

CPI inflation

Moderation led by food and LPG

Economy

CPI/IIP review

October 12, 2023

The material easing seen in September CPI to 5.02%, led by a sharp reversal in perishable food prices, is likely to continue in October, resulting in a <5% print. With non-perishables are showing signs of persistence, overall food inflation is likely to remain relatively elevated, with risks from a potential weak kharif harvest as well. Core inflation will ease further in H2FY24, and will undershoot headline inflation by 60-65bps in FY24E. We see FY24E inflation at 5.2% (RBI: 5.4%), with the RBI likely to keep rates on hold ahead, and not precede the Fed in any policy reversal in CY24.

Headline CPI falls to 5.02%, led by moderating food inflation

CPI inflation fell to 5.02% YoY in September (Emkay: 5.32%; Consensus: 5.40%; prior: 6.83%), led by a sharp fall in food inflation, full impact of LPG price cuts, and a favorable base effect. There was a sequential decline in headline inflation (-1.1% MoM) for the second month in a row. Food inflation (-2.2% MoM) declined to 6.6% YoY vs 9.9% prior, with vegetables (-15.8% MoM) continuing their rapid reversal after the sharp spike in July. Tomato prices fell 65%, almost completely reversing the price spike seen in June and July. Prices of other food commodities were mixed — pulses (4.1% MoM), spices (1.8% MoM) and cereals (1.2% MoM) saw significant momentum, while fruit (-1.1% MoM) and oils & fats (-0.4% MoM) declined. Milk prices (0.1% MoM, 6.9% YoY) rose at the slowest monthly pace in 28 months, offering hope that the persisting price spike since last year may be moderating. Prices of eggs (2.3% MoM) and meat & fish (1.7% MoM) increased due to renewed demand following the end of the Hindu *Shravan* month. Energy inflation declined (-3.9% MoM, -0.1% YoY) as consumers felt full impact of the LPG price cuts.

Demand-driven core inflation declines, with lowest monthly increase in 6+ years

Core inflation (ex-food, fuel, intoxicants) declined to 4.6% YoY (prior: 4.9%), helped by a favorable base effect, while sequential momentum was flat (0.0% MoM vs. 0.4% prior). This is the lowest print since Mar-20, while the monthly change was the lowest in over six years. Momentum was led by clothing & footwear (0.3% vs 0.2%) and personal care (0.2% vs 0.2%), while education (0.4% vs 1.0% prior), housing (-0.1% vs 0.6% prior), HH goods & services (0.1% vs 0.3% prior) and transport & communication (0.1% vs 0.2% prior) saw slower momentum. We expect core inflation to continue moderating and clock an average of ~4.5% for the next few months (FY24E: 4.7%).

Higher Aug-23 IIP on favorable base, albeit with robust sequential momentum

Aug IIP was better than expected, rising 10.3% YoY (Emkay: 10.9%; Consensus: 9.1%; prior: 6.0%), largely due to a low base. Sequential momentum was robust as well, with all sectors apart from mining and consumer non-durables seeing healthy growth. Manufacturing output rose 9.3% YoY, with healthy growth in computer & electronic products as well as in fabricated metal products offsetting the decline in pharma, apparel and beverages. Electricity rose 15.3%, while mining activity was up 12.4%. In use-based sectors, all sub-sectors saw positive growth.

Headline CPI to go below 5% in October, but the RBI to stay put

We are currently tracking October inflation at 4.6%. October, thus far, has seen prices of pulses rising significantly, along with those of onions and cereals. Food inflation is exhibiting a worrying trend, with sustained inflation for non-perishables (pulses, cereals, spices) keeping overall inflation elevated, even as transient price spikes for perishables fade. 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 September, it will likely undershoot headline by ~60-65bps 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:

- Sep-23 headline CPI at 5.02%; core at 4.55%
- Decrease led by sharply lower vegetable prices, LPG price cut and favourable base effect
- 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

