

Inflation Watch

November 2017

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CPI moves up in November

- CPI inflation for November was higher than the previous month and also higher than the market's expectation. While the CPI has rebounded from its record low level seen in June, it still remains significantly below its historical average but now has moved above the RBI's medium term target.
- In its recent December monetary policy meeting, the RBI continued to highlight several factors contributing to uncertainty around the inflation trajectory including implementation of farm loan waivers and salary allowance awards by States and which may result in possible fiscal slippages and undermine the quality of public spending, entailing inflationary spillovers. Taking into account these factors, the RBI expects inflation to rise from its current level and range between 4.3-4.7 per cent in the second half of this year, including the house rent allowance by the Centre.
- Moreover the RBI had expressed its concern that food inflation was likely headed higher. While the November inflation showed a pickup in food inflation from the June lows, it hardly represents a significant acceleration. The most recent November data actually shows that food and beverages inflation remains muted across different categories. The rise in food inflation was mainly driven by a spike in vegetables inflation while pulses inflation still continues to be negative.
- In addition to food there have been several other drivers that have moved inflation higher. First the inflation data is impacted by an adverse base effect which will remain prevalent over the next several months. Related to this is the fact that the inflation data is not impacted by the demonetisation related slowdown that was observed this time last year. Second some of the risks identified by the RBI such as the increase in housing allowances have materialized and have moved up significantly. Similarly there has been a pickup in energy prices which has flowed through to CPI inflation.
- Given this trends we expect the inflation reading to move up for the next few months. As we indicated in our Monetary Policy Preview we expect the CPI reading to be above 5% by the January and we expect CPI to peak out by April 2018 and start to move down toward 4% thereafter.
- Even with the expected pickup in inflation over the next few months we note that average inflation over the fiscal year would still be around 4% and therefore the RBI's reaction may not be as aggressive as the acceleration in CPI would suggest. The RBI in the past had indicated that it may look through some of the impacts of the HRA increases. The key will be whether the RBI continues to reiterate this stance now that the CPI has moved up.

CPI Inflation Summary

Headline Inflation

- November headline CPI inflation rose 4.88% compared to a year earlier. The core inflation excluding food and fuel rose to around 4.8%.
- The November CPI inflation was higher than the median estimate of 4.2 % in the Reuters survey
- CPI increased 1.1% m-o-m higher than the 0.7% m-o-m rise during the corresponding period the prior year

Food, Beverage (Weight 45.9%)

- Y-o-Y food and beverages inflation stood at 4.4% in November compared with 2.3% the previous month.
- Within food and beverages, the pulses inflation fell dramatically from 26.9% in June 2016 to -23.5% in November 2017. However sugar inflation remained elevated as it has for the last year coming in at 7.8%

Fuel and Light (Weight 6.8%)

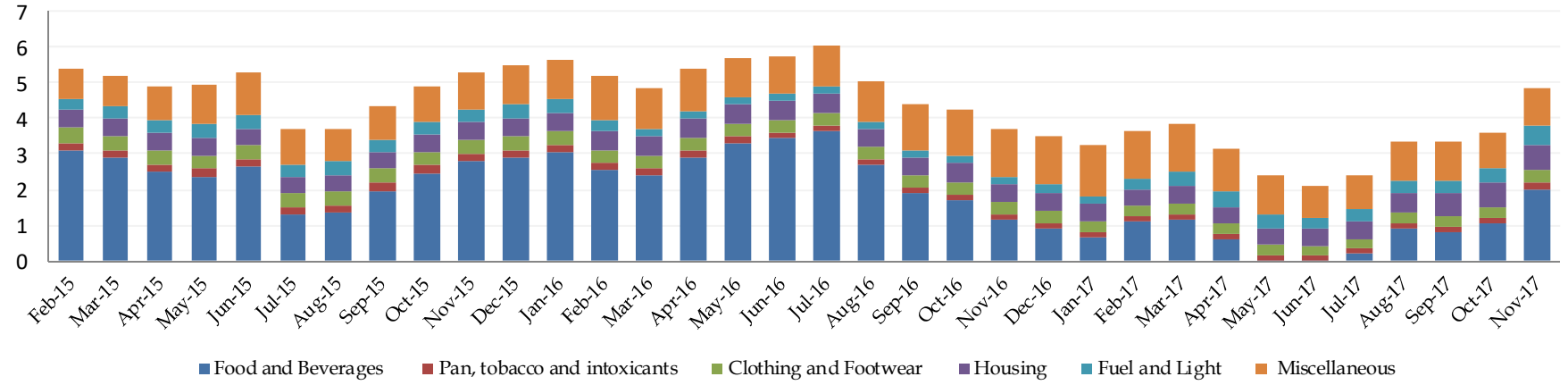
- Y-o-Y Fuel and Light inflation stood at 7.9% in November higher than 6.4% the previous month
- This was the larges y-o-y rise in fuel and light inflation over the last three years.

