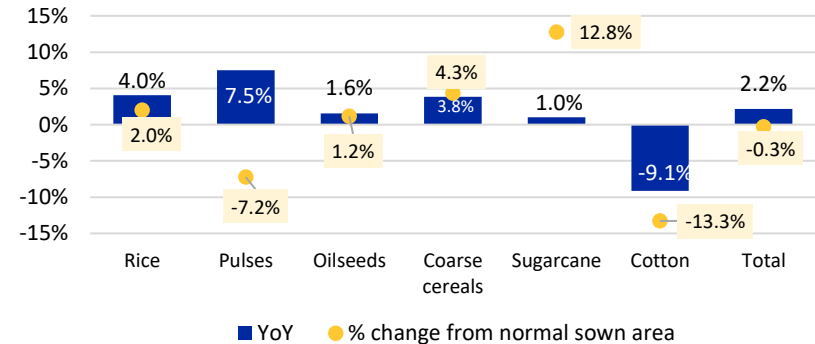
OUTLOOK: Kharif sowing rose by 2.2% YoY till Sep 6, 2024; episodes of heavy rainfall and flooding pose risks to food inflation trajectory in near term

EXHIBIT: Cumulative weekly kharif sowing trends



Source: IMD; Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: YoY growth and % change from normal sown area (average sowing area from 2018-19 to 2022-23) in Kharif Sowing as on September 6, 2024

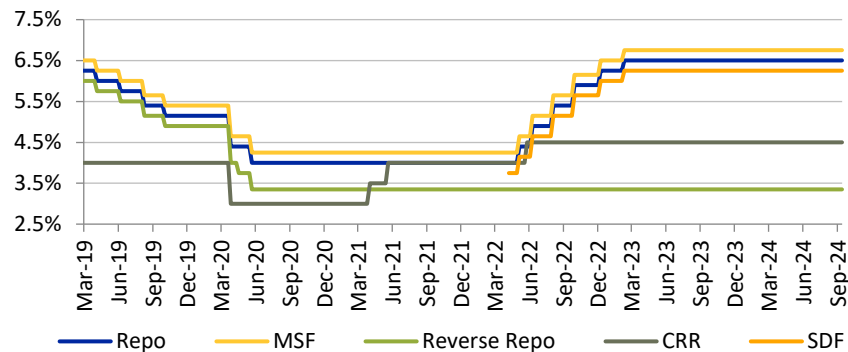


Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

- Kharif crops were sown on 109.2 million hectares by September 6, 2024, accounting for 98.7% of the total area covered in the 2023 season, higher than the 96.8% area sown around the same time in 2023. Aided by healthy rainfall since July 2024, the cumulative sowing of kharif crops exceeded the year-ago levels by 2.2% in September 2024 so far, led by pulses (+7.5%; albeit on a low base), rice (+4.0%), coarse cereals (+3.8%), oilseeds (+1.6%), and sugarcane (+1.0%).
- Notably, as against the normal sown area (average sowing area from 2018-19 to 2022-23) of 109.6 million hectare, the area sown in 2024 so far stands marginally lower by 0.3% notwithstanding the higher growth in sugarcane (+12.8%), coarse cereals (+4.3%), rice (+2.0%), and oilseeds (+1.2%). While the sowing of pulses has significantly exceeded the year-ago levels, it trails the normal sown area in the corresponding period by 7.2% led by kulthi (-81.1%), urad (-18.3%), and moong (-5.2%). Additionally, cotton sowing has trailed the normal area sown by a sharp 13.3% as on September 6, 2024.
- ICRA remains watchful of the episodes of heavy rainfall and flooding across some states that could harm the standing crops amidst the IMD's expectations of above normal rainfall during September 2024 and the development of La Nina conditions by the end of this ongoing month. These pose upside risks to the food inflation trajectory in the near term. However, healthy reservoir levels should support a timely and plentiful rabi sowing.

OUTLOOK: Change in stance can not be ruled out in Oct 2024 policy; views of new external MPC members key to determine future monetary outcomes

EXHIBIT: Movement in Key Rates



Source: RBI; CEIC; ICRA Research

EXHIBIT: RBI's GDP growth and CPI inflation forecasts

YoY (%)	CPI Inflation*		GDP Growth (at constant 2011-12 prices)	
	June 2024	August 2024	June 2024	August 2024
MPC Policy Reviews				
Q1 FY2025	4.9%		7.3%	7.1%
Q2 FY2025	3.8%	4.4%	7.2%	7.2%
Q3 FY2025	4.6%	4.7%	7.3%	7.3%
Q4 FY2025	4.5%	4.3%	7.2%	7.2%
FY2025	4.5%	4.5%	7.2%	7.2%
Q1 FY2026		4.4%		7.2%

