

Inflation Watch

September 2017

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CPI in line with the previous month

- CPI inflation for September was in line with the previous month and lower 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 and below the RBI's medium term target.
- In its recent October 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 4.2-4.6 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 July inflation showed a pickup in food inflation from the June lows, it hardly represents a significant acceleration. The most recent September data actually shows that food and beverages inflation remains muted across different categories. Although the rate of deceleration has slowed vegetables inflation remains muted while pulses inflation continues to fall further. We do expect vegetables inflation to move up however not its previous highs.
- Despite the inflation moving up from its record lows in June, we expect inflation to remain below the RBI's target in the medium term. First, given the announced structure of the GST the impact on inflation is expected to be minimal as also stated by the RBI. The initial data after the implementation of the GST shows that the impact of GST on inflation has been limited. Second, the outlook for food inflation continues to improve as the government has sufficient stocks to manage price volatility. Third, the relative strength of the Rupee will continue to keep imported inflation in check.
- Despite the current benign inflation trend ,certain upside risks to inflation should be monitored closely. We agree with the RBI that a major risk that imparts upside pressure to inflation is the implementation of the HRA increases by the States. As this process unfolds over the next months it does pose an upside risk to inflation.
- Furthermore, factors that kept WPI elevated are imparting input price pressures for firms. Pricing power is also expected to improve, as reflected by manufacturing firms surveyed in the RBI's latest industrial outlook Staff costs in the manufacturing sector are also expected to increase in 2017-18. The combination of these factors can keep core inflation at elevated levels.

CPI Inflation Summary

Headline Inflation

- September headline CPI inflation rose 3.28% compared to a year earlier. The core inflation excluding food and fuel remained around 4.5%.
- The September CPI inflation was lower than the median estimate of 3.6 % in the Reuters survey
- CPI decreased 0.2% m-o-m in line with the 0.2% m-o-m fall during the corresponding period the prior year

Food, Beverage (Weight 45.9%)

- Y-o-Y food and beverages inflation stood at 1.8% in September compared with 2.0% the previous month.
- Within food and beverages, the pulses inflation fell dramatically from 26.9% in June 2016 to -22.5% in September 2017. However sugar inflation remained elevated as it has for the last year coming in at 6.8%

Fuel and Light (Weight 6.8%)

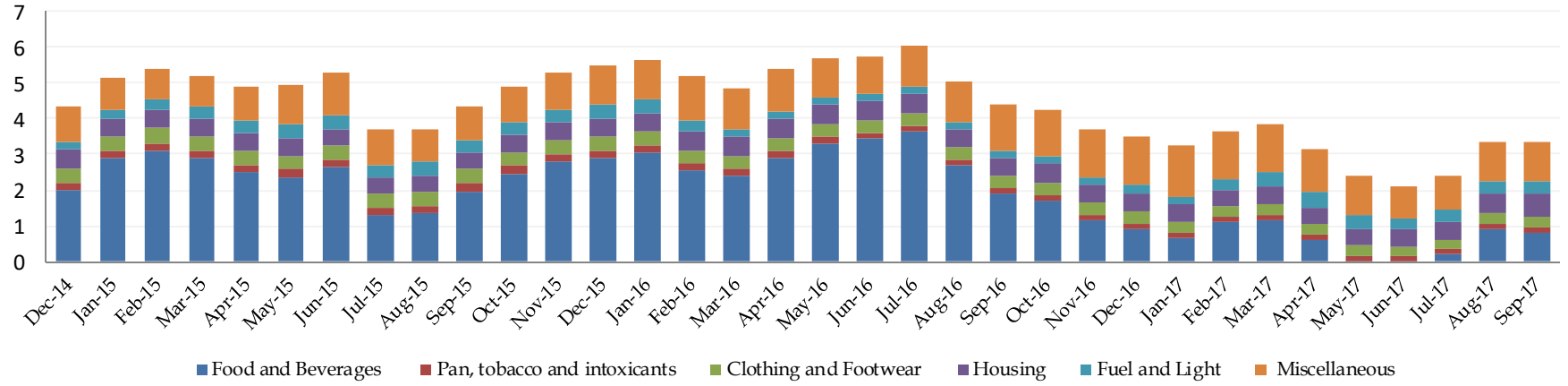
- Y-o-Y Fuel and Light inflation stood at 5.6% in September higher than 5.0% the previous month
- The fuel and power inflation has remained at this range over the last six months .