Miscellaneous (Weight 28.3%)

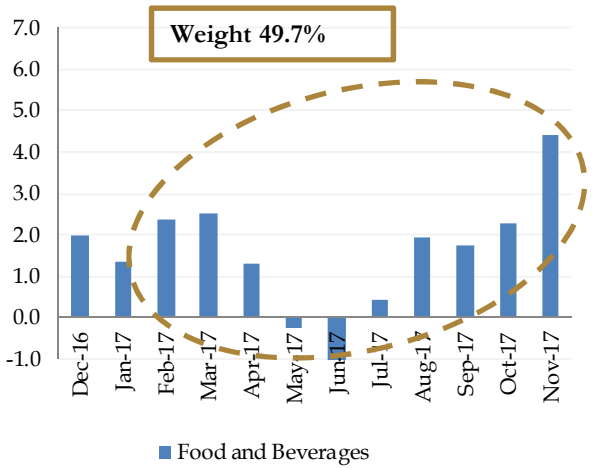
- Y-o-Y Miscellaneous Products inflation stood at 3.6% in November compared with 3.8% the previous month
- Within miscellaneous, the housing component came in at 4.5% its highest level since December 2016

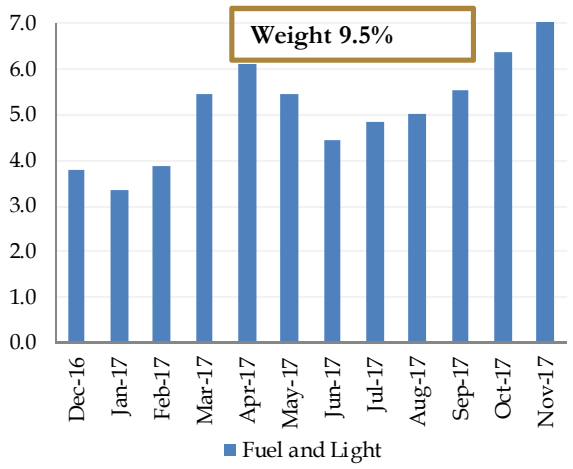
CPI Inflation by Component

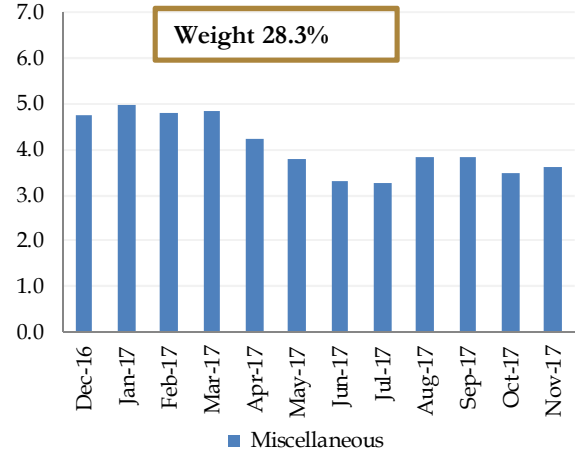
