

CONSUMER PRICE INDEX

**CPI inflation surged to 6.2% in
October 2024, led by vegetables;
MPC unlikely to vote for rate cut in
December 2024 meeting**

NOVEMBER 2024





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CPI inflation surged to 6.2% in October 2024, highest in last 14 months, exceeding our forecast of 6.0%.

Food and beverages accounted for 64 of the overall 72 bps uptick in YoY CPI inflation compared to September 2024.

After a worrying CPI print, the MPC is unlikely to vote for a rate cut in December 2024 policy.

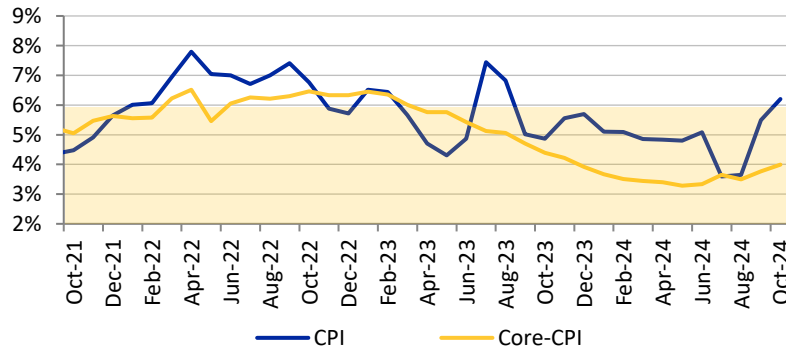
ICRA expects CPI inflation to recede to 5.5-5.7% in November 2024.

The year-on-year (YoY) CPI inflation soared to a 14-month high 6.2% in October 2024 from 5.5% in September 2024, breaching the upper limit of the Monetary Policy Committee's (MPC's) medium term target range of 2-6% after a gap of 13 months. The sequential hardening was largely led by the food and beverages segment, followed by a mild uptick in the core items. Looking ahead, the CPI inflation is anticipated to recede to 5.5-5.7% in November 2024 (+5.6% in November 2023), on the back of a favourable base, even as food items have displayed a mixed trend in the month. With the CPI inflation surpassing the 6% mark in October 2024 and expected to exceed the MPC's estimate for Q3 FY2025 by at least 60-70 bps, a rate cut in the December 2024 policy review appears ruled out, in spite of ICRA's projection of a sub-7% GDP growth print for Q2 FY2025. ICRA anticipates that a shallow rate cut cycle of 50 bps may commence in February 2025 or later.

- **CPI inflation rose to 14-month high 6.2% in October 2024:** Surpassing ICRA's forecast (+6.0%), the CPI inflation hardened to 6.2% in October 2024 from 5.5% in September 2024, breaching the MPC's 6% threshold for the medium-term target of 2-6% after a gap of 13 months. Of the 72-bps uptick in YoY CPI inflation between September 2024 and October 2024, as much as 64 bps was on account of the food and beverage category, owing to the surge in prices of vegetables (given the supply disruptions for tomato and few other items), and oils and fats (led by the import duty hike by the Centre). Excluding vegetables, the food and beverages, and headline CPI prints were much more benign, at 4.3% and 3.6%, respectively, in October 2024, albeit higher than the levels seen in September 2024.
- **CPI inflation anticipated to recede to 5.5-5.7% in November 2024:** With mixed trends for various food items amidst a favourable base, ICRA expects the food and beverages inflation to ease to ~8.0-8.5% in November 2024 (+8.0% in November 2023) from 9.7% in October 2024 (+6.3% in October 2023). Overall, after peaking at 6.2% in October 2024, the headline inflation print is likely to soften to 5.5-5.7% in November 2024.
- **MPC unlikely to vote for a rate cut in December 2024 meeting:** With the CPI inflation breaching the 6% mark in October 2024 and expected to exceed the MPC's estimate for Q3 FY2025 by at least 60-70 bps, a rate cut in the December 2024 policy review appears ruled out, in spite of our projection of a sub-7% GDP growth print for Q2 FY2025. ICRA anticipates that a shallow rate cut cycle of 50 bps may commence in February 2025 or later.