*Based on the assumption of a normal monsoon in 2024; Source: RBI; ICRA Research

- The Monetary Policy Committee (MPC) had expectedly kept the policy stance and rates unchanged in its third bi-monthly monetary policy meeting for FY2025 held on August 6-8, 2024, both with a 4:2 vote. The dissenting members had voted for a 25 bps rate cut and change in the policy stance to neutral. Notably, one of the dissenting members had highlighted that a real interest rate of 1.5% was sufficiently restrictive in the current scenario.
- **Notwithstanding the anticipated hardening in September 2024, the average CPI inflation will undershoot the MPC's Q2 FY2025 estimate of 4.4%. With the Q1 FY2025 GDP growth print (+6.7%), having trailed the MPC's forecast for the quarter (+7.1%), a change in stance in the October 2024 policy meeting cannot be entirely ruled out.**
- **Notably, the term of the extant external MPC members would end prior to the October 2024 MPC meeting. As a result, the views of the new external MPC members (yet to be announced) would be important in determining future monetary policy outcomes.**

Annexure A.1

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

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		June-24	July-24	July-24	August-24	August-24	August-24
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	5.1%	3.5%	3.6%	3.7%	0.0%	3.9%
Food and beverages	45.86	8.4%	5.1%	5.1%	5.3%	-0.3%	6.3%
Cereals and products	9.67	8.8%	8.1%	8.1%	7.3%	0.6%	1.8%
Meat and fish	3.61	5.4%	6.0%	5.9%	4.3%	-3.2%	1.0%
Egg	0.43	4.1%	6.8%	6.8%	7.1%	-2.7%	-2.2%
Milk and products	6.61	3.0%	3.0%	3.0%	3.0%	0.3%	1.8%
Oils and fats	3.56	-2.7%	-1.2%	-1.1%	-0.9%	0.2%	2.1%
Fruits	2.89	7.2%	3.8%	3.8%	6.5%	2.6%	9.6%
Vegetables	6.04	29.3%	6.8%	6.8%	10.7%	-2.5%	32.9%
Pulses and products	2.38	16.1%	14.8%	14.8%	13.6%	0.5%	6.6%
Sugar and confectionary	1.36	5.8%	5.2%	5.2%	4.7%	0.3%	2.1%
Spices	2.50	2.1%	-1.4%	-1.4%	-4.4%	0.0%	-2.4%
Pan, tobacco and intoxicants	2.38	3.1%	3.0%	3.0%	2.7%	0.1%	1.4%
Clothing and footwear	6.53	2.7%	2.7%	2.7%	2.7%	0.3%	1.2%
Housing	10.07	2.7%	2.7%	2.7%	2.7%	0.6%	1.6%
Fuel and light	6.84	-3.6%	-5.5%	-5.5%	-5.3%	0.3%	0.5%
Miscellaneous	28.32	3.4%	3.8%	3.8%	3.9%	0.3%	2.3%
Household goods and services	3.80	2.4%	2.3%	2.3%	2.4%	0.4%	1.1%
Health	5.89	4.1%	4.1%	4.1%	4.1%	0.4%	1.6%
Transport and communication	8.59	1.0%	2.5%	2.6%	2.7%	0.3%	2.2%
Recreation and amusement	1.68	2.3%	2.2%	2.2%	2.3%	0.3%	1.1%
Education	4.46	3.6%	3.4%	3.5%	3.7%	0.6%	2.9%
Personal care and effects	3.89	8.2%	8.4%	8.4%	7.9%	-0.3%	4.1%
CPI-Food	36.55	9.4%	5.4%	5.4%	5.7%	-0.4%	7.2%
CPI-Core	44.97	3.3%	3.5%	3.6%	3.5%	0.3%	2.0%
CPI Rural		5.7%	4.1%	4.1%	4.2%	0.1%	4.0%
CPI Urban		4.4%	3.0%	3.0%	3.1%	0.0%	3.6%

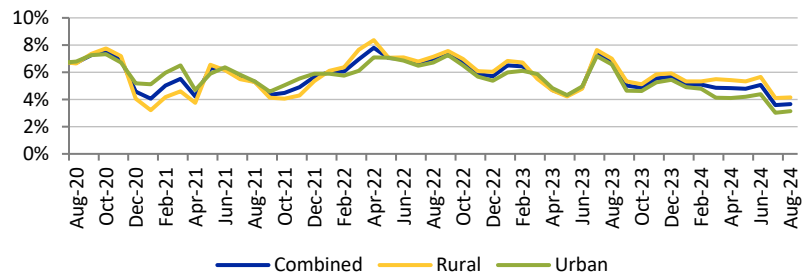
Source: National Statistical Office (NSO); CEIC; ICRA Research

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

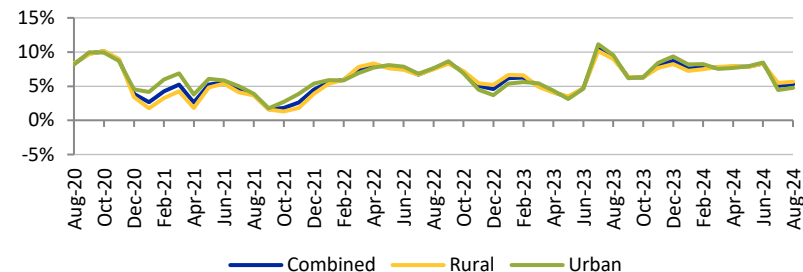
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



