



ICRA
A MOODY'S INVESTORS
SERVICE COMPANY



CONSUMER PRICE INDEX

OCTOBER 2020

CPI inflation surged to 7.6% in October 2020, in line with our expectations

NOVEMBER 2020



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HIGHLIGHTS

The CPI inflation increased to a 77-month 7.6% in October 2020, in line with our expectation.

Food inflation increased further in October 2020, led by vegetables as well as various other items.

Worryingly, the core inflation also rose to 5.7% in October 2020 from 5.5% in September 2020.

A rate cut in the MPC review in December 2020 appears to be ruled out.

- The year-on-year (YoY) CPI inflation increased to 77-month 7.6% in October 2020 from 7.3% in September 2020, and printed in line with our expectation for that month. Moreover, the CPI inflation continued to exceed the upper limit of the Monetary Policy Committee's (MPC's) medium-term inflation target range of 4%+/-2% in October 2020.
- The sequential uptick in the YoY CPI inflation in October 2020 was driven by a hardening in the inflation for food and beverages, housing and to a smaller extent, clothing and footwear. In contrast, the inflation for fuel and light declined in October 2020 relative to the previous month, whereas that for pan, tobacco and intoxicants and miscellaneous items eased marginally.
- Despite the favourable base effect and the abundant kharif harvest, the YoY inflation for the food and beverages sub-index rose to a six-month high 10.2% in October 2020 from 9.8% in September 2020.
- The core-CPI inflation (CPI excluding food and beverages, petrol and diesel for vehicles, and fuel and light) increased mildly to 5.7% in October 2020 from 5.5% in September 2020, on the back of hardening in the inflation for housing, clothing and footwear, as well as some of the components of miscellaneous items, such as recreation and amusement, and health.
- The rural and urban CPI inflation inched up to 7.7% and 7.4%, respectively, in October 2020 from 7.4% and 7.3%, respectively, in September 2020. The rural CPI inflation exceeded the urban CPI inflation in October 2020, for the second consecutive month.
- While a base effect and some softening in vegetable prices may pull down the CPI inflation in the ongoing month, it is expected to recede below 6% only in December 2020. With the level of the headline and core CPI inflation, and the internal dynamics in October 2020 remaining worrying, a rate cut in the December 2020 meeting of the MPC appears to be ruled out.

OVERVIEW

- The YoY CPI inflation increased to a 77-month high 7.6% in October 2020 (+4.6% in October 2019) from 7.3% in September 2020 (+4.0% in September 2019), and printed in line with our expectation for that month. Moreover, the CPI inflation continued to exceed the upper limit of the MPC's medium-term inflation target range of 4%+/-2% in October 2020 (refer Exhibit 1 and 2).
- The sequential uptick in the YoY CPI inflation in October 2020 was driven by a hardening in the inflation for food and beverages, housing and to a smaller extent, clothing and footwear. In contrast, the inflation for fuel and light declined in October 2020 relative to the previous month, whereas that for pan, tobacco and intoxicants and miscellaneous items eased marginally.
- Despite the favourable base effect and the abundant kharif harvest, the YoY inflation for the food and beverages sub-index (with a weight of 45.9% in the CPI) rose further to a six-month high 10.2% in October 2020 (+6.9% in October 2019) from 9.8% in September 2020 (+4.7% in September 2019; refer Exhibit 3). The sequential increase was led by a hardening in the inflation for seven sub-indices, namely, vegetables (to +22.5% in October 2020 from +20.8% in September 2020), eggs (to +21.8% from +15.6%), meat and fish (to +18.7% from +17.5%), pulses and products (to +18.3% from +14.7%), oils and fats (to +15.2% from +13.4%), non-alcoholic beverages (to +8.4% from +6.7%), and prepared meals, snacks and sweets (to +4.3% from +4.1%). In contrast, the YoY inflation softened for fruits (+0.3% from +3.1%), sugar and confectionery (to +1.4% from +2.7%), cereals and products (to +3.4% from +4.7%), milk and products (to +5.2% from +5.6%), and spices (to +11.3% from +11.7%) in October 2020 relative to the previous month. Overall, continuing double-digit inflation rates for vegetables (+22.5%), eggs (+21.8%), meat and fish (+18.7%), pulses and products (+18.3%), oils and fats (+15.2%), and spices (+11.3%) in October 2020 remain a concern. In month-on-month (MoM) terms, the food and beverages sub-index rose by 2.1% in October 2020, somewhat higher than the 1.8% increase recorded in October 2019 (refer Exhibit 4), led by the trend for vegetables (+10.3% in October 2020; +8.8% in October 2019), eggs (+7.6%; +2.1%), meat and fish (to +1.2% from +0.1%), etc.
- After having recorded a sustained easing for the previous five months amid the economic uncertainty, the inflation for housing (with a weight of 10.1% in the CPI Index) hardened to 3.3% in October 2020 (+4.6% in October 2019) from 2.8% in September 2020 (+4.7% in September 2019). In MoM terms, the sub-index recorded a sharp 1.0% increase in October 2020, twice as high as the 0.5% uptick recorded in October 2019.
- In addition, the YoY inflation pertaining to clothing and footwear (with a weight of 6.5% in the CPI) rose modestly to a five-month high 3.2% in October 2020 (+1.6% in October 2019), from 3.0% in September 2020 (+1.0% in September 2019). In MoM terms, this sub-index increased by 0.4% in October 2020, higher than 0.2% rise in October 2019.
- Moreover, the core-CPI inflation (CPI excluding food and beverages, petrol and diesel for vehicles, and fuel and light) increased to 5.7% in October 2020 (+3.6% in October 2019) from 5.5% in September 2020 (+4.2% in September 2019; refer Exhibit 5), led by a hardening in the inflation for housing, clothing and footwear, as well as some of the components of miscellaneous items, such as recreation and amusement, and health. In MoM terms, the core-CPI rose by 0.4% in October 2020, higher than the MoM increase recorded in October 2019 (+0.3%). Overall, the headline CPI inflation exceeded the core-CPI inflation by 194 bps in October 2020, considerably higher than the 174 bps recorded in September 2020.
- In contrast, the inflation for the fuel and light sub-index (with a weight of 6.8% in the CPI) declined to 2.3% in October 2020 (-2.0% in October 2019) from 2.8% in September 2020 (-2.2% in September 2019). This sub-index rose by 0.5% in MoM terms in October 2020, lower than the 1.0% rise in October 2019.

