

Inflation Watch: Food inflation pushed headline CPI above 5% in June

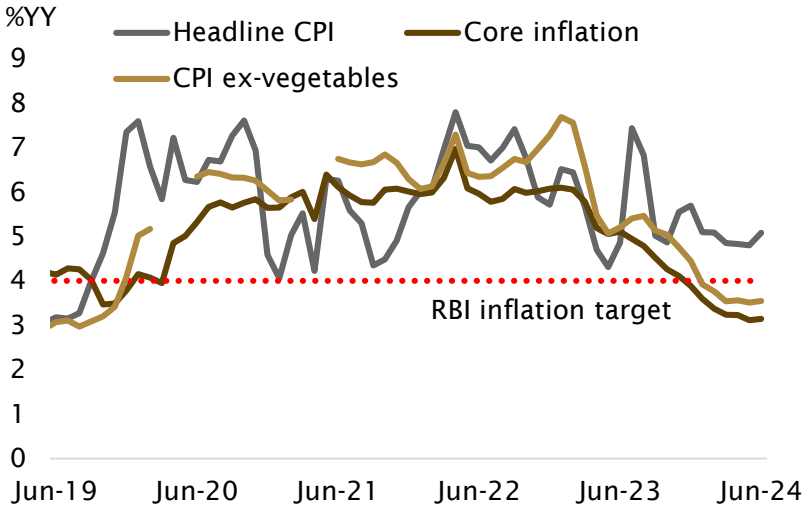
17 July, 2024

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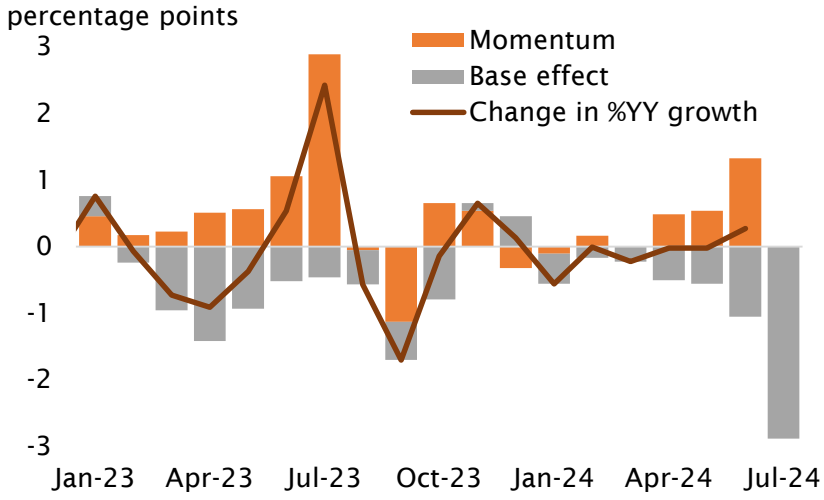
Key takeaways

- Headline inflation breached the 5% mark in June at 5.1%YY, higher than the print of 4.8% in May and above market expectations (Bloomberg survey estimate: 4.8%). For the quarter, average inflation was in line with RBI MPC's forecast of 4.9%. The increase in CPI inflation amid favorable base effects was driven by higher than average month-on-month increase in food prices, particularly vegetables, as heat waves and deficit rainfall in the month constrained supply. Also, there was a more broad-based increase in inflation in the food basket.
- Core inflation was largely stable at 3.1%, and alternative measures continued to suggest bottoming out at current rates. Fuel index remained in deflation for the tenth straight month.
- Farm produce prospects remain solid amid the ongoing progress in monsoon and crop sowing, though there are risks to watch out for. Even as crude oil prices remain range-bound, the gradual increase in global commodity prices has started to trickle down to domestic wholesale inflation and input costs, with likely ramifications for economic activity and consumer prices at some point.
- With CPI inflation likely to remain muted in Q2-FY25 due to statistical effects, the central bank is likely to remain in wait and watch mode until H2, when is likely to gain more clarity on actual monsoon outturn and likely policy pivot by the US Fed.