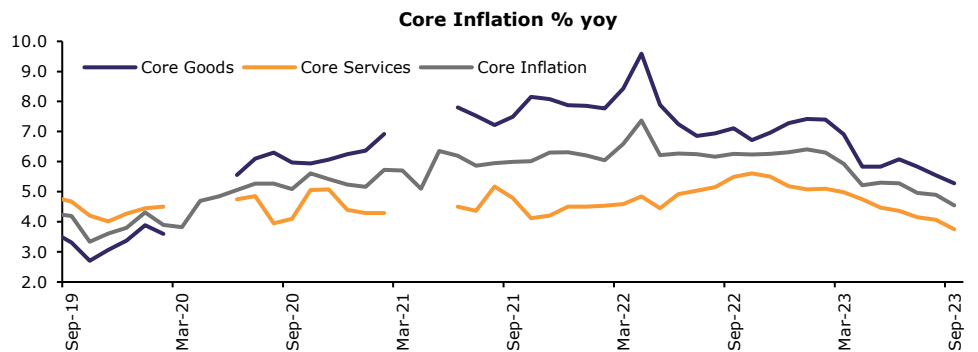
YoY (%)	Wt	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Sep-22
Food & Beverages	45.9	6.30	9.19	10.57	4.69	3.35	8.41
Pan, Tobacco and Intoxicants	2.4	3.88	4.10	3.85	3.71	3.55	1.98
Fuel & Light	6.8	(0.11)	4.31	3.67	3.92	4.70	10.39
Housing	10.1	3.95	4.38	4.47	4.56	4.84	4.57
Clothing, bedding, footwear	6.5	4.61	5.15	5.64	6.14	6.64	10.17
Miscellaneous	28.3	4.77	4.91	5.05	5.19	4.90	6.06
CPI	100.0	5.02	6.83	7.44	4.87	4.31	7.41
Core CPI	47.3	4.55	4.90	4.97	5.28	5.31	6.26
CPI ex vegetables	93.1	5.14	5.50	5.41	5.24	5.11	6.73

Source: MOSPI, Emkay Research

Exhibit 2: Breakdown of food items in CPI

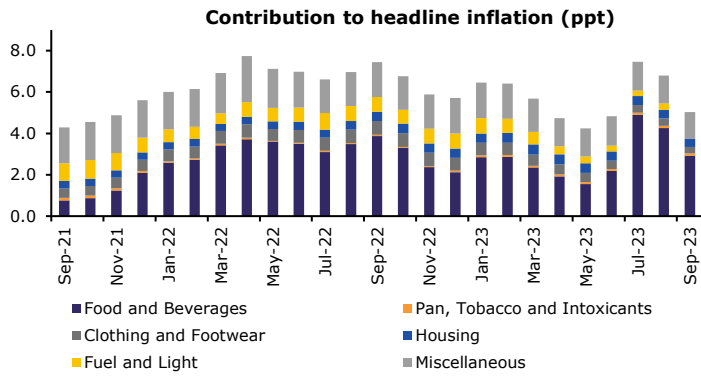
Food Items (YoY, %)	Wt	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Sep-23
Food	39.1	6.56	9.94	11.51	4.55	2.96	8.60
Cereals	9.7	10.95	11.85	13.04	12.77	12.72	11.53
Meat and Fish	3.6	4.11	3.68	2.25	1.46	(1.24)	2.55
Egg	0.4	6.42	4.31	3.82	7.03	6.65	(1.79)
Milk & Products	6.6	6.89	7.79	8.34	8.56	8.85	7.13
Oils and Fats	3.6	(14.04)	(15.33)	(16.80)	(18.17)	(16.01)	0.37
Fruits	2.9	7.30	3.99	3.10	1.36	0.70	5.74
Vegetables	6.0	3.39	26.08	37.40	(0.66)	(7.95)	18.18
Pulses	2.4	16.38	13.04	13.33	10.59	6.62	3.05
Sugar	1.4	4.52	3.80	3.75	3.00	2.51	1.59
Spices	2.5	23.06	23.19	21.68	19.24	17.90	16.88

Source: MOSPI, Emkay Research

Exhibit 3: The gap between core goods and services inflation was maintained in Sep-2023