- In addition, the inflation for pan, tobacco and intoxicants (with a weight of 2.4% in the CPI) softened marginally to 10.65% in October 2020 (+3.9% in October 2019) from 10.69% in September 2020 (+4.6% in September 2019), while remaining in double-digits. In MoM terms, this sub-index rose by a mild 0.3% in October 2020, lower than the 0.4% increase recorded in October 2019.
- The inflation for miscellaneous items (with a weight of 28.3% in the CPI) eased marginally to 6.88% in October 2020 (+3.4% in October 2019) from 6.89% in September 2020 (+4.5% in September 2019). This was primarily driven by softening in the inflation for personal care and effects, and transport and communication, to 12.1% and 11.2%, respectively, in October 2020 from 12.4% and 11.5%, respectively, in September 2020. However, the inflation for recreation and amusement (to +4.7% from +3.7%), and health (to +5.2% from +4.9%) rose in October 2020 relative to September 2020. The inflation for education, and household goods and services remained unchanged at 2.1% and 2.8%, respectively, in October 2020, in line with September 2020. In MoM terms, the sub-index for miscellaneous items increased by 0.2% in October 2020, similar to the level in October 2019 (+0.2%).
- The YoY rural CPI inflation hardened to 7.7% in October 2020 from 7.4% in September 2020. While the YoY print for food and beverages (to +10.1% from +9.7%) and clothing and footwear (to +3.0% from +2.6%) increased in October 2020 compared to September 2020, that for miscellaneous items (to +6.0% from +6.1%) eased between these months. In addition, the inflation for pan, tobacco and intoxicants remained unchanged at 10.3% in October 2020, in line with the print recorded in September 2020.
- The urban CPI inflation rose mildly to 7.4% in October 2020 from 7.3% in September 2020, driven by housing (to +3.3% from +2.8%), food and beverages (to +10.2% from +10.0%) and miscellaneous items (to +7.8% from +7.7%). The impact of this was partly offset by the softening in the inflation for fuel and light (to +6.6% from +8.3%), pan, tobacco and intoxicants (to +11.6% from +11.9%), and clothing and footwear (to +3.4% from +3.5%). Accordingly, the rural CPI inflation exceeded the urban CPI inflation in October 2020, for the second consecutive month.
- The buildup in the CPI inflation up to October 2020 stood at 6.6%, significantly higher than the buildup of 4.8% recorded up to October 2019, reflecting the trend for pan, tobacco and intoxicants (+8.0% till October 2020; +2.2% till October 2019), miscellaneous items (+4.8% vs. +2.4%) and food and beverages (+10.7% vs. +8.3%).
- The final headline CPI inflation for September 2020 was unchanged at 7.3%.

OUTLOOK

The retail prices of various food items have recorded a varied trend in the initial part of November 2020, with stabilisation displayed by cereals, even as some pulses and oilseeds have displayed a rise relative to the previous month. In the case of vegetables, prices of onions and tomatoes have receded over the course of the month, while those of potatoes have remained stable. However, the average prices so far in November 2020 of potatoes and onions remain higher than the trend in October 2020. Overall, a favourable base effect as well as anticipated healthy kharif arrivals are expected to soften the retail food inflation in the ongoing month, in our assessment.