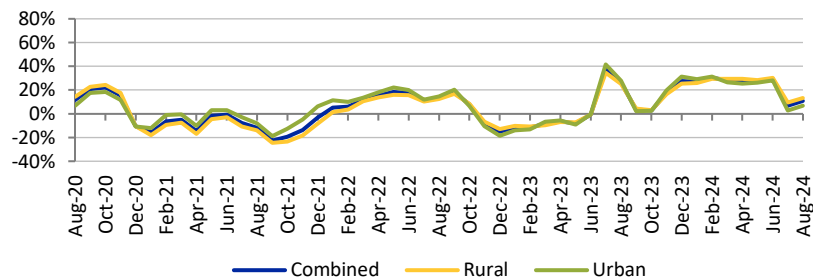
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



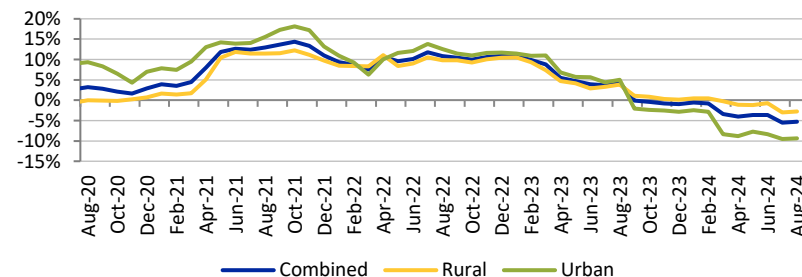
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



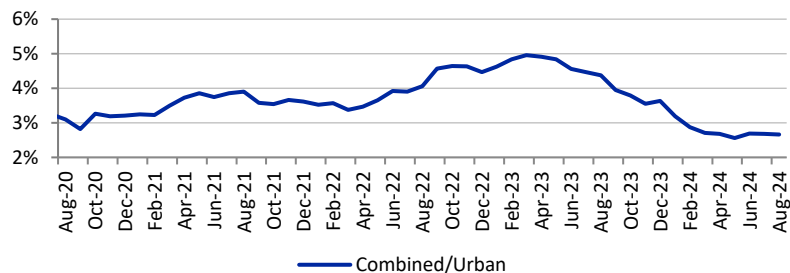
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



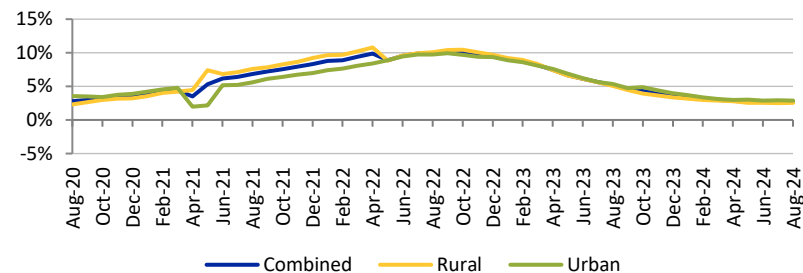
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



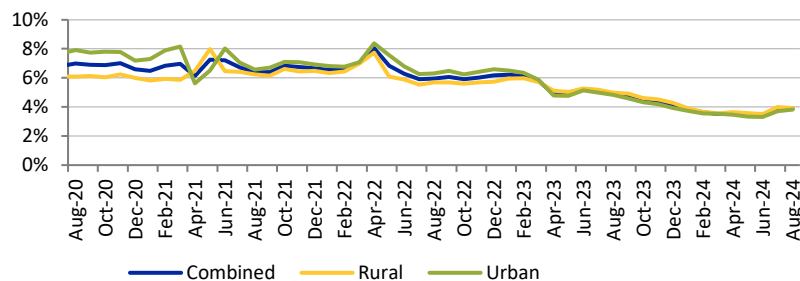
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



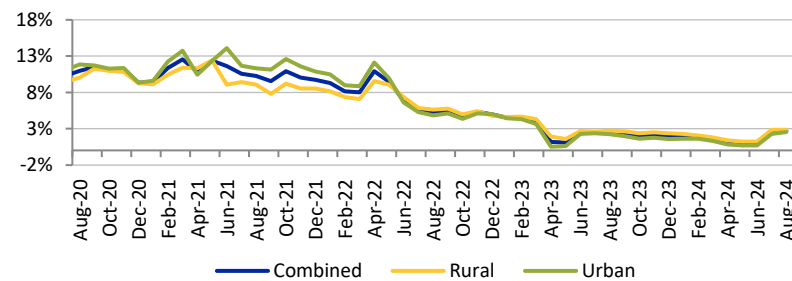
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head- Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzoo Pahwa	Economist	aarzoo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Senior Associate Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Isha Sinha	Associate Economist	isha.sinha@icraindia.com	022 – 6114 3445





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Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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