Miscellaneous (Weight 28.3%)

- Y-o-Y Miscellaneous Products inflation stood at 3.8% in September compared with 3.9% the previous month
- Within miscellaneous, the recreation component came in at 4.1% up from 3.8% the previous month

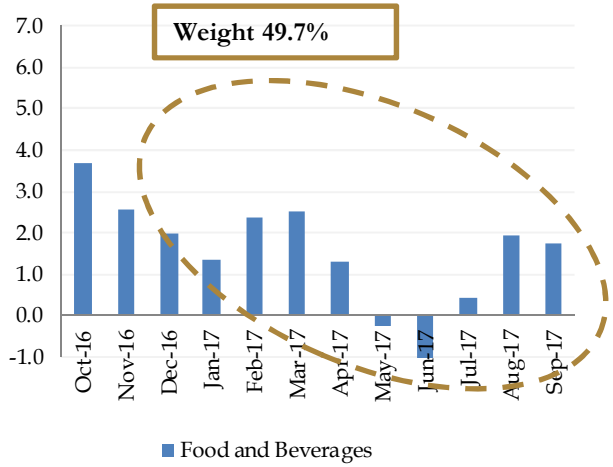
CPI Inflation by Component

CPI Inflation

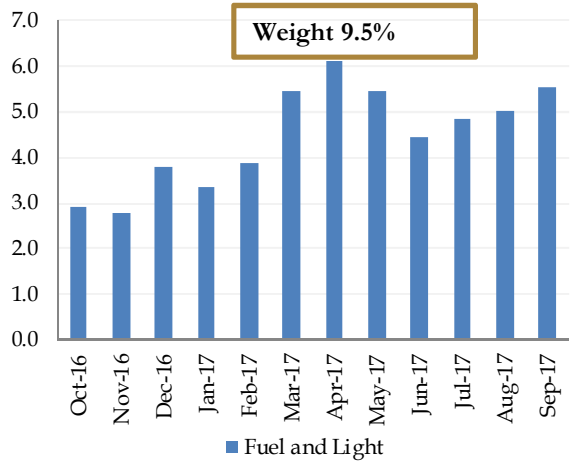


