

# CPI inflation

## Core moderates, but watch out for new veg spike

Economy

CPI/IIP review

November 13, 2023

The easing seen in October CPI to 4.87% was led by a favorable base effect and declining core inflation. Rising food prices, especially for onions, are likely to cause headline inflation push past 5% in November. With non-perishables showing signs of persistence, overall food inflation is likely to remain relatively elevated, with a potential weak *kharif* harvest posing a risk as well. Core inflation will ease further in H2FY24, and undershoot headline inflation by ~60bps in FY24E. We see FY24E inflation at 5.2% (RBI: 5.4%), with the RBI likely to keep rates ahead on hold, and not precede the Fed in any policy reversal in CY24.

### Headline CPI falls to 4.87%, led by favorable base effect and falling core inflation

CPI inflation fell to 4.87% YoY in October (Emkay: 4.80%; Consensus: 4.80%; prior: 5.02%), led by a favorable base effect and falling core inflation. However, there was a sequential increase in headline inflation (0.7% MoM) for the first time in three months. Food inflation (1.1% MoM) stayed flat at 6.6% YoY, with prices of vegetables (3.4% MoM, 2.7% YoY) rising on the back of higher onion prices (15.5% MoM). Prices of other food commodities also swung up, with pulses (2.5% MoM, 18.8% YoY), spices (1.0% MoM, 22.8% YoY), sugar (1.1% MoM, 5.5% YoY), cereals (0.8% MoM, 10.7% YoY) and fruit (0.7% MoM, 9.3% YoY) leading the way. Prices of oils & fats (-0.8% MoM, -13.7% YoY) declined sequentially, while milk prices (0.2% MoM, 6.4% YoY) continued to rise at a subdued pace, ahead of the new 'flush' season. Prices of eggs (3.4% MoM, 9.3% YoY) rose faster than those of meat & fish (0.0% MoM, 3.3% YoY). Energy inflation saw a modest increase (0.3% MoM, -0.4% YoY).

### Demand-driven core inflation continues to decline

Core inflation (ex-food, fuel, intoxicants) declined to 4.3% YoY (prior: 4.6%), helped by a favorable base effect, while sequential momentum was positive (0.4% MoM vs. 0.0% prior). This is the lowest print since Mar-20, and continues the downward trend seen since the start of 2023. Momentum was led by clothing & footwear (0.4% vs 0.3% prior), housing (0.9% vs -0.1% prior), health (0.5% vs 0.3% prior) and HH goods and services (0.2% vs 0.1% prior), while education (0.0% vs 0.3% prior), personal care (0.1% vs 0.2% prior), recreation (0.2% vs 0.2% prior) and transport & communication (0.1% vs 0.1% prior) saw slower momentum. We expect core inflation to continue moderating and clock an average of ~4.1% for the next few months (FY24E: 4.6%).

### Higher Sep-23 IIP on favorable base; weak sequential momentum

Sep IIP was weaker than expected, rising 5.8% YoY (Emkay: 8.0%; Consensus: 7.0%; prior: 10.3%), largely due to a low base. Sequential momentum was weak, with all sectors apart from capital goods and consumer durables seeing negative growth. Manufacturing output rose 4.5% YoY, with healthy growth in computer & electronic products and wood products offsetting the decline in refined petroleum and food products. Electricity rose 9.9%, while mining activity was up 11.5%. In use-based sectors, all sub-sectors saw positive growth.

### Headline CPI to go past 5% in November, but the RBI to stay put

We are currently tracking November inflation at 5.2-5.3% due to higher food prices. November, thus far, has seen prices of onions continually rising at a significant pace, with sustained increase for pulses as well. Food inflation is exhibiting a worrying trend, with sustained inflation for non-perishables (pulses, cereals, spices) keeping overall inflation elevated, along with transient-but-frequent price spikes for perishables. The erratic monsoon and weak sowing (especially for pulses and rice) may lead to a decline in harvests, putting further upward pressure on prices. This requires robust supply-side policies for mitigation, but will take time to impact the market. We see FY24E inflation at ~5.2% (RBI: 5.4%). With core inflation easing in October, it will likely undershoot headline by ~60bps in FY24E. Easing core inflation and relatively elevated food inflation in H2FY24 will keep the RBI on hold, with a focus on the durable elements of inflation.