CPI Inflation



CPI Inflation by Component

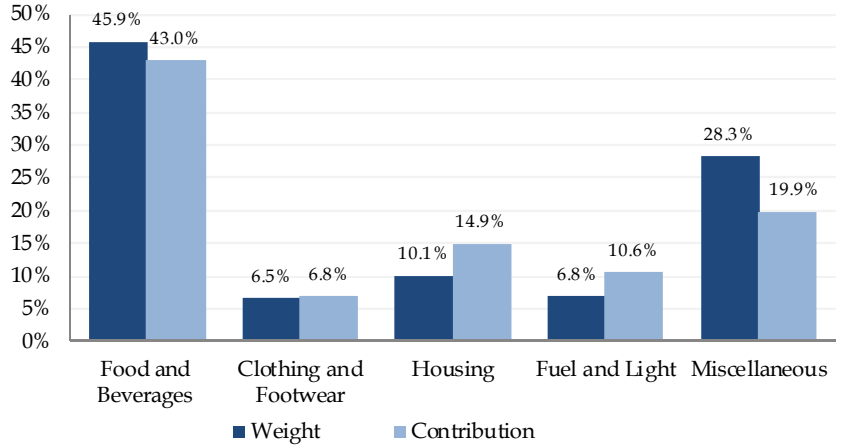




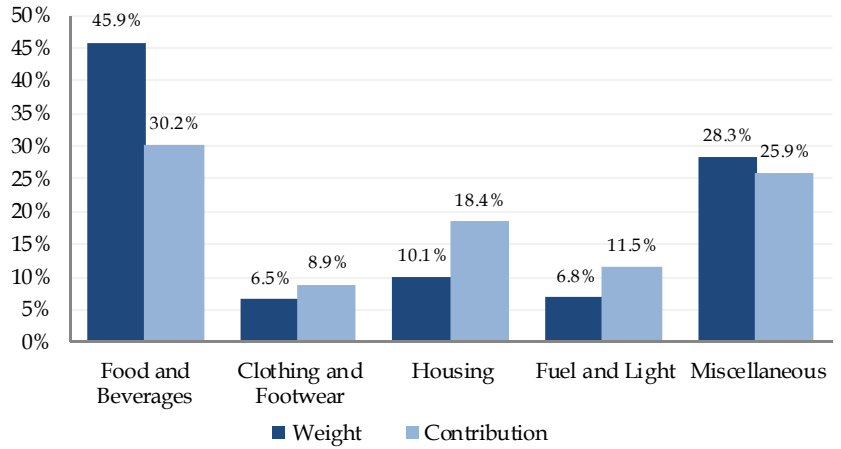


CPI Contribution Analysis: food inflation picked up in November

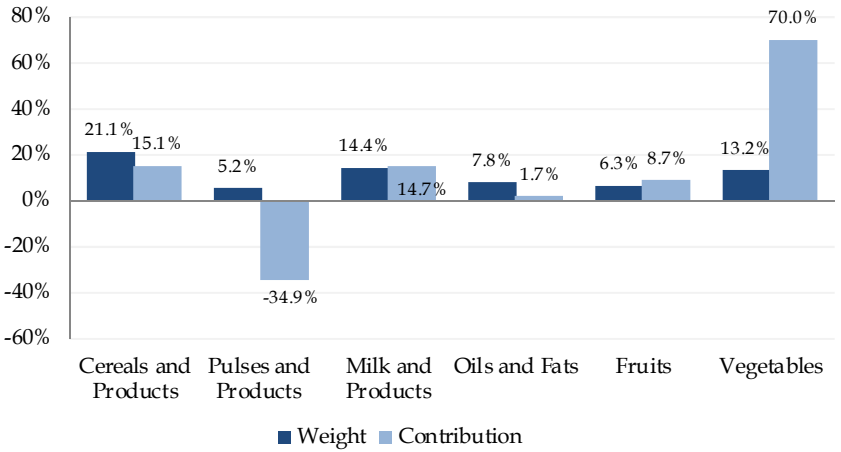
Component Contribution to CPI Headline Inflation (Nov)



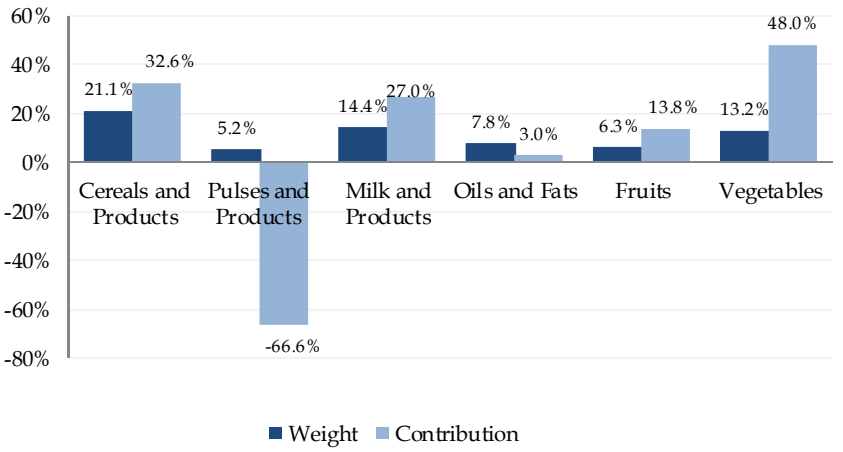
Component Contribution to CPI Headline Inflation (Oct)