The price of the Indian crude oil basket had eased in the initial part of the ongoing month, partly driven by the uncertainty related to the outcome of the US elections as well as a surge in Covid-19 infections in many advanced economies, before rising in the recent sessions. However, the retail prices of diesel and petrol have remained unchanged in November 2020. Overall, retail fuel prices are unlikely to exert pressure on the CPI inflation in November 2020.

With some signs of a recovery in various economic indicators and consumption sentiment, we expect the core inflation to remain sticky in the near term, before displaying some base effect led moderation in Q4 FY2021.

While a base effect may pull down the CPI inflation in the ongoing month, it is expected to recede below 6% only in December 2020. With the level of the headline and core CPI inflation, and the internal dynamics in October 2020 remaining worrying, a rate cut in the December 2020 policy meeting appears to be ruled out. Moreover, the likelihood of a Repo cut in February 2021 seems rather low at this juncture.

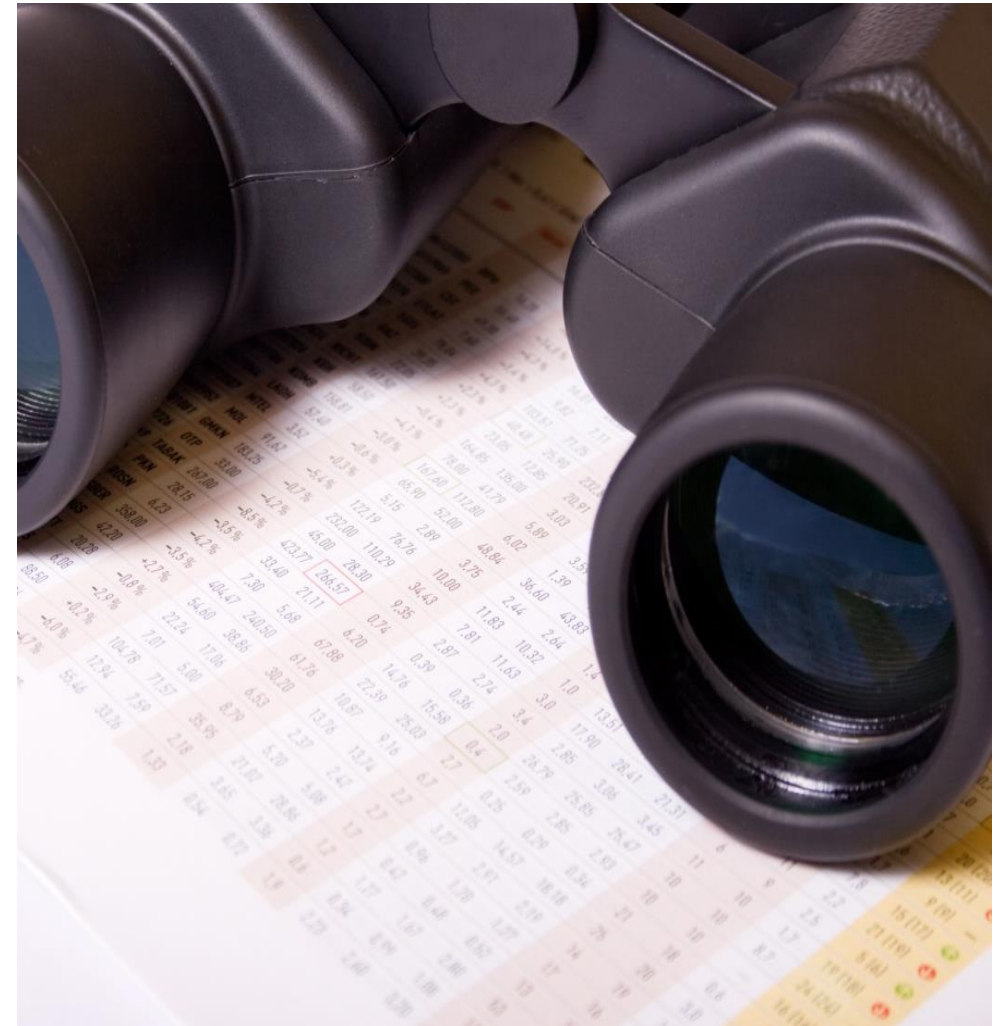
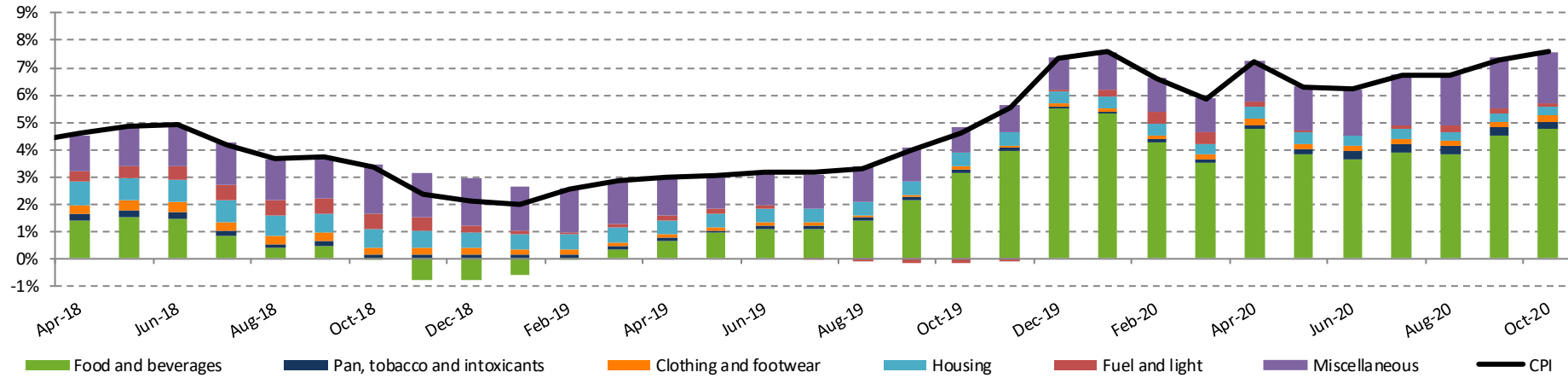