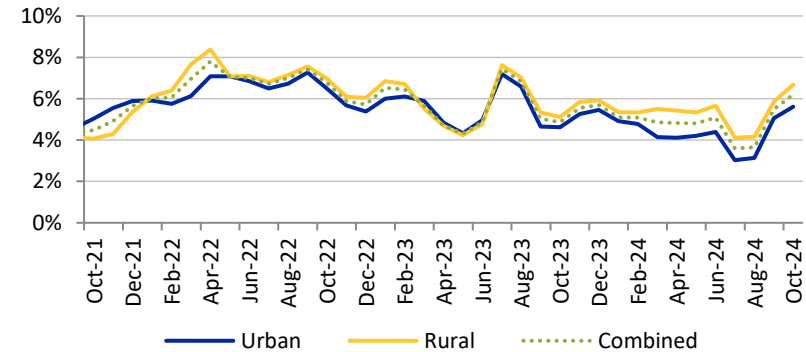
CPI inflation accelerated to higher-than-expected 6.2% in October 2024 from 5.5% in September 2024

EXHIBIT: Headline and Core CPI Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Rural and Urban CPI Inflation (YoY)

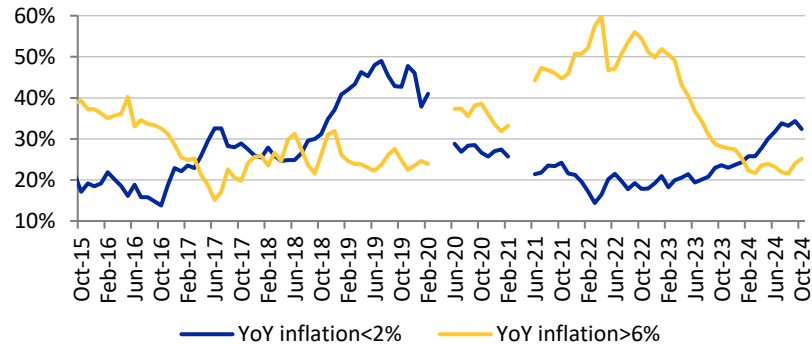


Source: NSO; CEIC; ICRA Research

- The YoY headline CPI inflation soared to a 14-month high of 6.2% in October 2024 (+4.9% in October 2023) from 5.5% in September 2024 (+5.0% in September 2023), breaching the MPC's 6% upper threshold of 2-6% target after 13 months. This was higher than ICRA's forecast of 6.0% for the month owing to the higher-than-expected inflation prints for vegetables and fruits.
- Additionally, the core-CPI inflation (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) inched up to 4.0% in October 2024 from 3.8% in the prior month, reaching the highest level in 11 months. The wedge between the headline CPI inflation and the core-CPI inflation widened to 221 bps from 171 bps, respectively.
- The CPI inflation in rural areas witnessed a slightly larger uptick (to +6.7% in October 2024 from +5.9% in September 2024) in October 2024 compared to September 2024, vis-à-vis that in urban areas (to +5.6% from +5.0%), driven by most categories, including food and beverages, miscellaneous items, and clothing and footwear.
- On a sequential basis, the CPI rose by 1.3% in October 2024, the largest increase since July 2024 (+1.5%). This is also higher than 0.7% MoM increase in October 2023, led by food and beverages (+2.2% vs. +1.0%, driven by vegetables and fruits), and miscellaneous items (+0.4% vs. +0.2%).

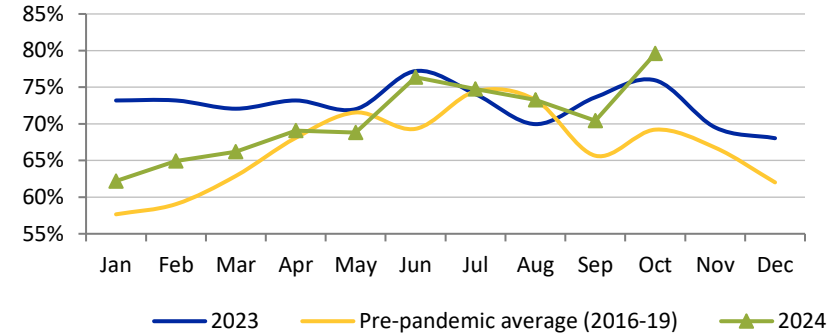
Share of items in CPI basket that witnessed a sequential rise in prices rose materially in October 2024

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 (%)