Component Contribution to Food Articles Inflation (Nov)

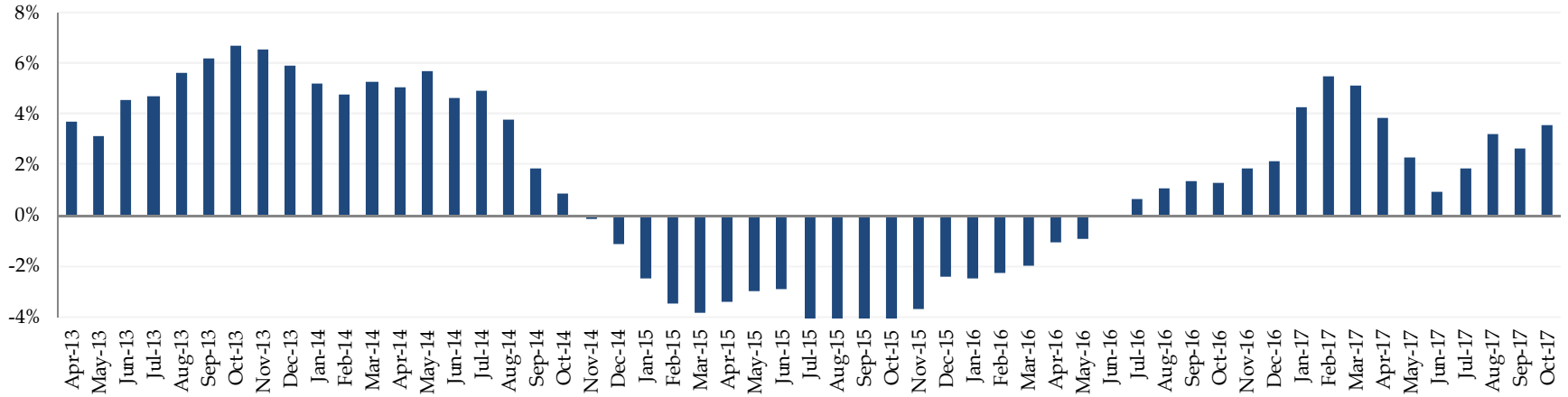


Component Contribution to Food Articles Inflation (Oct)