Surge in vegetable prices drove headline CPI above 5%



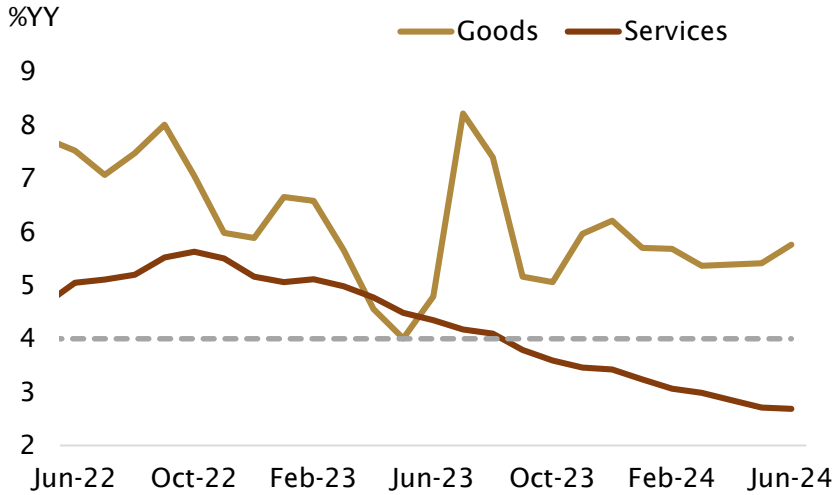
Strong momentum drove inflation higher in June



Food inflation pushed headline CPI above 5% in June

- Headline CPI inflation increased 5.1%YY in June from 4.8% in May, higher than market expectations and mainly driven by a surge in vegetable prices. Ex-vegetables, consumer inflation remained below the RBI's 4% target for the sixth straight month. Notwithstanding the rise in vegetable prices, there was a more broad-based increase in food prices across categories, thereby lifting food inflation over 8% to a six month high.
- Fuel index remained in deflation, though the extent of price decline moderated. Inflation in pan, tobacco, and intoxicants rose for the second straight month, albeit slightly. Housing inflation ticked up marginally due to unfavorable base effects amid a month-no-month decline in the index. Inflation in the miscellaneous group, which mainly comprises services, was stable, amid moderation across categories, except for personal care that is influenced by global prices of gold and silver. As a result, services inflation was stable in June, while goods inflation increased.
- On month-on-month non-seasonally adjusted basis, headline inflation rose 1.3% in June, stronger than the average increase of 0.9% for the month (FY12-24) and was driven by food prices.

Goods inflation rose in June; services inflation stable



Headline inflation above 5% in June

%YY	Weight	Apr-24	May-24	Jun-24
Headline CPI	100.0	4.83	4.80	5.08
Food	45.9	7.87	7.87	8.36
Intoxicants, etc.	2.4	2.99	3.03	3.08
Clothing	6.5	2.85	2.74	2.73
Housing	10.1	2.68	2.56	2.69
Fuel and light	6.8	-4.02	-3.67	-3.66
Miscellaneous	28.3	3.54	3.41	3.41

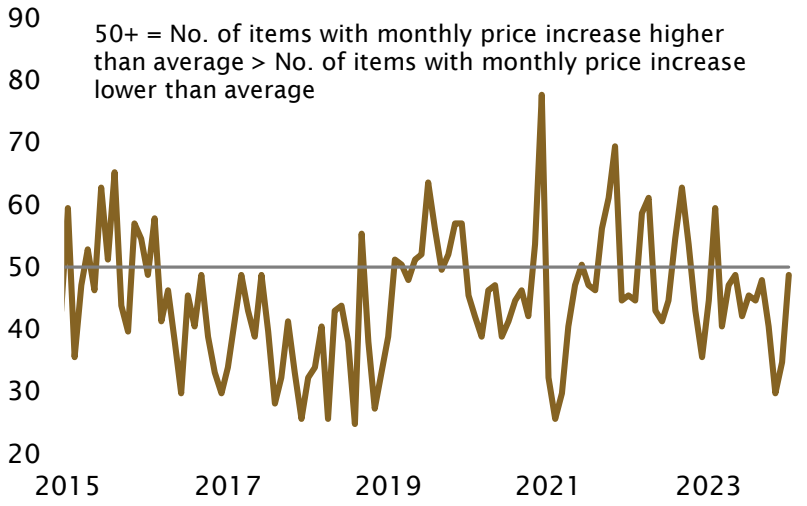
Inflation momentum in June driven by food prices

%MM, NSA	Weight	Apr-24	May-24	Jun-24
Headline CPI	100.0	0.48	0.54	1.33
Food	45.9	0.63	0.68	2.69
Intoxicants, etc.	2.4	0.44	0.24	0.29
Clothing	6.5	0.21	0.16	0.31
Housing	10.1	0.95	0.11	-0.56
Fuel and light	6.8	-0.80	0.97	0.06
Miscellaneous	28.3	0.55	0.28	0.28