CPI Inflation by Component

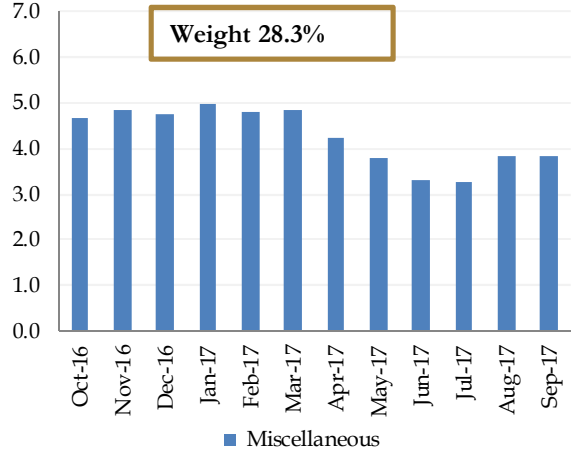
Weight 49.7%



Weight 9.5%

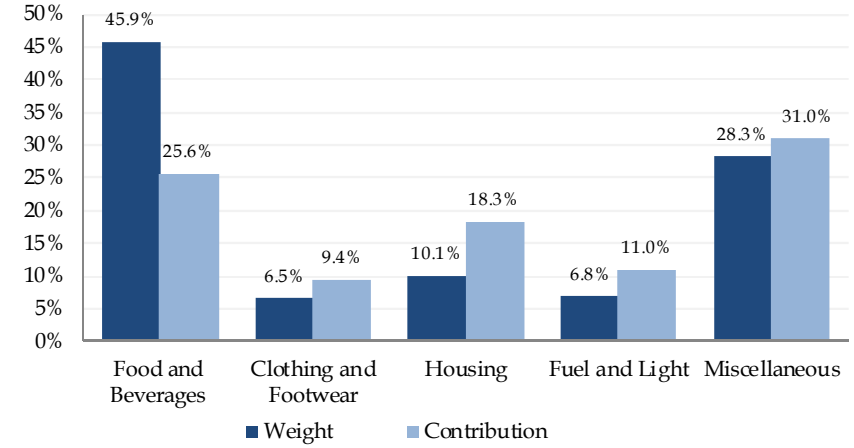


Weight 28.3%

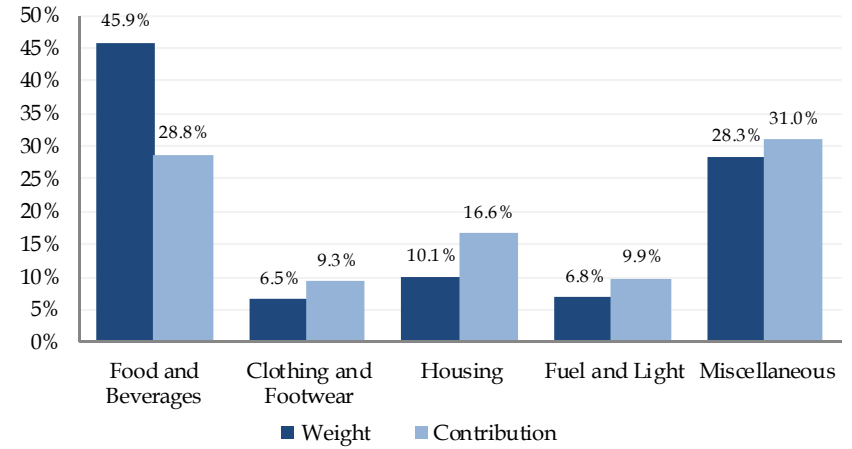


CPI Contribution Analysis: housing inflation picked up in September

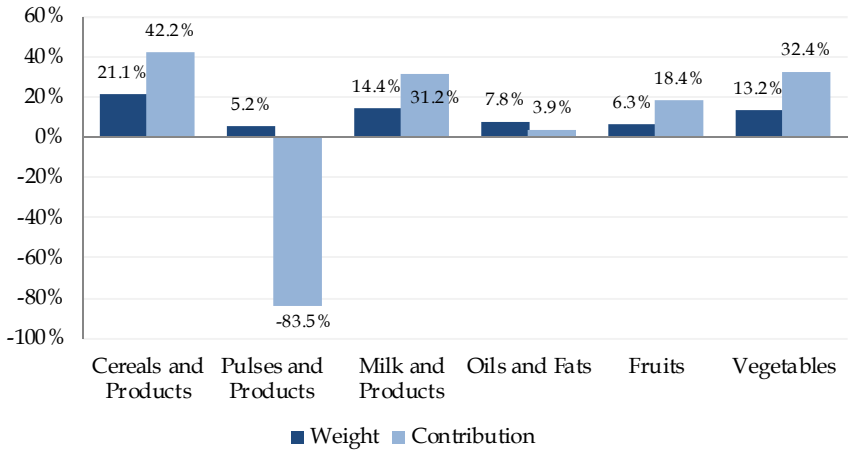
Component Contribution to CPI Headline Inflation (Sept)