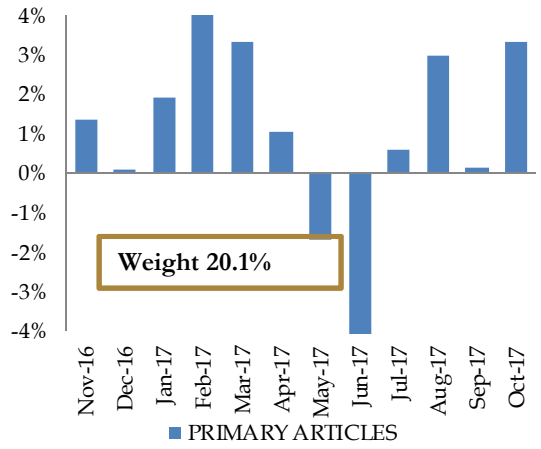


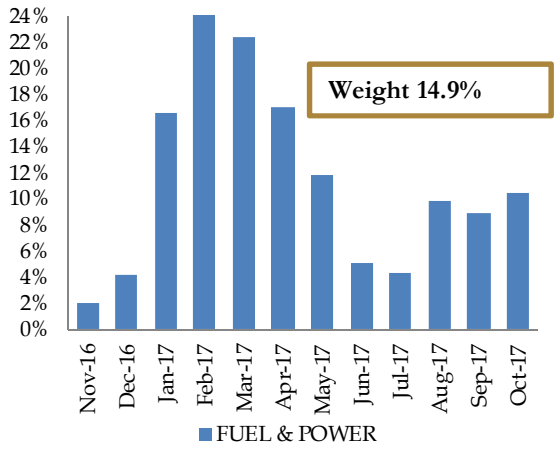
WPI Inflation by Component

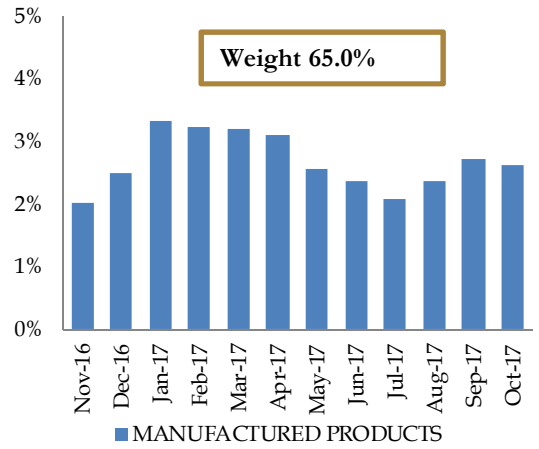
WPI Inflation



WPI Inflation by Component

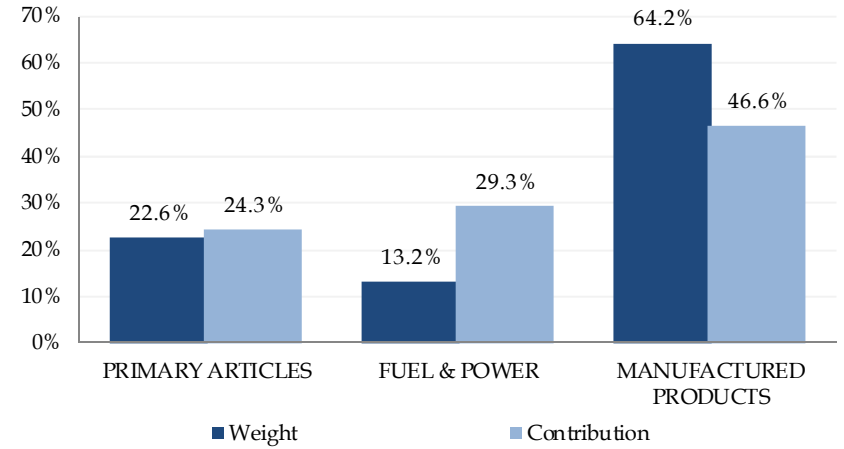




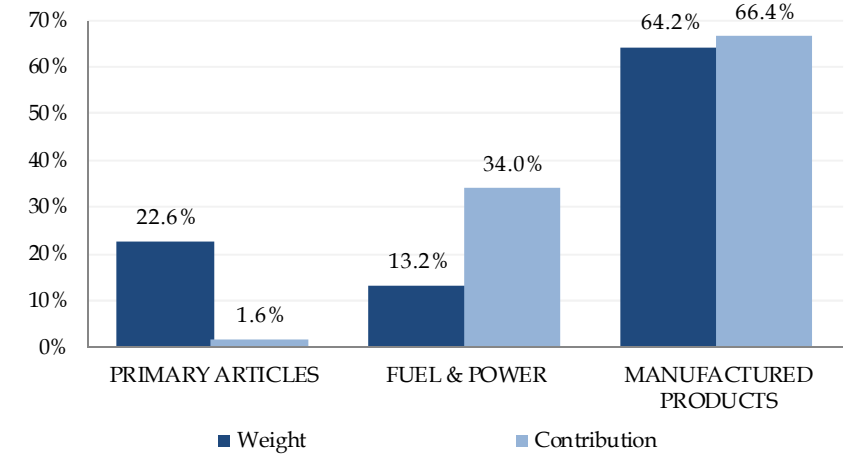


WPI Contribution Analysis

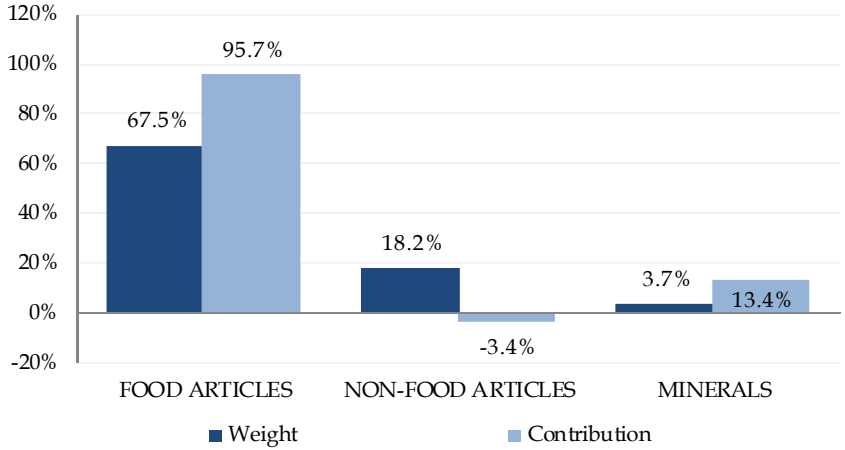