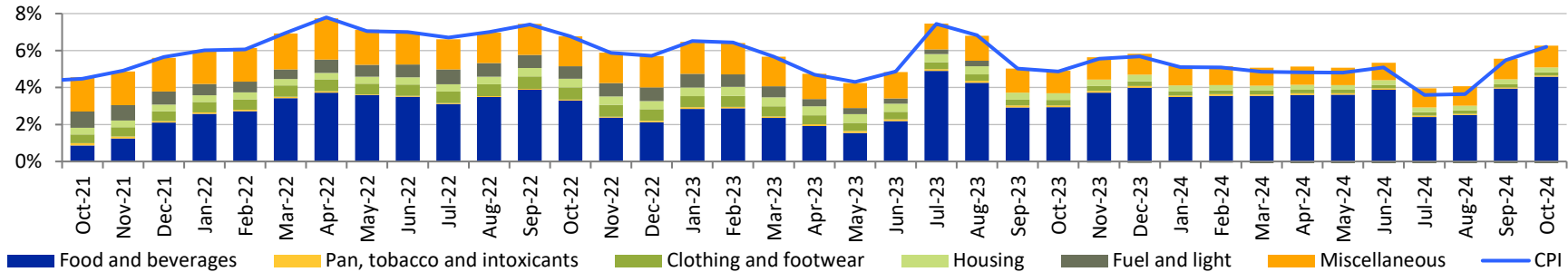


**Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research*

- The share of items in the CPI basket that witnessed a sequential increase in prices rose materially to 79.6% in October 2024 from 70.4% in September 2024, reaching the highest level since May 2022. Moreover, this also exceeded the pre-pandemic levels for the second consecutive month (2016-19 for September: 65.7%, October: 69.2%), and the gap vis-à-vis the historical share has also widened in October 2024.
- In addition, the share of items in the CPI basket that reported a YoY inflation below the 2.0% mark eased to 32.4% in October 2024 from 34.1% in September 2024. Besides, the share of items that reported a YoY inflation rate above the MPC's upper limit of 6.0% also inched up between these months (to 25.2% from 24.5%, respectively).

Food and beverages accounted for 64 bps of the 72 bps uptick in CPI inflation in October 2024 vis-à-vis September 2024

EXHIBIT: Composition of CPI Inflation (YoY)

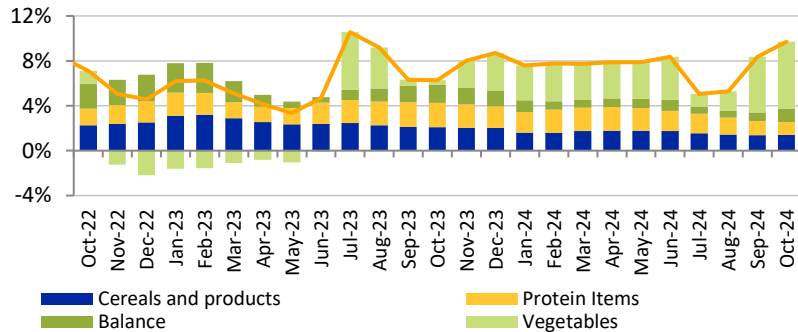


Source: NSO; CEIC; ICRA Research

- The hardening in the headline inflation in October 2024 compared to the prior month was largely driven by food and beverages (to +9.7% from +8.4%), followed by milder upticks in miscellaneous items (to +4.3% from +4.0%) and housing (to +2.8% from +2.7%).
- However, the YoY deflation in fuel and light widened slightly to 1.6% in October 2024 from 1.3% in September 2024, whereas the inflation prints for pan, tobacco and intoxicants, and clothing and footwear remain unchanged at 2.5% and 2.7%, respectively, between these months.
- **Of the 72-bps hardening in YoY CPI inflation between September 2024 and October 2024, as much as 64 bps was on account of the food and beverage category, followed by 7 bps from the miscellaneous items. This was partly offset by dip in fuel and light (-2 bps).**

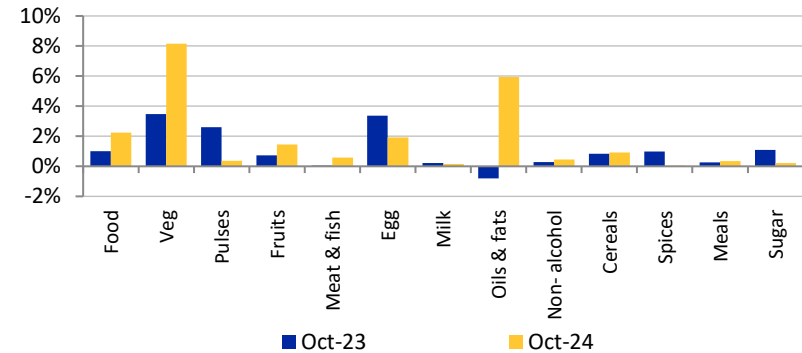
Food and beverages inflation accelerated to 9.7% in October 2024 from 8.4% in September 2024, led by vegetables, and oils and fats