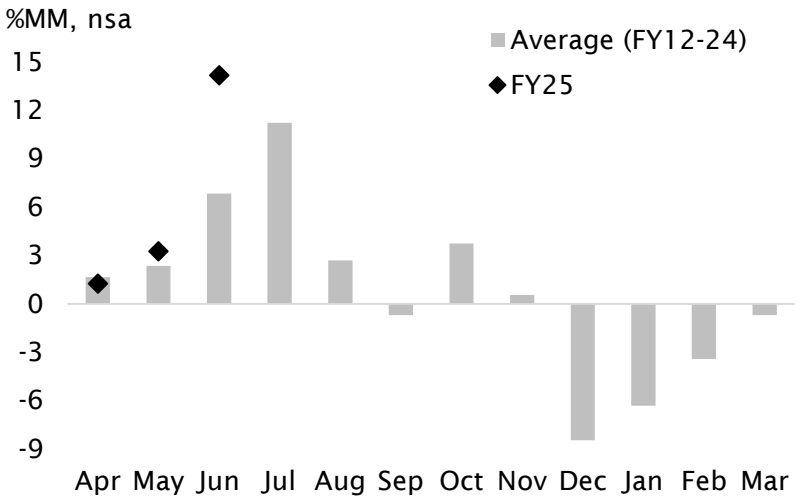
Broad-based increase in food inflation, led by vegetables

- Compared to the trend in the past couple of months, there was a more broad-based increase in prices across food items, as indicated by the diffusion index. Of the 12 food sub-groups, oils and fats remained in deflation, but inflation rose in six of the 11 categories in June, up from four in May.
- Vegetables remained in double-digit year-on-year inflation for eighth straight month. Prices rose 14% month-on-month, higher than the average of 7% for the month. High frequency data indicates price pressures to persist in July, though favorable base effects could provide some statistical ease.
- Inflation in cereals and pulses remains sticky, while inflation in spices has been moderating from the recent peak of over 20% in Aug-2023 to around 2% in June.
- In the past couple of months, inflation in the fruit basket has been rising. After easing for a year, milk inflation increased in June, reflecting price hikes by top two milk cooperatives.

Food diffusion index – broad-based price rise in June



Vegetable prices rose higher-than-average in June



Vegetable price pressures likely to continue in July

%YY	Tomato	Onion	Potato	Vegetables
Wt. in CPI	0.57	0.64	0.98	6.0
Apr-24	42.0	36.7	53.6	27.8
May-24	41.3	38.1	55.3	27.4
Jun-24	26.4	58.5	57.6	29.3
Jul-24*	-42.4	63.4	53.6	
%MM	Tomato	Onion	Potato	Vegetables
Apr-24	2.0	-4.3	19.4	1.3
May-24	1.7	0.5	15.0	3.3
Jun-24	48.7	24.2	12.2	14.2
Jul-24*	71.7	22.2	17.6	

Note: *All India retail price till July 14.

Core inflation remained soft but there are risks to watch out for

- Core inflation (ex-food, fuel) was stable in June, albeit fractionally higher at 3.14%YY versus 3.12% in May. This marked the seventh consecutive month of sub-4% print. Inflation stayed below 4% across sub-groups, except for personal care and effects, that tends to track global prices of gold. The year-on-year increase in June in this group was driven more by an unfavorable base, as was the slight rise in housing inflation. Despite increase in the intoxicants index for the second straight month, inflation rate remained muted.
- Personal care and effects contributed the most to core inflation, followed by housing. This is a reversal from the trend six months earlier, when housing added the most, followed by health, personal care and effects, and firm gains from education and clothing groups as well.
- On a month-on-month non-seasonally adjusted basis, core inflation rose 0.1% in June, lower than the average increase of 0.5% for the month (FY12-24).
- Core inflation (ex-food, fuel, and intoxicants) averaged 3.2% for the quarter, mildly lower than median estimate of 3.3% in the RBI's latest survey of professional forecasters. However, core inflation is expected to rise in the subsequent quarters of FY25, with median forecast for Q2 at 3.6%, Q3 at 4.0%, and Q4 at 4.3%. Past data also shows that average momentum in core inflation tends to be stronger in Q2 compared to Q1, though favorable base effects could limit the upside.
- As has been the case over the past couple of months, certain measures of core inflation based on annualized rates post seasonal adjustment are showing signs of bottoming out, and there are risks to watch out for.
- The recently announced tariff hikes by telecom companies could add to core inflation in coming months. Telephone charges (mobile) has a weight of 1.84 in the CPI index, comprising over 20% weight in transport and communication group.
- Futures data for gold indicate higher prices in end-2024 that could continue to keep inflation elevated in the personal care category.