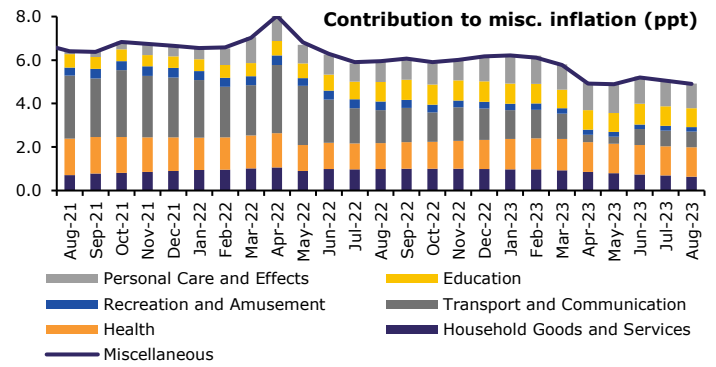
Source: CEIC, Emkay Research

Exhibit 4: Food contributed over 51% to Sep-23 headline inflation



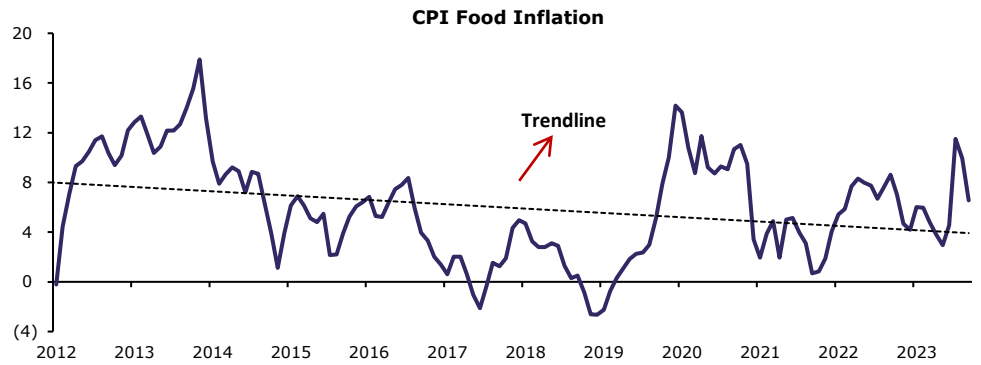
Source: MOSPI, Emkay Research

Exhibit 5: Miscellaneous inflation at 4.8%, led by health



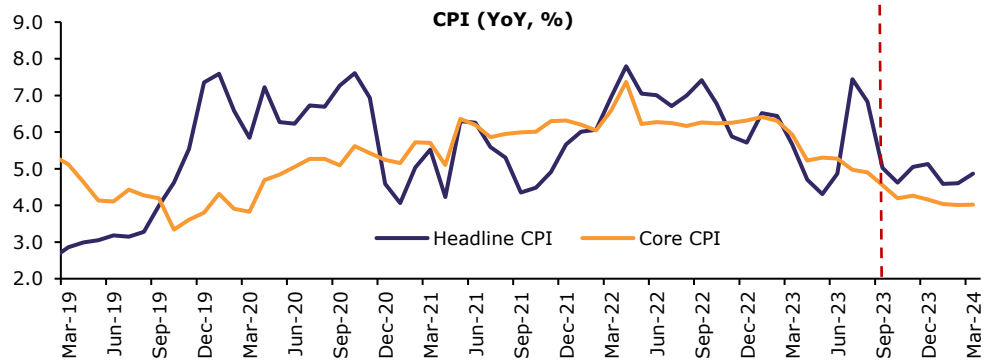
Source: MOSPI, Emkay Research

Exhibit 6: Food inflation fell to 6.6% in Sep-23, led by a fall in vegetables, especially tomatoes