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

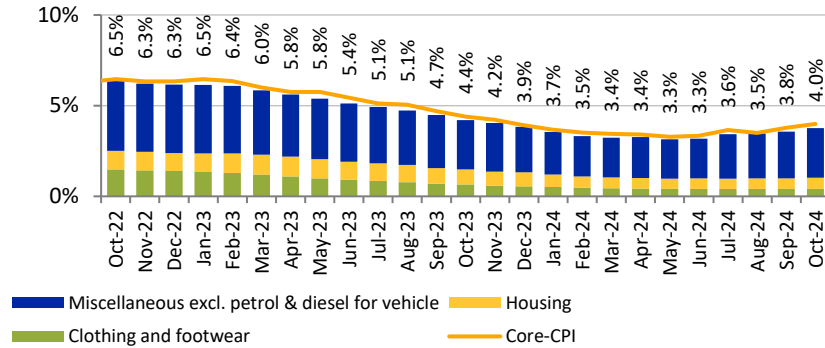


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non- alcohol: Non- alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- The inflation in food and beverages (with a weight of 45.9% in the CPI) surged to an eye-watering 9.7% in October 2024 from 8.4% in the previous month, amid an uptick in seven of the 12 food groups. Vegetables inflation hardened to a 57-month high of 42.2% from 36.0% in September 2024, led by the surge in prices of tomato and other items like garlic, cauliflower, cabbage, amid supply disruptions owing to unseasonal rainfall in October 2024. Excluding vegetables, the food and beverage, and headline CPI prints were much more benign, at 4.3% and 3.6%, respectively, in October 2024, albeit higher than September 2024.
- Besides vegetables, the inflation hardened sharply for oils and fats (to +9.5% from +2.5%) in October 2024, reflecting the impact of import duty hike by the GoI. This was followed by milder upticks in inflation for fruits (to +8.4% from +7.6%), meat and fish (to +3.2% from +2.6%), cereals (to +6.9% from +6.8%), and non-alcoholic beverages (to +2.7% from +2.6%).
- In MoM terms, the food and beverages index jumped by 2.2% in October 2024, much sharper than the 1.0% uptick in October 2023. This was led by the trend in vegetables (+8.2% in October 2024 vs. +3.5% in October 2023), and oils and fats (+6.0% vs. -0.8%).

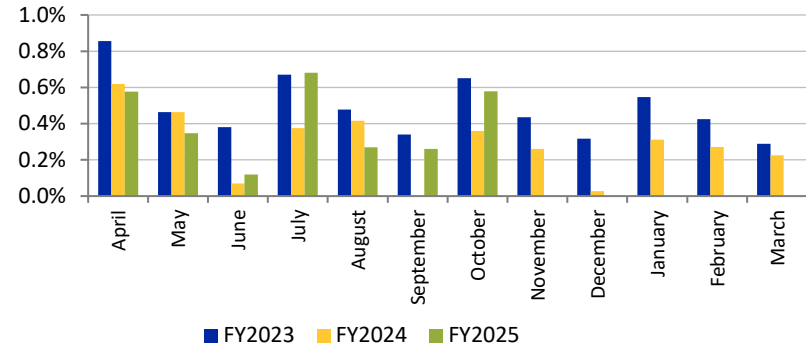
Core-CPI inflation inched up to 4.0% in October 2024 from 3.8% in September 2024, driven by higher prints for gold and housing

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

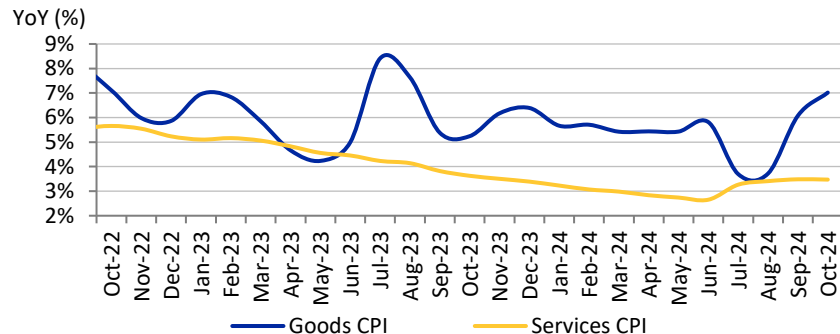


Source: NSO; CEIC; ICRA Research

- The core-CPI inflation inched up to 4.0% in October 2024 from 3.8% in September 2024, the highest level since November 2023. The acceleration in October 2024 compared to the previous month was on account of miscellaneous items, barring petrol and diesel for vehicles (to +4.8% from +4.5% in September 2024, led by the sharp increase in gold and silver prices), and housing (to +2.8% from +2.7%). **ICRA expects the core inflation print to continue to inch up further in the remaining part of the fiscal, while averaging below the 4.0% mark during the year.**
- The YoY inflation for a stricter measure of core-CPI, computed as CPI excluding food and beverages, fuel and light, petrol and diesel indices for vehicles, and gold, rose marginally to 3.33% in October 2024 from 3.25% in September 2024.
- In sequential terms, the core-CPI rose by 0.6% in October 2024, up from 0.4% seen in October 2023. This was led by the higher MoM momentum for miscellaneous items, excluding petrol and diesel indices for vehicles (+0.5% vs +0.2%, led by gold and silver).