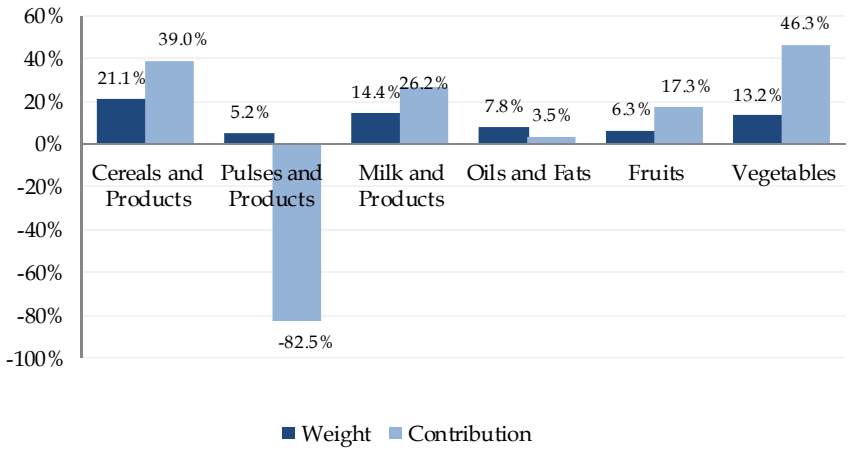
Component Contribution to CPI Headline Inflation (Aug)



Component Contribution to Food Articles Inflation (Sept)

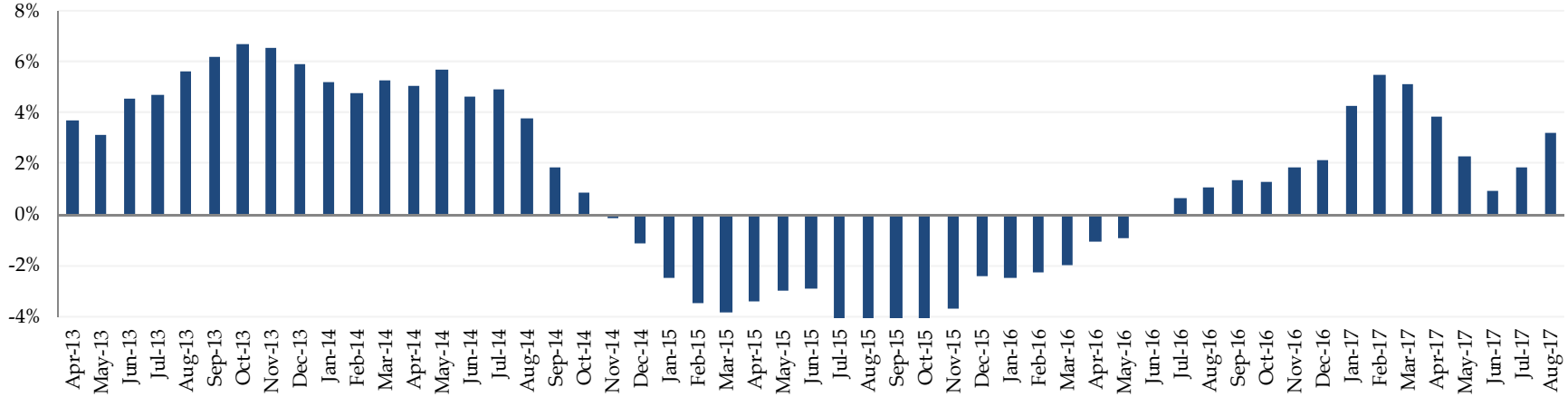


Component Contribution to Food Articles Inflation (Aug)