Contribution to core inflation (ex-food, fuel) in percentage points

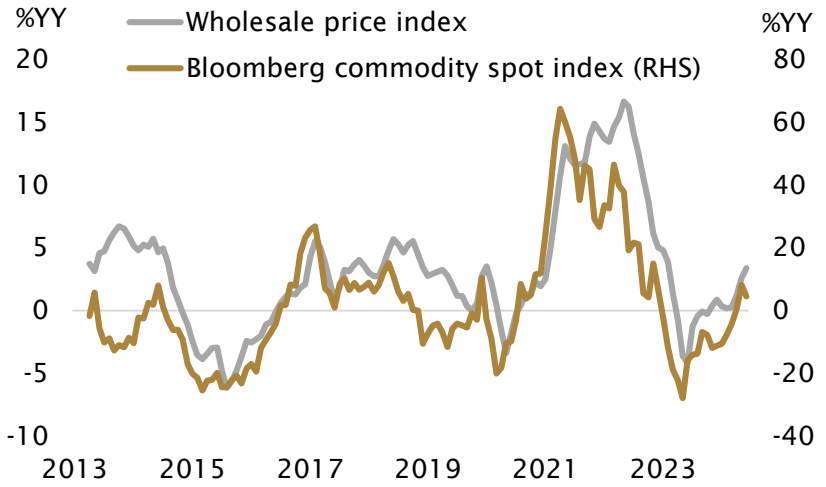
	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Pan, tobacco, intoxicants (2.4)	0.17	0.16	0.16	0.15	0.15	0.15
Clothing, footwear (6.5)	0.47	0.43	0.41	0.39	0.38	0.38
Housing (10.1)	0.68	0.61	0.58	0.57	0.55	0.57
Household goods, services (3.8)	0.25	0.23	0.22	0.22	0.20	0.19
Health (5.9)	0.61	0.56	0.53	0.53	0.52	0.51
Transport,communication (8.6)	0.36	0.33	0.28	0.20	0.18	0.18
Recreation, amusement (1.7)	0.10	0.10	0.10	0.09	0.09	0.08
Education (4.5)	0.47	0.45	0.44	0.40	0.38	0.34
Personal care and effects (3.9)	0.48	0.43	0.50	0.61	0.63	0.67

Numbers in parenthesis denote weights in CPI index

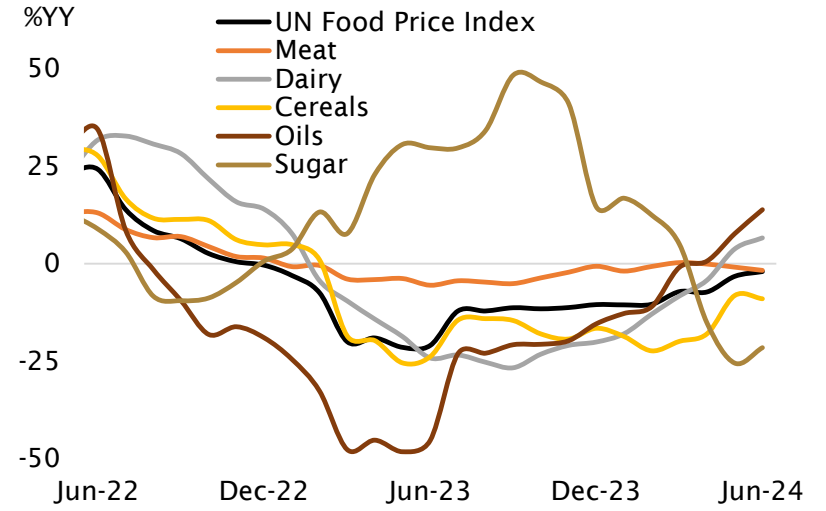
Gradual rise in global commodity prices lifting domestic WPI