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### Key highlights:

- **Oct-23 headline CPI at 4.87%; core at 4.31%**
- **Decrease led by favourable base effect and lower core inflation**
- **FY24 CPI forecast at 5.2%; RBI to focus on durable elements of inflation and stay cautious**

**Exhibit 1: Breakdown of CPI and its components**

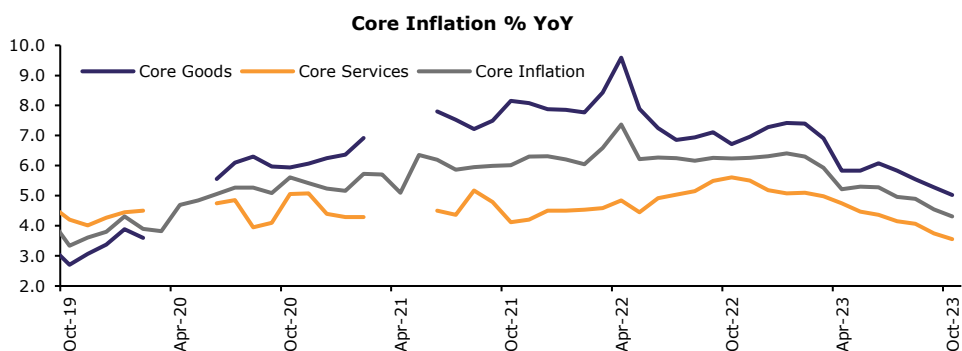
YoY (%)	Wt	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	Oct-22
Food & Beverages	45.9	6.24	6.30	9.19	10.57	4.69	7.10
Pan, Tobacco and Intoxicants	2.4	3.87	3.88	4.10	3.85	3.71	1.87
Fuel & Light	6.8	(0.39)	(0.11)	4.31	3.67	3.92	9.93
Housing	10.1	3.80	3.95	4.38	4.47	4.56	4.65
Clothing, bedding, footwear	6.5	4.31	4.56	5.15	5.64	6.14	10.16
Miscellaneous	28.3	4.40	4.77	4.91	5.05	5.19	5.90
<b>CPI</b>	<b>100.0</b>	<b>4.87</b>	<b>5.02</b>	<b>6.83</b>	<b>7.44</b>	<b>4.87</b>	<b>6.77</b>
<b>Core CPI</b>	<b>47.3</b>	<b>4.31</b>	<b>4.55</b>	<b>4.90</b>	<b>4.97</b>	<b>5.28</b>	<b>6.24</b>
CPI ex vegetables	93.1	5.03	5.13	5.50	5.41	5.24	6.69

Source: MOSPI, Emkay Research

**Exhibit 2: Breakdown of food items in CPI**

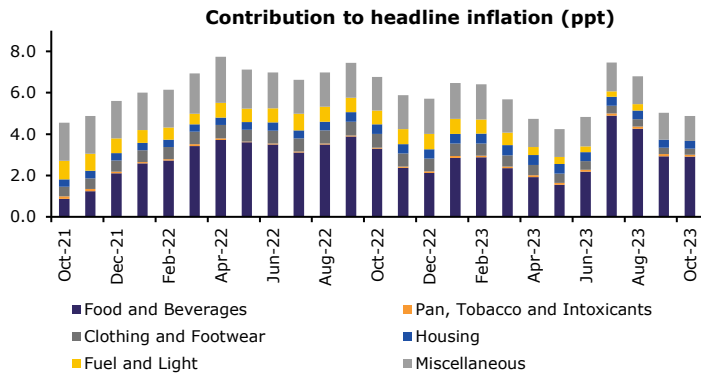
Food Items (YoY, %)	Wt	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	Oct-22
Food	39.1	6.61	6.62	9.94	11.51	4.55	7.01
Cereals	9.7	10.65	10.95	11.85	13.04	12.77	12.08
Meat and Fish	3.6	3.27	4.06	3.68	2.25	1.46	3.08
Egg	0.4	9.30	6.48	4.31	3.82	7.03	(0.18)
Milk & Products	6.6	6.44	6.95	7.79	8.34	8.56	7.69
Oils and Fats	3.6	(13.73)	(14.04)	(15.33)	(16.80)	(18.17)	(2.15)
Fruits	2.9	9.34	7.30	3.99	3.10	1.36	5.20
Vegetables	6.0	2.70	3.44	26.08	37.40	(0.66)	7.77
Pulses	2.4	18.79	16.32	13.04	13.33	10.59	2.78
Sugar	1.4	5.50	4.61	3.80	3.75	3.00	-
Spices	2.5	22.76	23.11	23.19	21.68	19.24	18.07