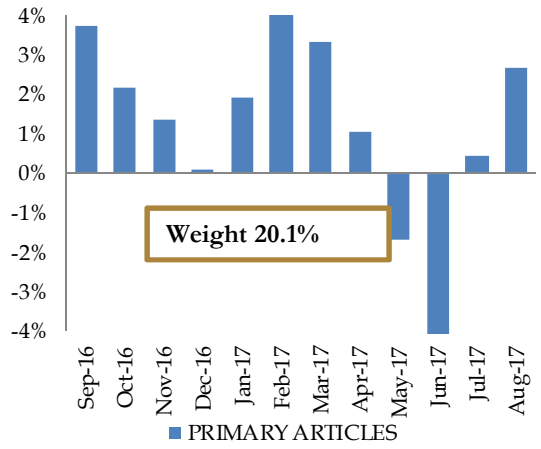


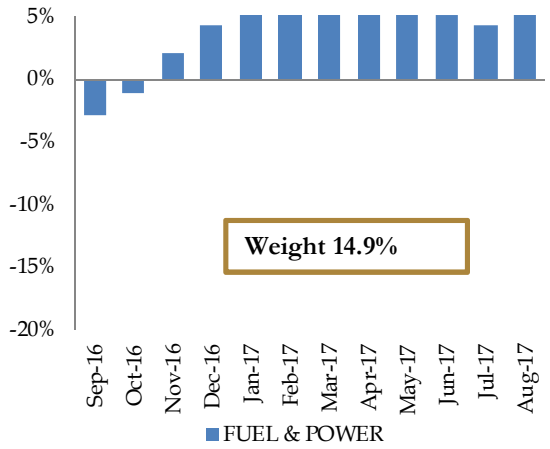
WPI Inflation by Component

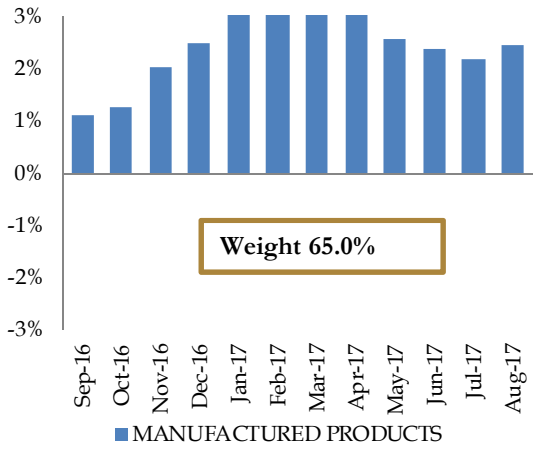
WPI Inflation



WPI Inflation by Component

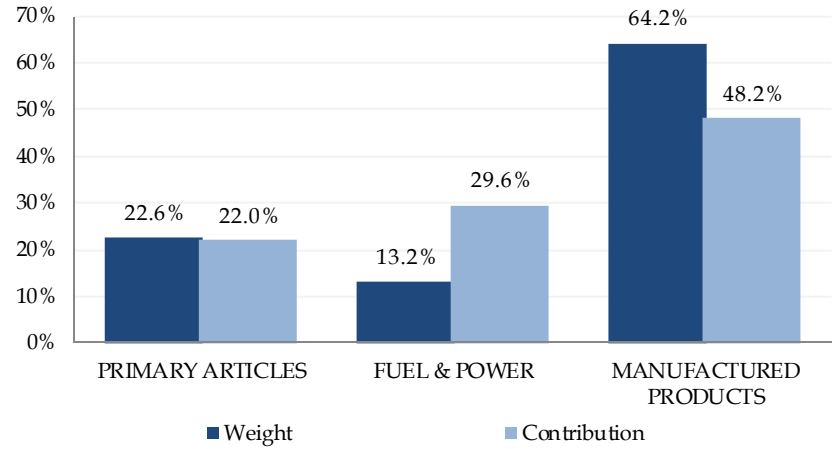




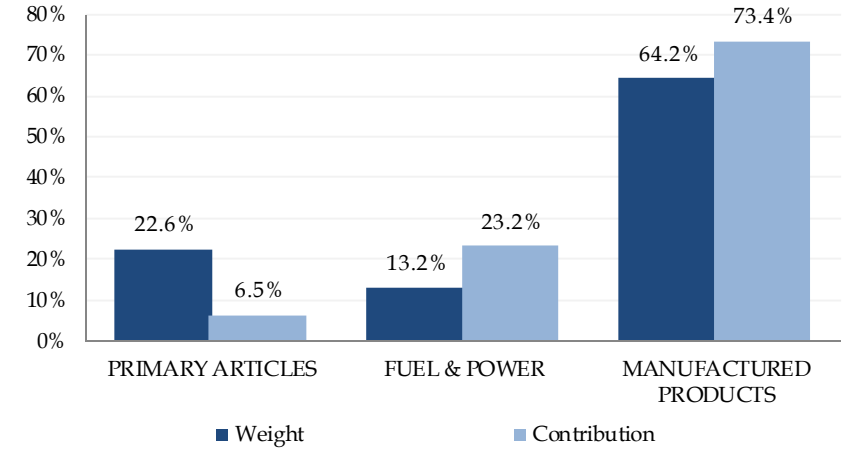


WPI Contribution Analysis

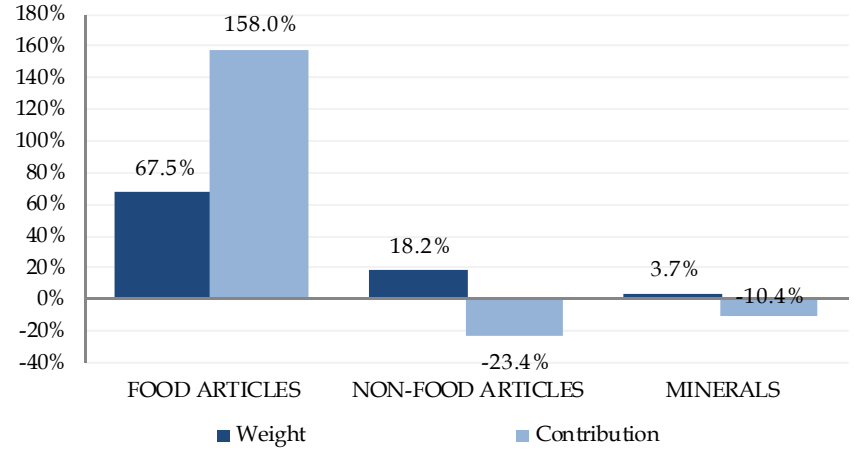