Inflation in goods segment rose to 7.0% in October 2024 from 6.1% in September 2024, while that in services remain stable at 3.5%

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

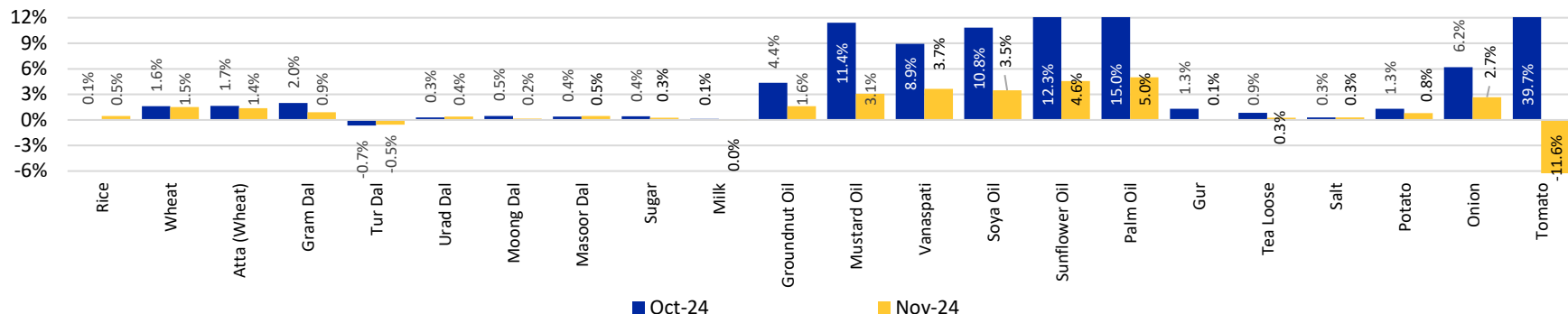
Services item	Weight in CPI	YoY (%)		
		Aug 2024	Sep 2024	Oct 2024
House rent, garage rent	9.51	2.6%	2.6%	2.7%
Tuition and other fees	2.90	4.4%	4.4%	4.5%
Telephone charges: mobile	1.84	10.6%	10.3%	10.1%
Bus/tram fare	1.37	0.9%	0.8%	0.8%
Cable TV connection charges	0.82	2.4%	2.7%	2.7%

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) remained unchanged at 3.5% in October 2024 (+3.6% in October 2023) as compared to the previous month (+3.8% in September 2023). As many as 15 of the 34 services items covered in the CPI basket (with a considerable weight of 17.9% in the CPI) witnessing higher inflation between these months. Among items with relatively higher weights, the inflation for house rent, garage rent (to +2.7% in October 2024 from +2.6% in September 2024) and tuition and other fees (to +4.5% from +4.4%) inched up between these months.
- The inflation in the goods segment (with a weight of 76.6% in the CPI) rose to a 14-month high of 7.0% in October 2024 from 6.1% in September 2024, largely led by uptick in the inflation for the food and beverages group (weight: 45.9%; to +9.7% from +8.4%). The inflation in the goods excluding food and beverages rose slightly to 2.8% from 2.5% in September 2024, while remaining low.

OUTLOOK: Food and beverages inflation expected to recede in November 2024

EXHIBIT: MoM trends in retail prices in October 2024 and November 2024*

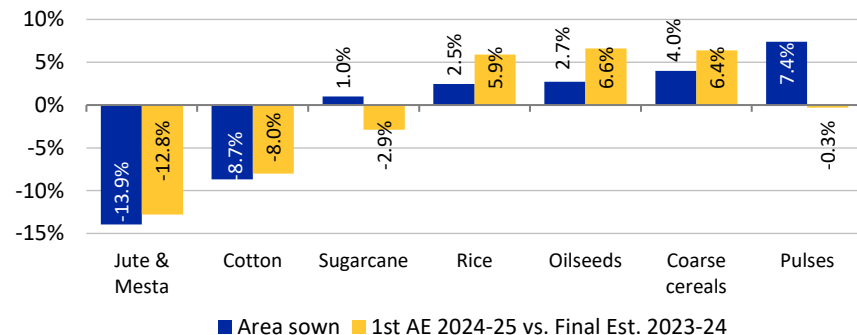


*Till November 11, 2024; Source: DCA; CEIC; ICRA Research

- As per the early data for November 2024, the average retail prices of as many as 19 of 22 commodities (barring tur dal, tomato and milk) have risen sequentially. The MoM increase in prices in November 2024 so far is more prominent in the case of edible oils (owing to import duty hike on most varieties from mid-September 2024), compared to other items like potato, onion, pulses, sugar and milk. In view of rising prices of wheat and rice in the ongoing month, the Centre has launched the Phase-2 of retail sales for Bharat rice and Bharat Atta under subsidised rates.
- However, the trend is mixed when prices are compared with November 2023, with nine of the 22 commodities displaying a sharper MoM increase in November 2024, including all varieties of edible oils, milk and masoor dal. Besides, in YoY terms, the inflation in 13 of the 22 items registered a softer print in November 2024 over the levels seen in October 2024, including vegetable, cereals and most pulses.
- With mixed trends for various food items amidst a favourable base, ICRA expects the food and beverages inflation to ease to ~8.0-8.5% in November 2024 (+8.0% in November 2023) from 9.7% in October 2024 (+6.3% in October 2023). Overall, after peaking at 6.2% in October 2024, the headline inflation print is likely to soften to ~5.5-5.7% in November 2024.**