- Global commodity prices have been increasing, with the Bloomberg commodity spot index posting gains for the third consecutive month in June. Though the surge earlier in the year in some of the components such as industrial metals has eased, domestic wholesale prices that tend to track trends in global commodity prices, are increasing. WPI inflation was at 3.4%YY in June, up from 2.6% in May. The wholesale index was in deflation from Apr-Oct 2023 but has been gaining year-on-year over the past eight months.
- The resultant pressure on input prices is being reflected in recent PMI data, both for manufacturing and services firms. While producers are able to pass on parts of higher costs to consumers, there are also instances of margins being under pressure that could impinge on economic activity or lead to higher output charges going forward. These could be sources of risks to the currently benign core inflation.
- Global crude oil prices have been range-bound, though the latest (as on 10 July) futures data show higher year-end prices compared to a month back. Nonetheless, domestic fuel inflation is expected to remain soft due to the impact of price cuts in LPG, petrol and diesel.
- Global food prices also remain in deflation, though there have been pressures in certain items such as vegetable oils and diary products. Within the domestic CPI inflation, the oils and fats index tracks the trends in global prices and the deflation in this category has dwindled to single digits in the past three months after remaining in double digits for a year.

Rising wholesale inflation, tracking global commodities



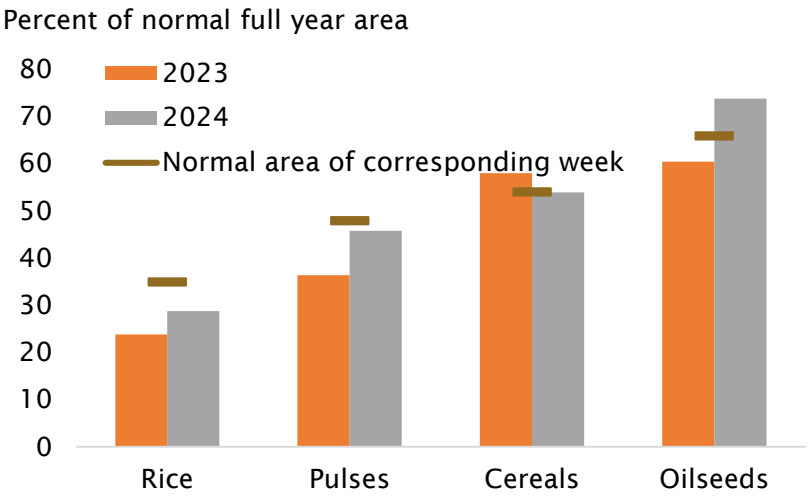
Global food prices remain in deflation but trending up



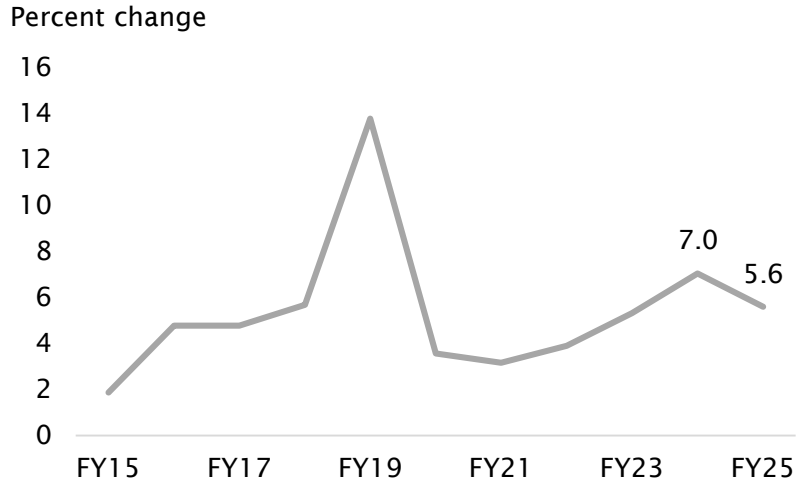
Outlook and policy implication

- Core inflation remains soft despite some signs of bottoming out at current rates. Fuel index has been in deflation for ten months in a row. In this backdrop, volatility and stickiness in certain pockets of the food basket continue to impinge on the disinflation process.
- The forecast of above normal monsoon bodes well for farm output prospects, but there are risks to watch out for. Despite the early onset of monsoon, rains were deficient in June, so that water storage in reservoirs across regions is yet to revive above normal levels. However, rainfall has caught up this month and area under sowing is above previous year's levels, though it is lower than the average for FY20-24, particularly in case of rice and pulses.
- The increase in minimum support price for Kharif crops this year was modest and lower than in the previous year, so that the spillover to consumer inflation will remain muted.
- However, upside risks to food inflation remain from the volatility in prices of vegetables and other perishables. While the heat waves have abated, extreme weather events could play a spoilsport.
- The latest inflation print is unlikely to have an impact on RBI MPC's policy parameters, particularly when inflation for the quarter is in line with its forecast. With expectations of sub-4% print in Q2 that the central bank is slated to overlook, policy pivot is likely in H2-FY25 when the MPC has greater clarity on actual monsoon outturn and potential US Fed policy changes.