Source: MOSPI, Emkay Research

Exhibit 7: CPI inflation to continue falling in H2FY24



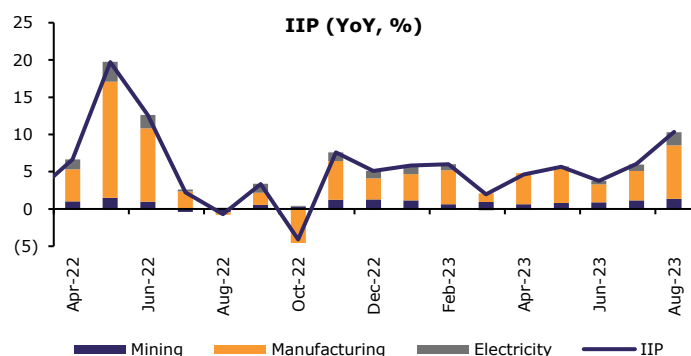
Source: MOSPI, Emkay Research estimates

Exhibit 8: Industry and use-based classification of IIP

YoY (%)	Wt	Aug-23	Jul-23	Aug-22
Industry based classification				
Mining	14.4	12.3	10.7	(3.9)
Electricity	8.0	15.3	8.0	1.4
Manufacturing	77.6	9.3	5.0	(0.5)
IIP	100.0	10.3	6.0	(0.7)
Use-based classification				
Primary goods	34.0	12.4	7.6	1.7
Capital goods	8.2	12.6	4.5	4.3
Intermediate goods	17.2	6.5	2.4	1.3
Infrastructure/ construction goods	12.3	14.9	12.4	3.0
Durables	12.8	5.7	(2.6)	(4.4)
Non-durables	15.3	9.0	7.9	(9.0)

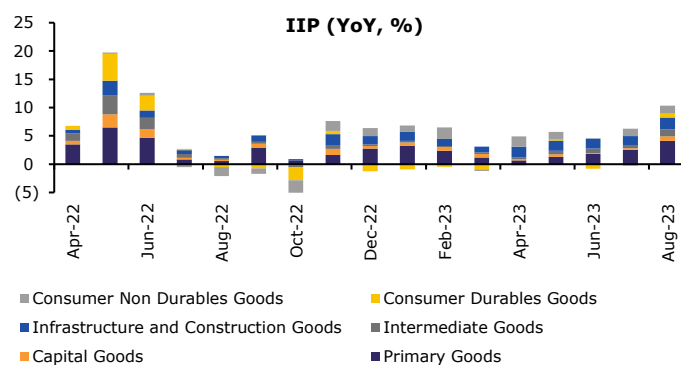
Source: MOSPI, Emkay Research

Exhibit 9: IIP rose 10.3% in Aug-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		
	(%)	Aug-23	Jul-23	Aug-22
Food products	5.3	2.9	6.7	0.7
Beverages	1.0	9.4	4.1	6.4
Tobacco products	0.8	7.4	0.3	(12.8)
Textiles	3.3	1.6	1.1	(12.5)
Wearing apparel	1.3	(17.1)	(22.3)	(18.3)
Leather and related products	0.5	3.9	(3.5)	(16.0)
Wood and Wood Products and Cork ex. Furniture; Articles of Straw and Plaiting Materials	0.2	(2.9)	(11.5)	(7.9)
Paper and paper products	0.9	(0.5)	(3.2)	(0.1)
Printing and reproduction of recorded media	0.7	2.8	(8.8)	27.6
Coke and refined petroleum products	11.8	10.2	4.2	6.6
Chemicals and chemical products	7.9	(4.3)	(6.6)	5.7
Pharma, Medicinal Chemical, and Botanical Products	5.0	16.8	12.2	(17.6)
Rubber and plastics products	2.4	4.0	0.1	(4.4)
Other non-metallic mineral products	4.1	14.9	6.4	1.4
Basic metals	12.8	15.7	13.7	4.0
Fabricated Metal Products ex Machinery and Equipment	2.7	22.4	2.0	(14.4)
Computer, electronic, and optical products	1.6	(8.7)	(16.9)	3.3
Electrical equipment	3.0	17.7	3.3	(28.5)
Machinery and equipment N.E.C.	4.8	12.4	6.0	2.8
Motor vehicles, trailers and semi-trailers	4.9	12.0	8.0	22.7
Other transport equipment	1.8	8.2	(2.5)	7.8
Furniture; Manufacturing N.E.C.	0.1	(23.8)	(11.1)	44.1
Other manufacturing	0.9	(4.5)	6.7	4.2
Manufacturing	77.6	9.3	5.0	(0.5)
Other Important indicators				
% of manufacturing with -ve growth	100	30.4	39.1	43.5
% of manufacturing growing less than 5%	100	52.2	69.6	69.6

Source: MOSPI, Emkay Research

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