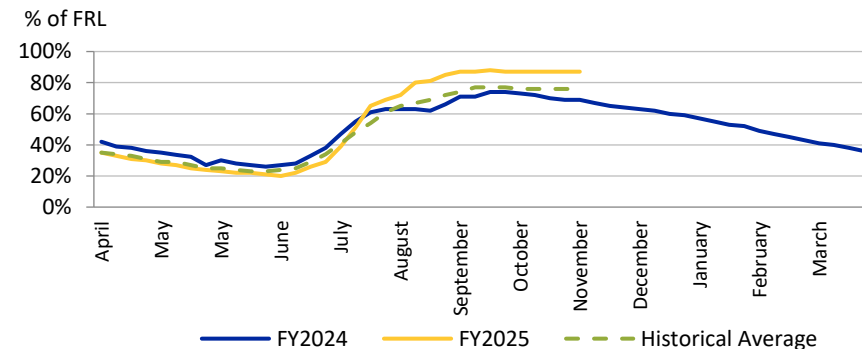
OUTLOOK: First advance estimates of kharif crop for 2024-25 reveal a mixed trend; elevated reservoir storage to support rabi sowing

EXHIBIT: YoY change in kharif sowing and output as per 1st AE for AY 2024-25



Sowing data is as of Sep 27, 2024; Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: Reservoir storage levels as percentage of Live Capacity at Full Reservoir Level (FRL)

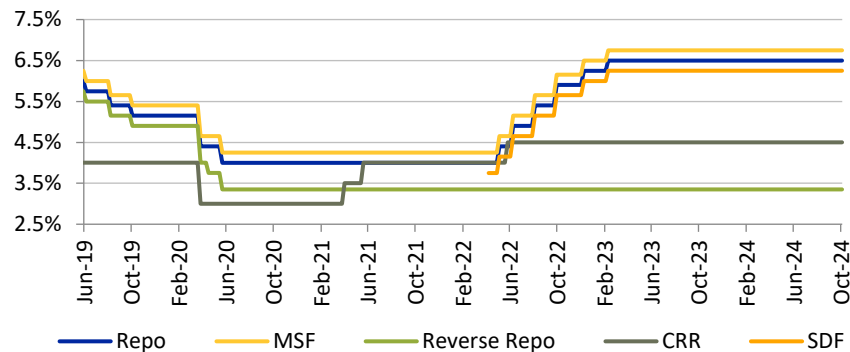


Source: Central Water Commission (CWC); CEIC; ICRA Research

- Aided by the above-normal monsoon season, the cumulative kharif sowing ended up being 1.9% higher on a YoY basis by end-September 2024, driven pulses (+7.4%), rice (+2.5%), coarse cereals (+4.0%), oilseeds (+2.7%), and sugarcane (+1.0%).
- As per the first advance estimates for kharif output AY 2024-25 released by the Ministry of Agriculture and Farmers' Welfare on November 5, 2024, the output for rice (record: 119.9 million tonne; MT), oilseeds (26.2 MT) and coarse cereals (record: 37.8 MT) is estimated to increase over the final estimates for AY 2023-24. While the output for cotton, and jute and mesta is anticipated to moderate on a YoY basis in AY 2024-25 owing to the fall in area sown in this season, the production of pulses and sugarcane is also estimated to ease, amid concerns related to yields. These could exert an upward pressure on retail inflation.
- The all-India reservoir storage stood at 87% of the live capacity at full reservoir level (FRL) as on November 1, 2024, stabilised at a high level over the past several weeks, while also being above the year ago (70%) and historical (76%) levels. This is likely to provide ample support to rabi sowing in the ongoing season. However, concerns related to the low inventory levels of di-ammonium phosphate (DAP) and reservoir storage in some states like Punjab may impede the progress of sowing, and thus are key monitorables for the rabi season.