Component Contribution to WPI Headline Inflation (Oct)



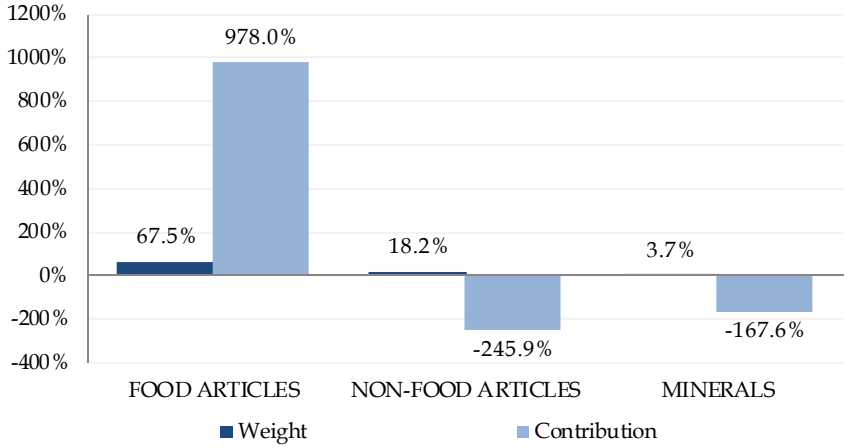
Component Contribution to WPI Headline Inflation (Sept)



Component Contribution to Primary Articles Inflation (Oct)

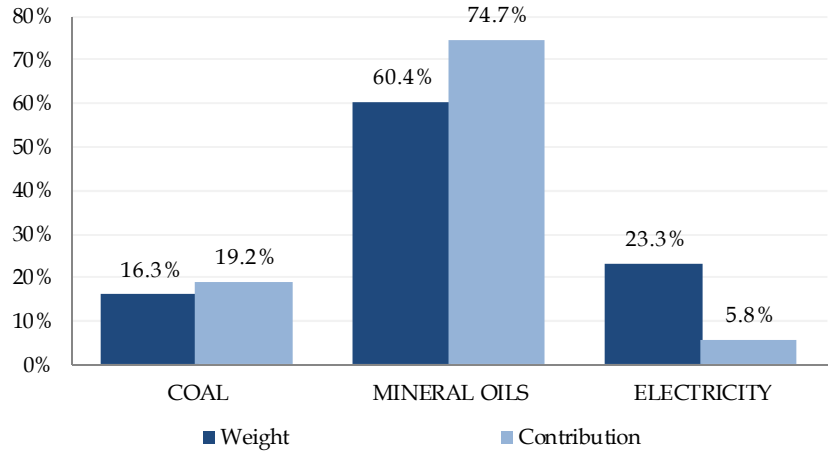


Component Contribution to Primary Articles Inflation (Sept)