Component Contribution to WPI Headline Inflation (Aug)



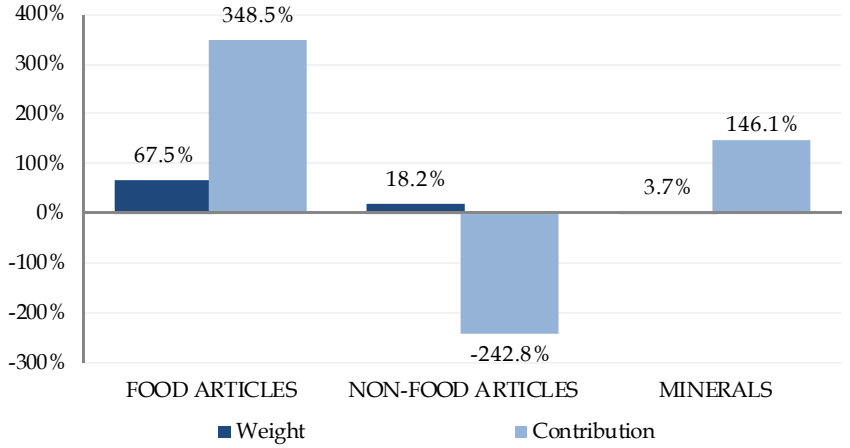
Component Contribution to WPI Headline Inflation (July)



Component Contribution to Primary Articles Inflation (Aug)

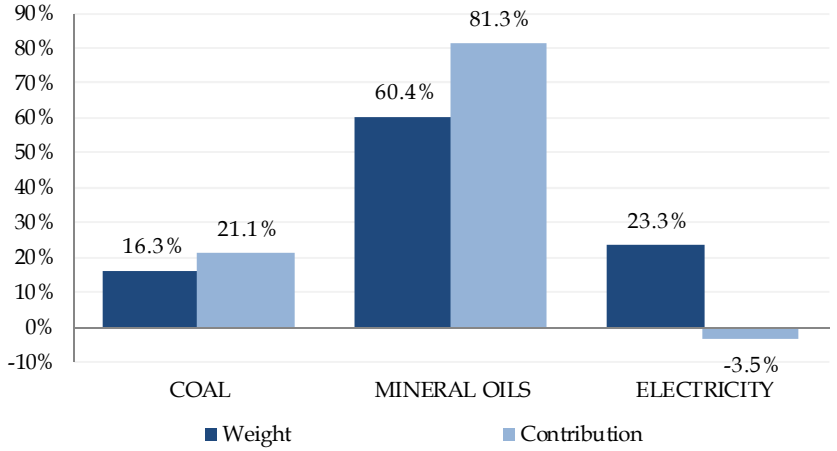


Component Contribution to Primary Articles Inflation (July)