Exhibit 1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base				M-o-M	Buildup
		August-20	September-20	September-20	October-20	October-20	October-20
		Final	Provisional	Final	Provisional	Provisional	Provisional
CPI (combined)	100.00	6.7%	7.3%	7.3%	7.6%	1.3%	6.6%
Food and beverages	45.86	8.3%	9.7%	9.8%	10.2%	2.1%	10.7%
Cereals and products	9.67	5.9%	4.7%	4.7%	3.4%	-0.6%	1.0%
Meat and fish	3.61	16.5%	17.6%	17.5%	18.7%	1.2%	14.4%
Egg	0.43	10.1%	15.5%	15.6%	21.8%	7.6%	17.3%
Milk and products	6.61	6.2%	5.6%	5.6%	5.2%	0.1%	1.5%
Oils and fats	3.56	12.4%	13.4%	13.4%	15.2%	1.9%	8.8%
Fruits	2.89	1.0%	3.2%	3.1%	0.3%	-1.8%	4.2%
Vegetables	6.04	11.5%	20.7%	20.8%	22.5%	10.3%	46.7%
Pulses and products	2.38	14.4%	14.7%	14.7%	18.3%	3.9%	11.1%
Sugar and confectionary	1.36	3.9%	2.5%	2.7%	1.4%	-0.5%	2.1%
Spices	2.50	12.4%	11.7%	11.7%	11.3%	0.5%	5.6%
Pan, tobacco and intoxicants	2.38	11.2%	10.8%	10.7%	10.7%	0.3%	8.0%
Clothing and footwear	6.53	2.8%	3.0%	3.0%	3.2%	0.4%	2.1%
Housing	10.07	3.1%	2.8%	2.8%	3.3%	1.0%	2.3%
Fuel and light	6.84	3.2%	2.9%	2.8%	2.3%	0.5%	-3.4%
Miscellaneous	28.32	7.0%	6.9%	6.9%	6.9%	0.2%	4.8%
Household goods and services	3.80	2.9%	2.9%	2.8%	2.8%	0.3%	1.8%
Health	5.89	4.8%	4.9%	4.9%	5.2%	0.6%	3.2%
Transport and communication	8.59	11.0%	11.5%	11.5%	11.2%	-0.1%	8.1%
Recreation and amusement	1.68	4.0%	3.8%	3.7%	4.7%	1.2%	3.2%
Education	4.46	1.7%	2.2%	2.1%	2.1%	0.1%	1.6%
Personal care and effects	3.89	14.5%	12.3%	12.4%	12.1%	-0.1%	8.1%
CPI-Food	36.55	9.1%	10.7%	10.7%	11.1%	2.5%	12.0%
CPI-Core	44.97	5.6%	5.5%	5.5%	5.7%	0.4%	2.9%
CPI Rural		6.7%	7.4%	7.4%	7.7%	1.4%	6.6%
CPI Urban		6.8%	7.3%	7.3%	7.4%	1.0%	6.4%