OUTLOOK: MPC unlikely to vote for a rate cut in December 2024 policy

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)	
	August 2024	October 2024	August 2024	October 2024
MPC Policy Reviews				
Q2 FY2025	4.4%	4.1%	7.2%	7.0%
Q3 FY2025	4.7%	4.8%	7.3%	7.4%
Q4 FY2025	4.3%	4.2%	7.2%	7.4%
FY2025	4.5%	4.5%	7.2%	7.2%
Q1 FY2026	4.4%	4.3%	7.2%	7.3%

Source: RBI; ICRA Research

- Notwithstanding the expected moderation during November-December 2024, the CPI inflation for Q3 FY2025 is likely to print above the MPC's estimate of 4.8% for the quarter by at least 60-70 bps. This suggests that the Committee will remain vigilant and keep the repo rate unchanged at 6.50% in the December 2024 policy, even as the Q2 FY2025 GDP growth may undershoot the MPC's forecast of 7.0%, the data for which will be released at the end of November 2024.
- ICRA maintains that the rate cut cycle in India is likely to be fairly shallow, limited to 50 bps, which is expected to commence from the February 2025 policy or later.

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

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		August-24	September-24	September-24	October-24	October-24	October-24
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	3.7%	5.5%	5.5%	6.2%	1.3%	5.9%
Food and beverages	45.86	5.3%	8.4%	8.4%	9.7%	2.2%	9.8%
Cereals and products	9.67	7.3%	6.8%	6.8%	6.9%	0.9%	3.5%
Meat and fish	3.61	4.3%	2.7%	2.6%	3.2%	0.6%	1.7%
Egg	0.43	7.1%	6.3%	6.4%	4.9%	1.9%	1.3%
Milk and products	6.61	2.9%	3.0%	3.0%	3.0%	0.2%	2.2%
Oils and fats	3.56	-0.9%	2.5%	2.5%	9.5%	6.0%	11.4%
Fruits	2.89	6.5%	7.6%	7.6%	8.4%	1.5%	11.2%
Vegetables	6.04	10.7%	36.0%	36.0%	42.2%	8.2%	48.9%
Pulses and products	2.38	13.6%	9.8%	9.8%	7.4%	0.4%	7.6%
Sugar and confectionary	1.36	4.7%	3.5%	3.5%	2.6%	0.2%	2.5%
Spices	2.50	-4.4%	-6.1%	-6.1%	-7.0%	0.0%	-2.4%
Pan, tobacco and intoxicants	2.38	2.7%	2.5%	2.5%	2.5%	0.2%	1.6%
Clothing and footwear	6.53	2.7%	2.7%	2.7%	2.7%	0.4%	1.7%
Housing	10.07	2.7%	2.8%	2.7%	2.8%	0.9%	2.5%
Fuel and light	6.84	-5.3%	-1.4%	-1.3%	-1.6%	0.0%	0.6%
Miscellaneous	28.32	3.9%	4.0%	4.0%	4.3%	0.4%	3.1%
Household goods and services	3.80	2.4%	2.5%	2.5%	2.7%	0.3%	1.6%
Health	5.89	4.1%	4.1%	4.1%	4.0%	0.4%	2.3%
Transport and communication	8.59	2.7%	2.8%	2.7%	2.7%	0.1%	2.3%
Recreation and amusement	1.68	2.4%	2.3%	2.4%	2.5%	0.3%	1.7%
Education	4.46	3.9%	3.8%	3.8%	4.0%	0.2%	3.4%
Personal care and effects	3.89	8.0%	9.0%	9.0%	11.0%	1.9%	7.3%
CPI-Food	36.55	5.7%	9.2%	9.2%	10.9%	2.6%	11.2%
CPI-Core	44.97	3.5%	3.8%	3.8%	4.0%	0.6%	2.9%
CPI Rural		4.2%	5.9%	5.9%	6.7%	1.4%	6.2%
CPI Urban		3.1%	5.0%	5.0%	5.6%	1.2%	5.5%

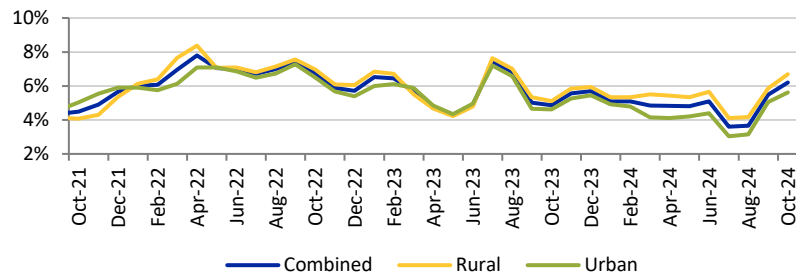
Source: National Statistical Office (NSO); CEIC; ICRA Research

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

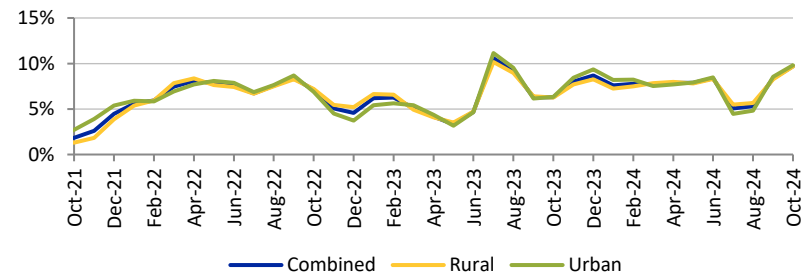
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