Source: MOSPI, Emkay Research

**Exhibit 3: Core inflation continued to moderate**

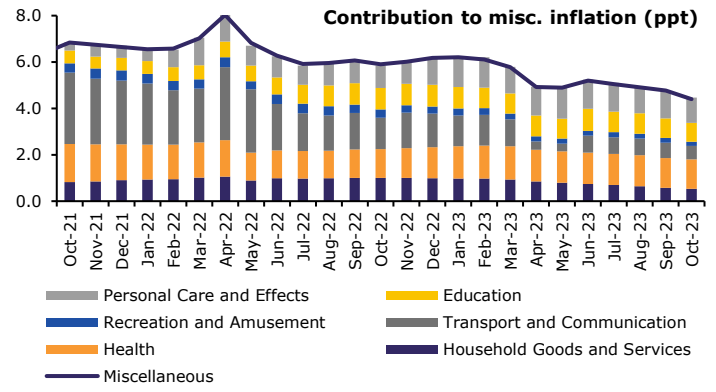
Source: CEIC, Emkay Research

**Exhibit 4: Food contributed over 53% to the Oct-23 headline inflation**



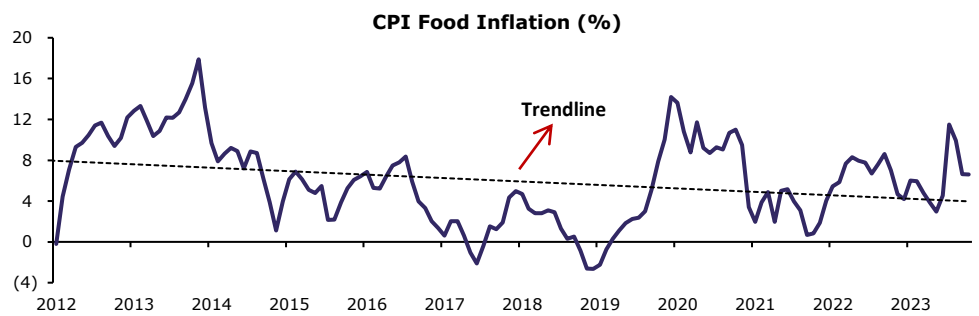
Source: MOSPI, Emkay Research

**Exhibit 5: Miscellaneous inflation at 4.8%, led by Health**



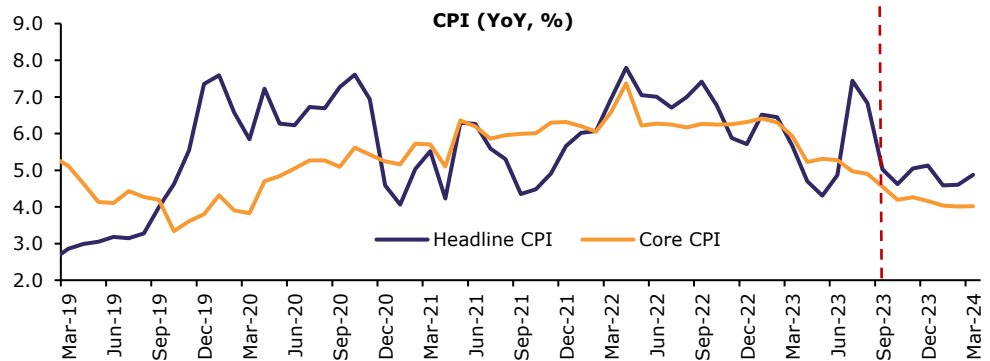
Source: MOSPI, Emkay Research

**Exhibit 6: Food inflation stayed at 6.6% in Oct-23, with a sharp increase in vegetable prices**



Source: MOSPI, Emkay Research

**Exhibit 7: CPI inflation to continue falling in H2FY24**



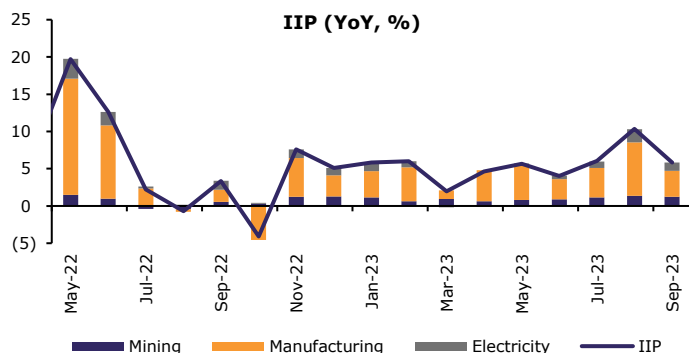
Source: MOSPI, Emkay Research estimates

Exhibit 8: Industry and use-based classification of IIP

YoY (%)	Wt	Sep-23	Aug-23	Sep-22
<b>Industry based classification</b>				
Mining	14.4	11.5	12.3	5.2
Electricity	8.0	9.9	15.3	11.6
Manufacturing	77.6	4.5	9.3	2.0
<b>IIP</b>	<b>100.0</b>	<b>5.8</b>	<b>10.3</b>	<b>3.3</b>
<b>Use-based classification</b>				
Primary goods	34.0	8.0	12.4	9.5
Capital goods	8.2	7.4	13.1	11.4
Intermediate goods	17.2	5.8	6.8	1.7
Infrastructure/ construction goods	12.3	7.5	13.5	8.2
Durables	12.8	1.0	5.8	(5.5)
Non-durables	15.3	2.7	9.6	(5.7)

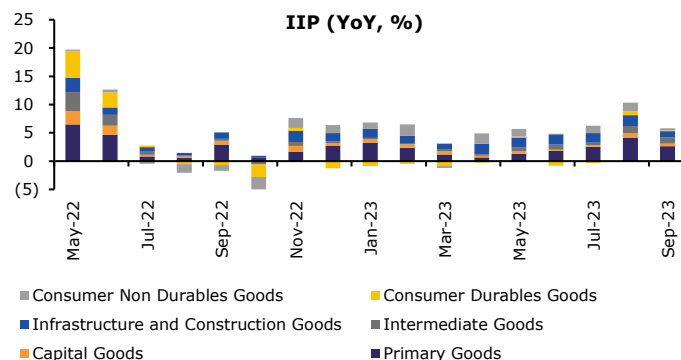
Source: MOSPI, Emkay Research

Exhibit 9: IIP rose 5.8% YoY in Sep-23, with manufacturing leading the way



Source: MOSPI, Emkay Research

Exhibit 10: Infrastructure and Primary Goods were the major contributors to use-based sectors



Source: MOSPI, Emkay Research