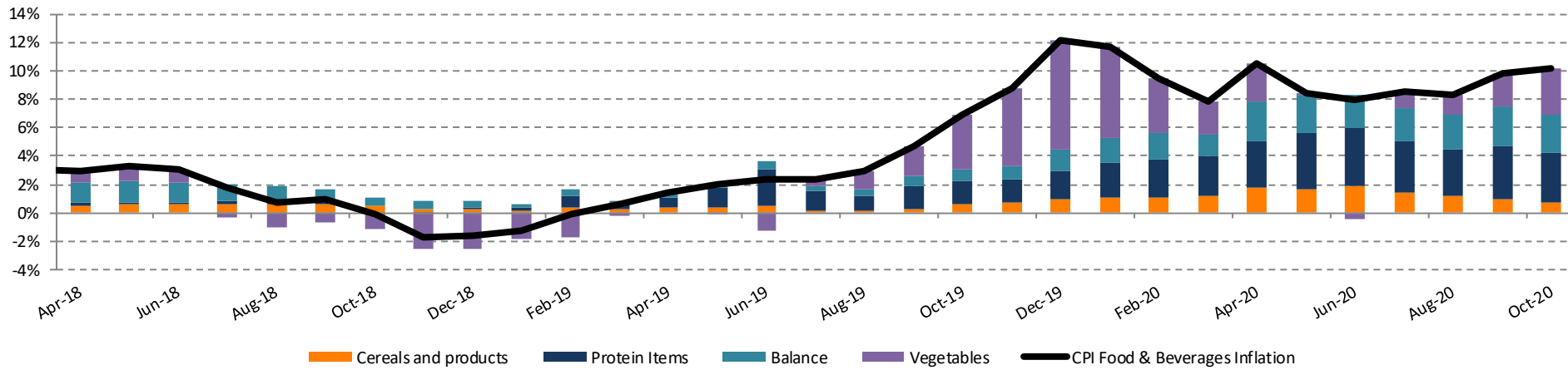
Source: National Statistical Office (NSO); CEIC; ICRA research

Exhibit 2: Composition of CPI Inflation (YoY)



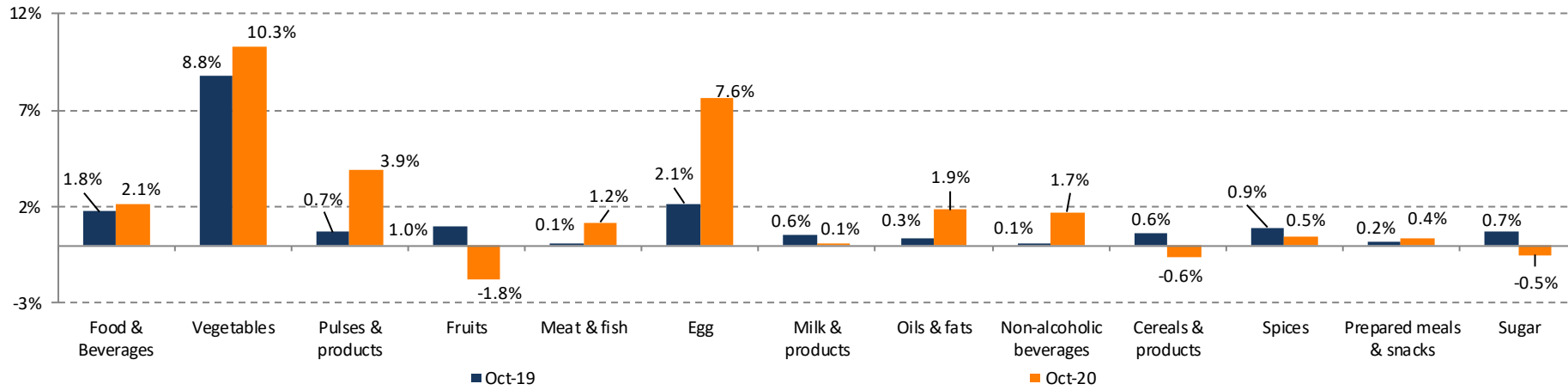
Source: NSO; CEIC; ICRA research

Exhibit 3: Composition of Food and Beverages Inflation (YoY)