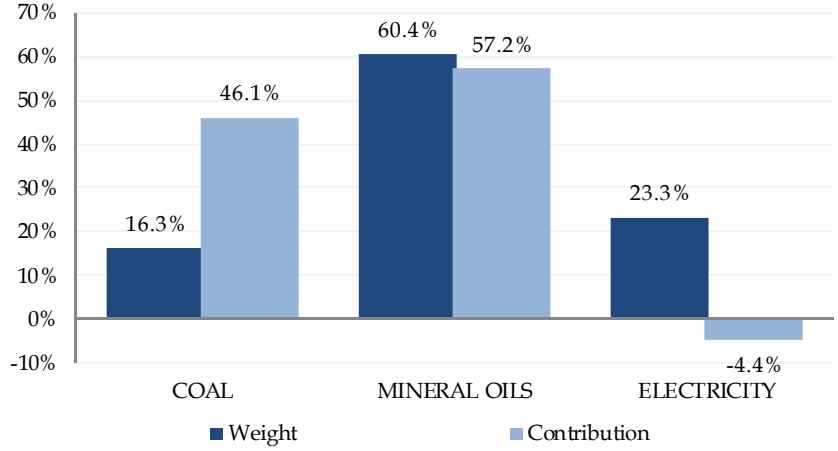


WPI Contribution Analysis

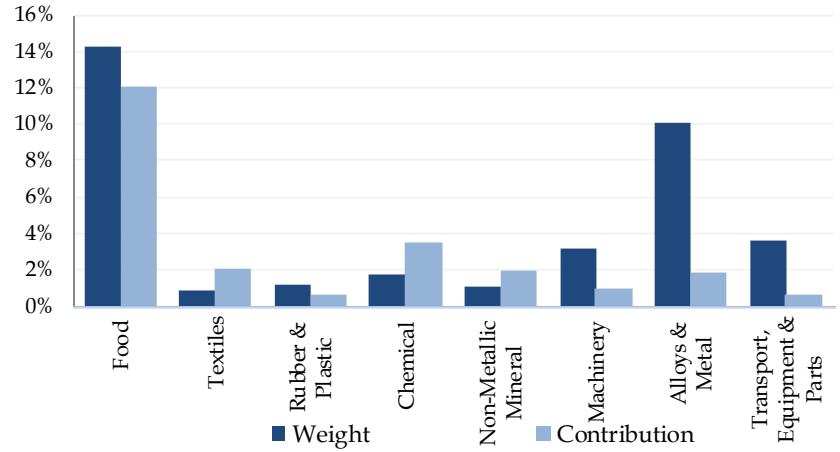
Component Contribution to Fuel and Power Inflation (Aug)



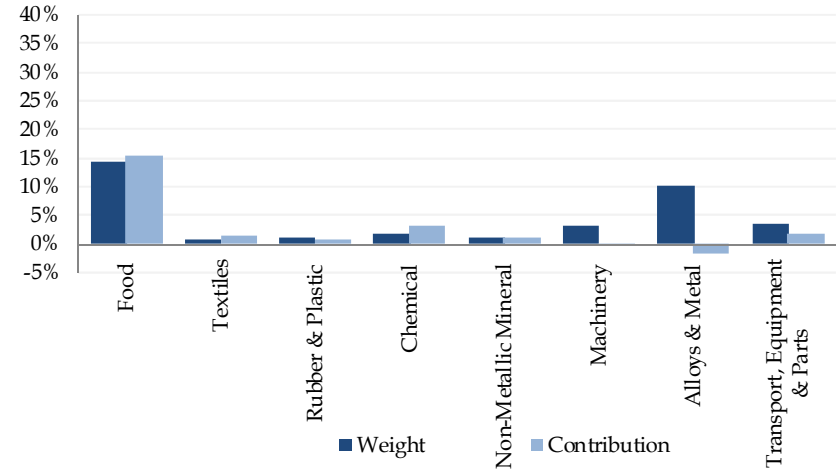
Component Contribution to Fuel and Power Inflation (July)