## Exhibit 11: IIP – Details on the manufacturing front

Items	Wt.	% YoY		
	(%)	Sep-23	Aug-23	Sep-22
Food products	5.3	(0.4)	4.4	4.8
Beverages	1.0	10.2	12.6	11.7
Tobacco products	0.8	(4.7)	7.4	(1.0)
Textiles	3.3	3.7	1.6	(14.4)
Wearing apparel	1.3	(17.9)	(17.1)	(21.1)
Leather and related products	0.5	0.0	3.1	(16.4)
Wood and Wood Products and Cork ex. Furniture; Articles of Straw and Plaiting Materials	0.2	3.4	(2.9)	(5.7)
Paper and paper products	0.9	(3.3)	(0.4)	6.1
Printing and reproduction of recorded media	0.7	(3.9)	3.4	29.9
Coke and refined petroleum products	11.8	2.6	10.2	9.9
Chemicals and chemical products	7.9	(5.6)	(3.9)	5.6
Pharma, Medicinal Chemical, and Botanical Products	5.0	6.8	16.8	(14.0)
Rubber and plastics products	2.4	1.5	4.2	(3.1)
Other non-metallic mineral products	4.1	4.7	15.3	9.6
Basic metals	12.8	12.5	14.6	6.3
Fabricated Metal Products ex Machinery and Equipment	2.7	8.6	23.2	(3.4)
Computer, electronic, and optical products	1.6	(8.9)	(8.7)	0.2
Electrical equipment	3.0	6.3	17.7	(30.7)
Machinery and equipment N.E.C.	4.8	4.8	13.0	6.6
Motor vehicles, trailers and semi-trailers	4.9	11.2	12.0	29.8
Other transport equipment	1.8	7.1	8.2	15.1
Furniture; Manufacturing N.E.C.	0.1	(20.2)	(23.8)	31.0
Other manufacturing	0.9	(13.5)	(4.6)	4.8
<b>Manufacturing</b>	<b>77.6</b>	<b>4.5</b>	<b>9.3</b>	<b>2.0</b>
<b>Other Important indicators</b>				
% of manufacturing with -ve growth	100	39.1	30.4	39.1
% of manufacturing growing less than 5%	100	69.6	52.2	52.2

Source: MOSPI, Emkay Research

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