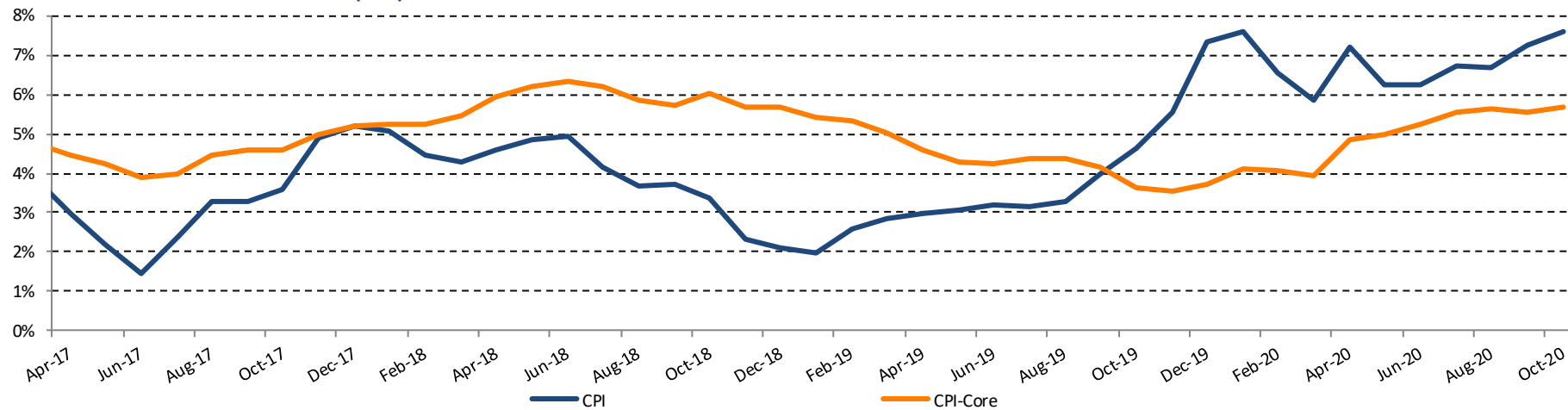
Source: NSO; CEIC; ICRA research

Exhibit 4: MoM Change in Food and Beverage Sub-Index



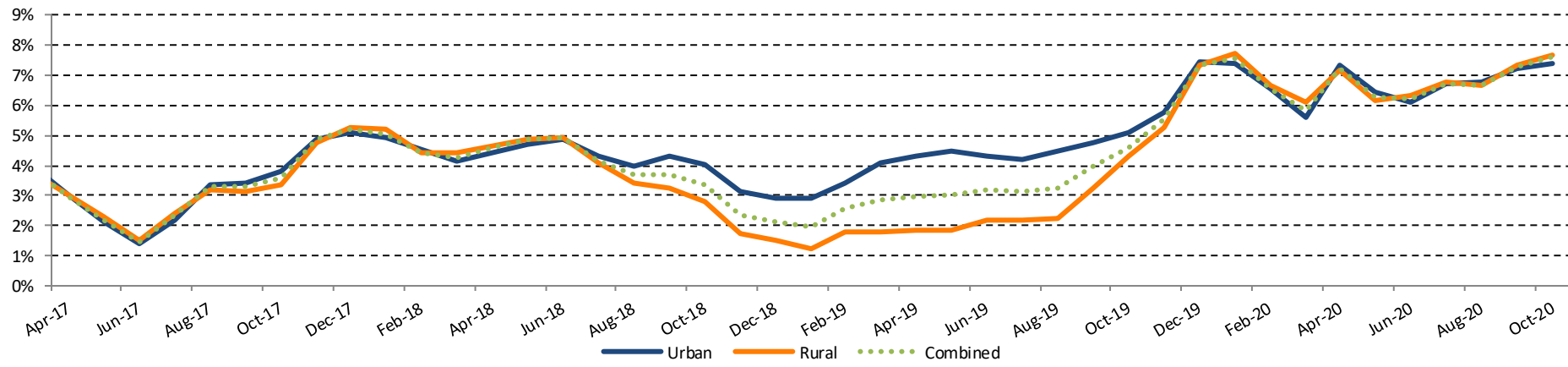
Source: NSO; CEIC; ICRA research

Exhibit 5: Headline and Core CPI Inflation (YoY)



Source: NSO; CEIC; ICRA research

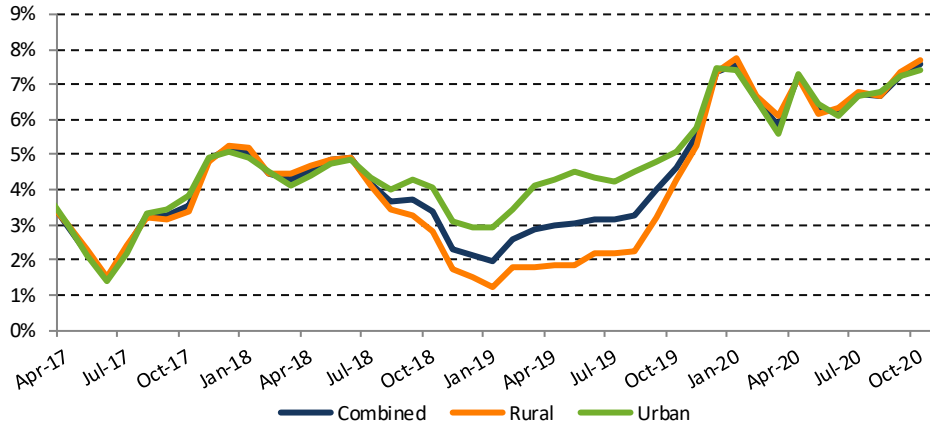
Exhibit 6: Rural and Urban CPI Inflation (YoY)