Component Contribution to Manufactured Products Inflation (Aug)

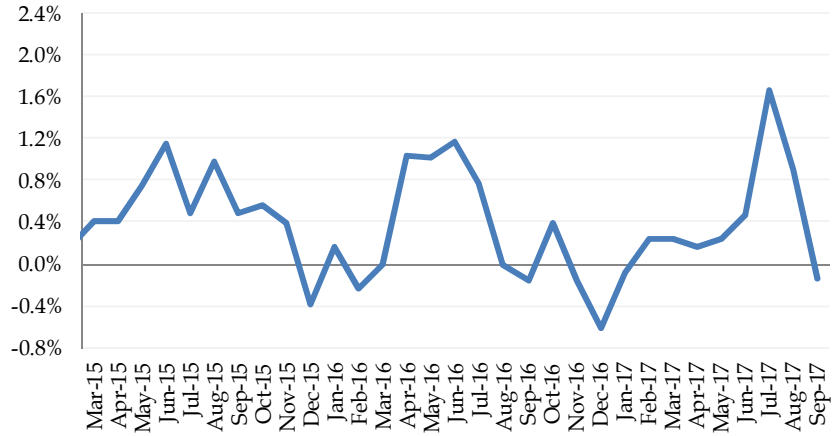


Component Contribution to Manufactured Products Inflation (July)

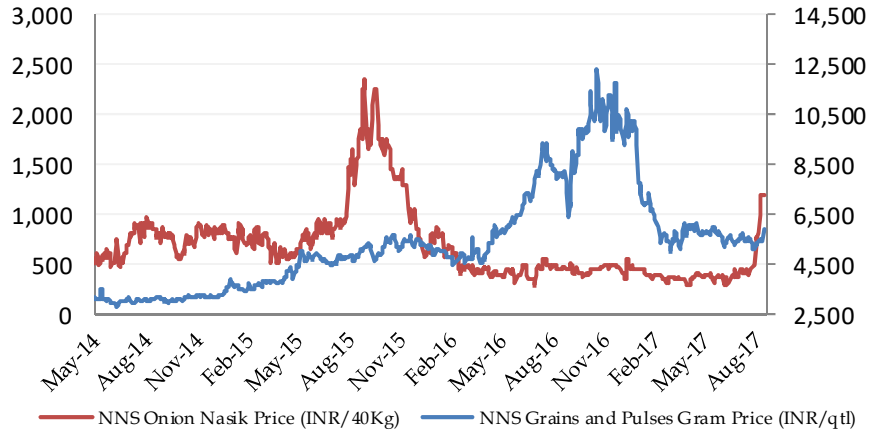


Vegetable prices have picked up in August

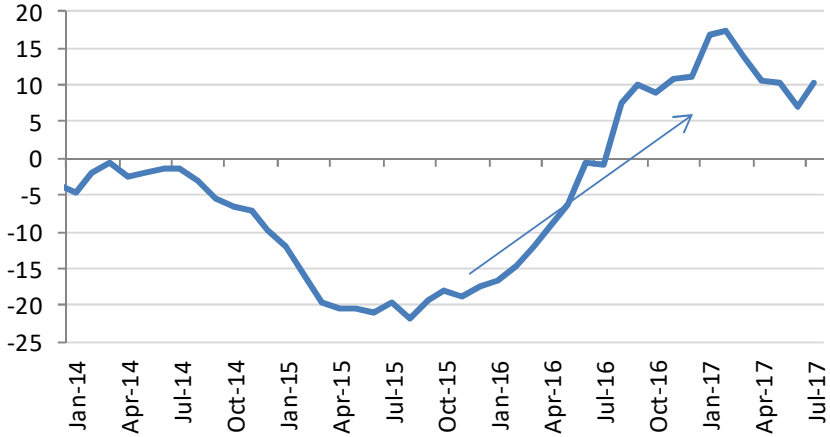
Month on Month CPI



Selected Prices



FAO Global Food Index (% growth)



CRB Commodity Index



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Thank You

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