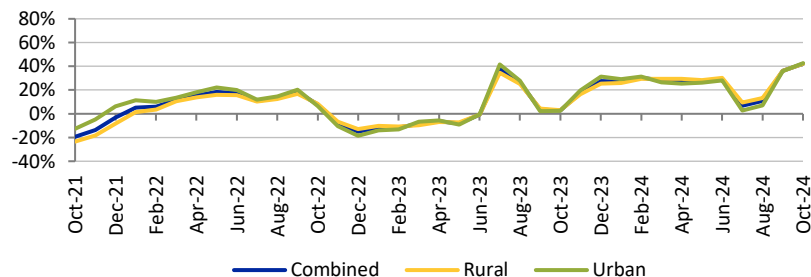
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



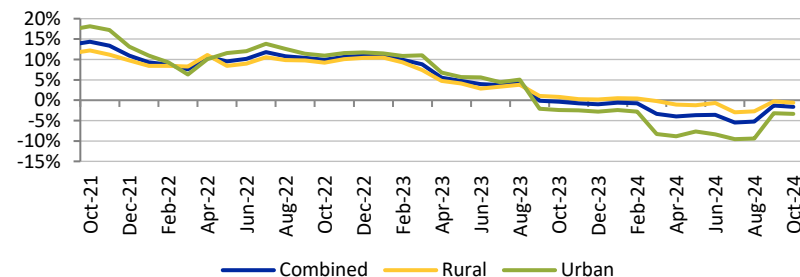
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



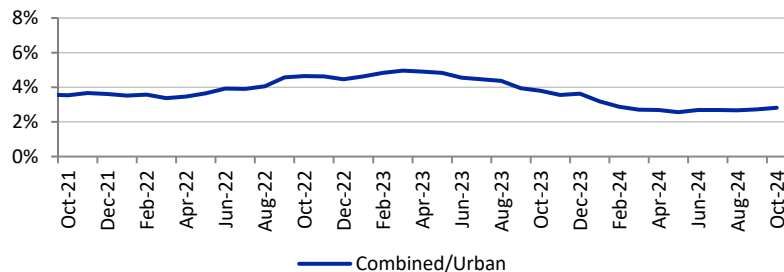
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



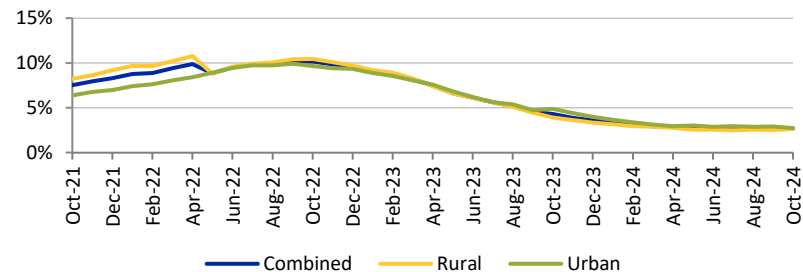
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



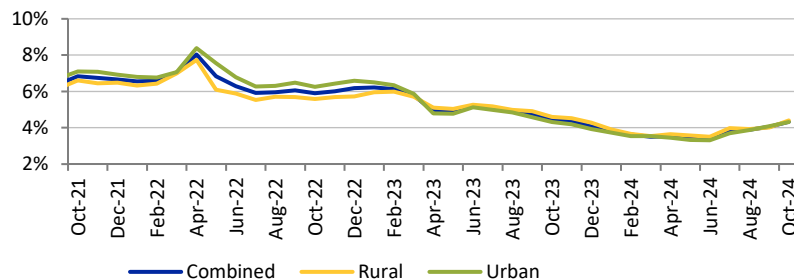
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



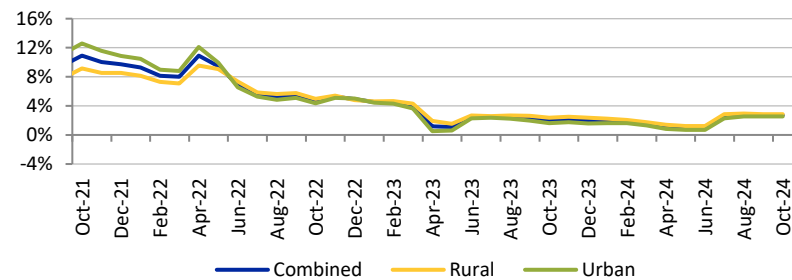
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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