Source: NSO; CEIC; ICRA research

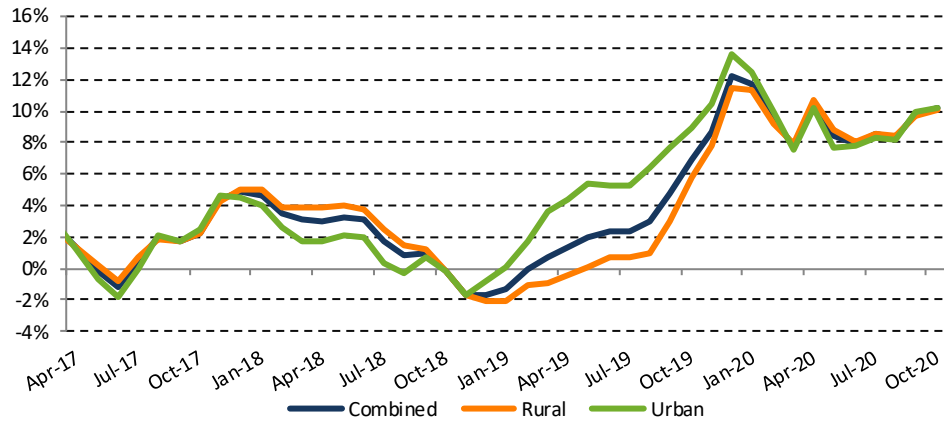
ANNEXURE

Exhibit 7: CPI Inflation (YoY)



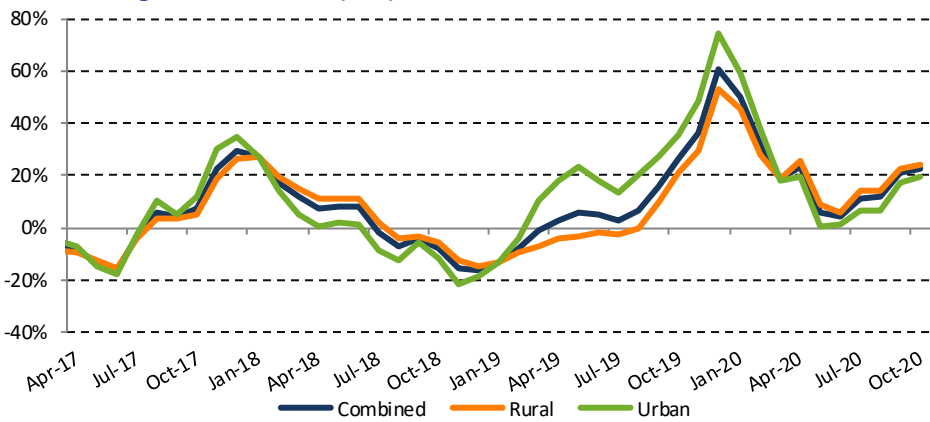
Source: NSO; CEIC; ICRA research

Exhibit 8: Food and Beverages Inflation (YoY)



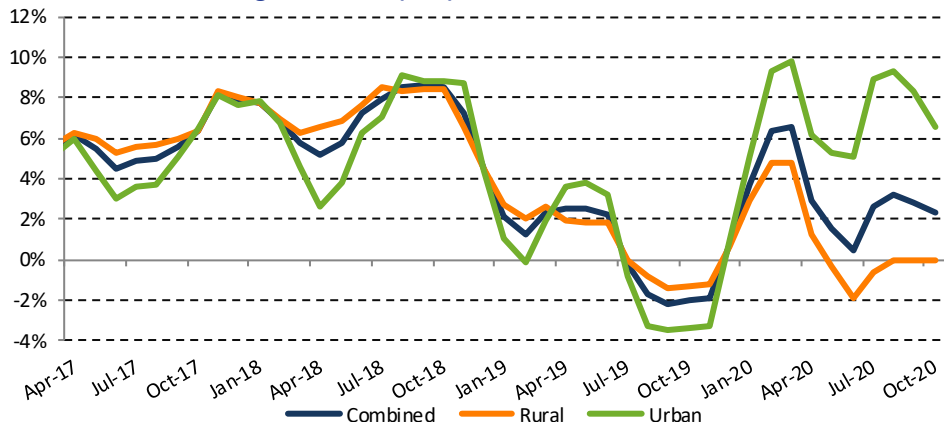
Source: NSO; CEIC; ICRA research

Exhibit 9: Vegetables Inflation (YoY)



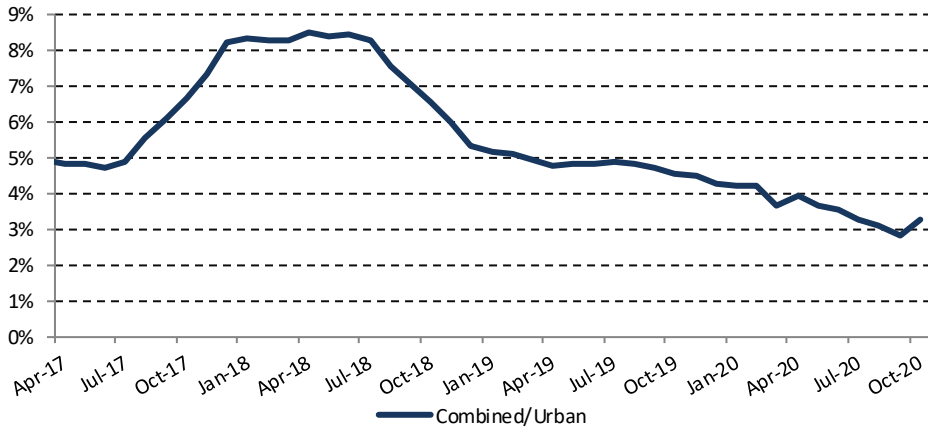
Source: NSO; CEIC; ICRA research

Exhibit 10: Fuel and Light Inflation (YoY)