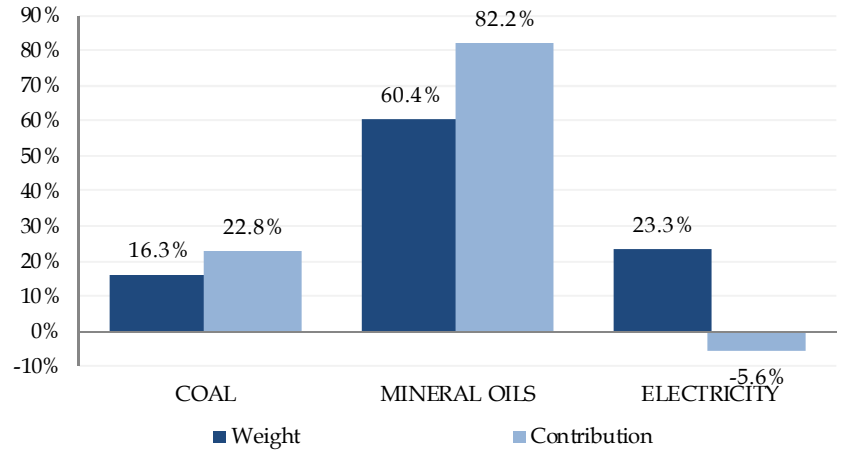


WPI Contribution Analysis

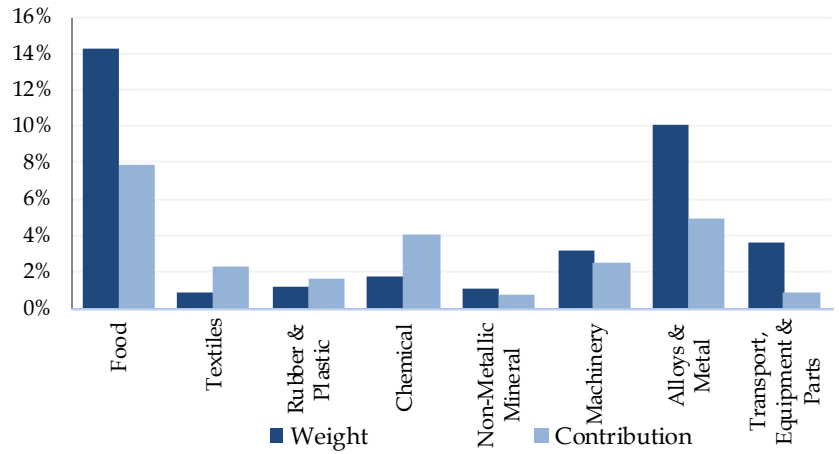
Component Contribution to Fuel and Power Inflation (Oct)



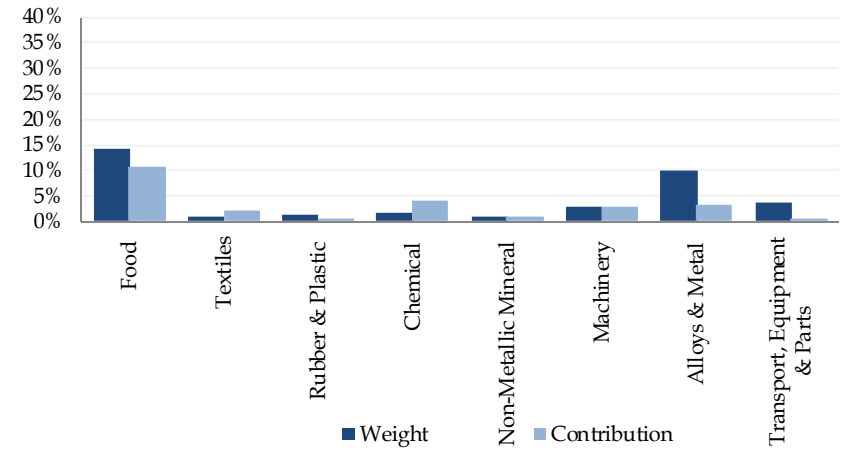
Component Contribution to Fuel and Power Inflation (Sept)



Component Contribution to Manufactured Products Inflation (Oct)

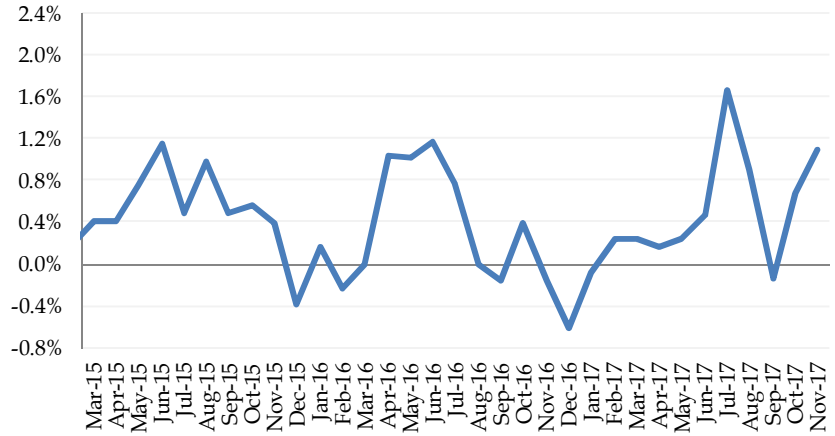


Component Contribution to Manufactured Products Inflation (Sept)

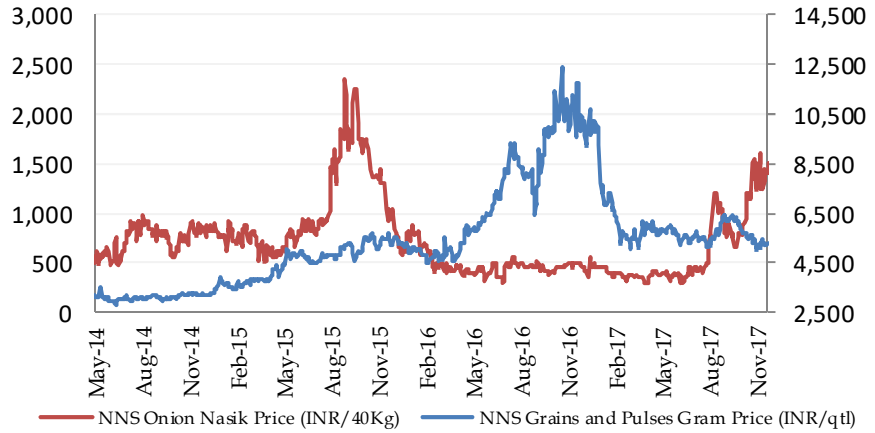


Onion prices have picked from August

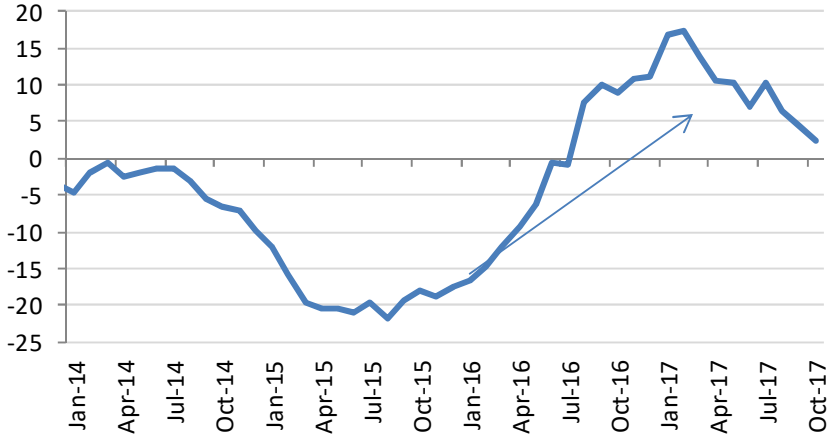
Month on Month CPI



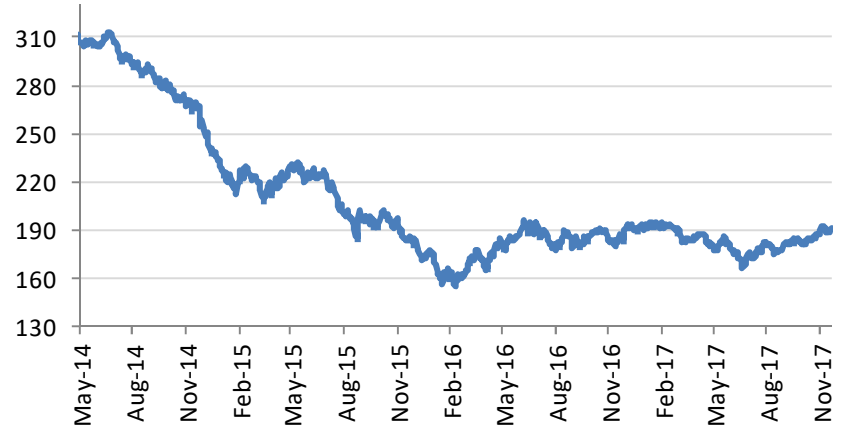
Selected Prices



FAO Global Food Index (% growth)



CRB Commodity Index



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Thank You

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