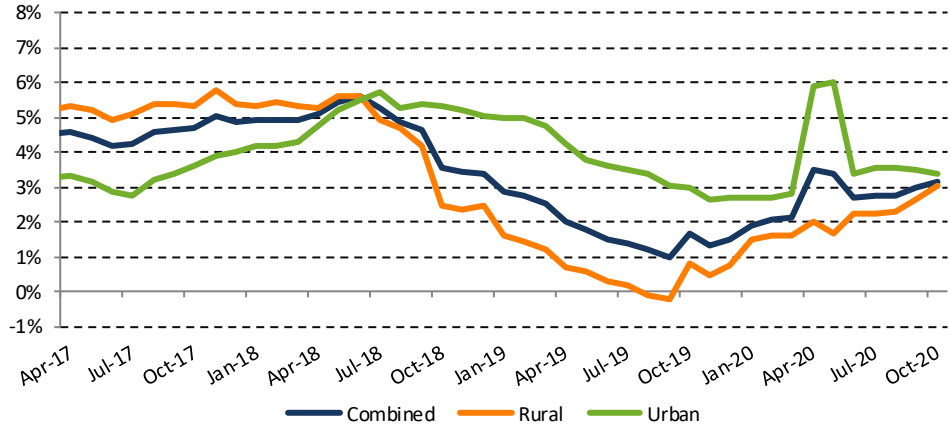
Source: NSO; CEIC; ICRA research

Exhibit 11: Housing Inflation (YoY)



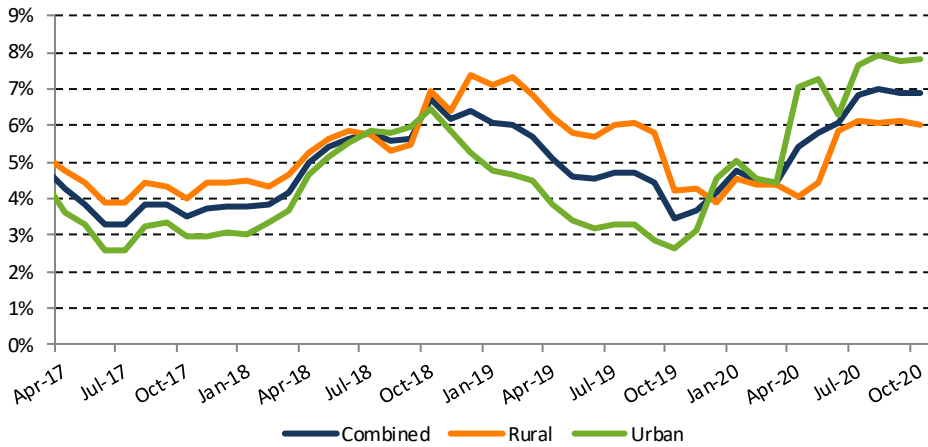
Source: NSO; CEIC; ICRA research

Exhibit 12: Clothing and Footwear Inflation (YoY)



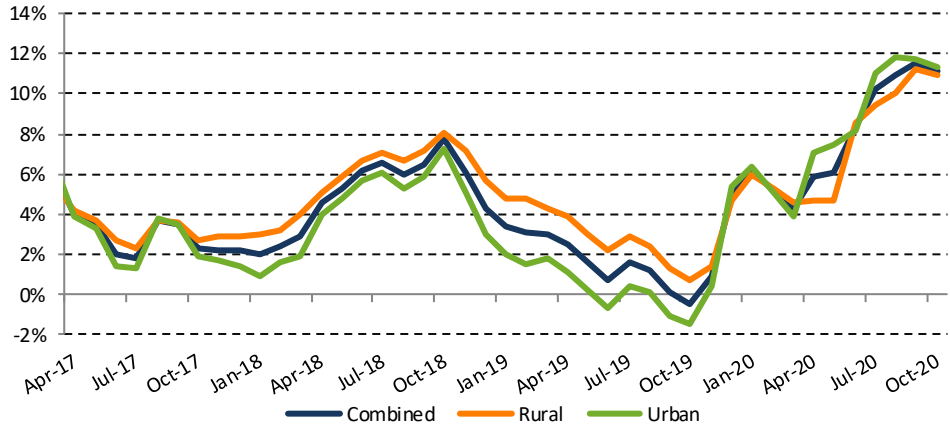
Source: NSO; CEIC; ICRA research

Exhibit 13: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA research

Exhibit 14: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA research

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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