Crop sowing progress as on 12 July



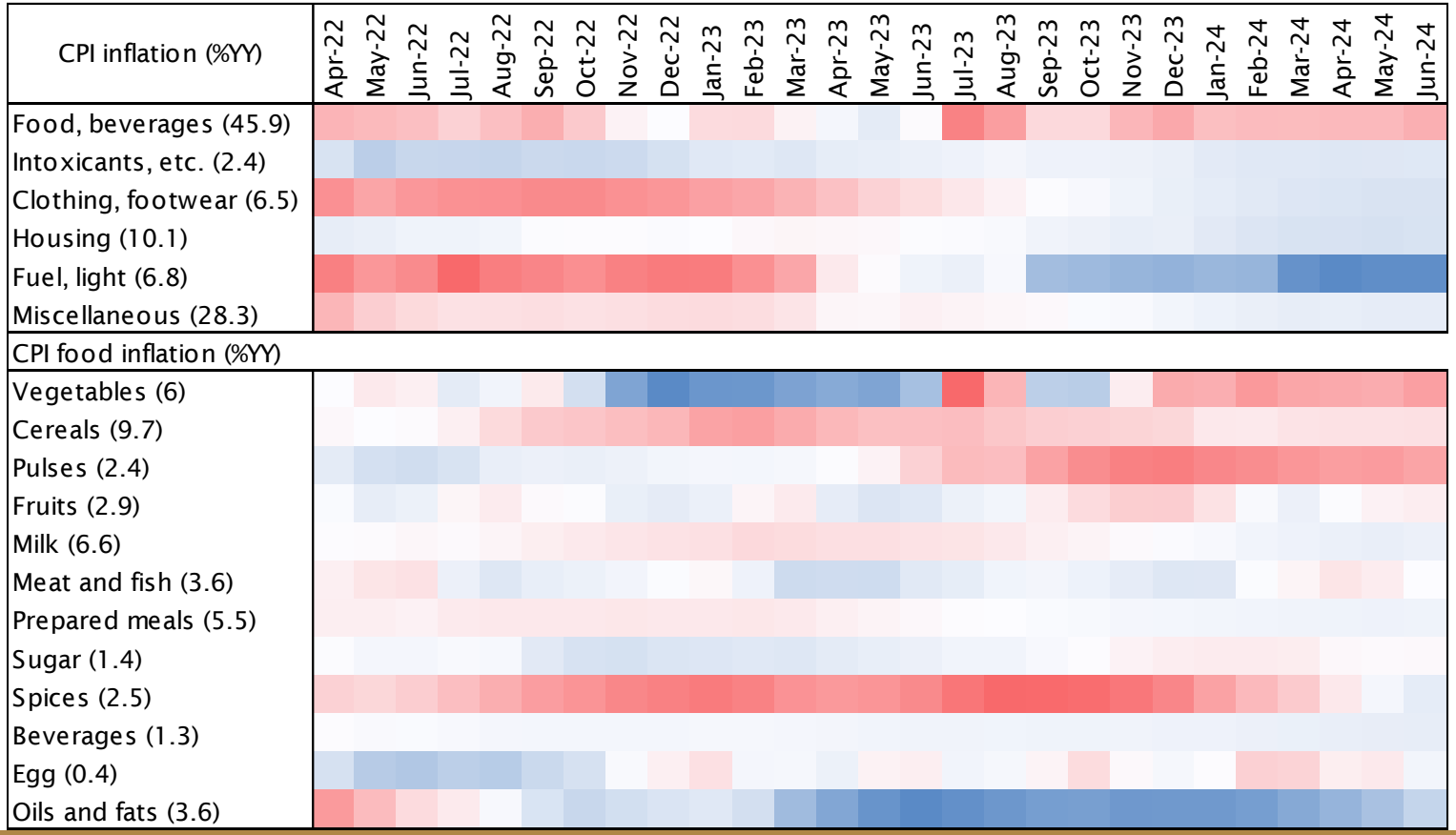
CPI-weighted change in MSP for kharif crops



Appendix: Shift in drivers of inflation since recent peak in 2022

- In the post-COVID period, both headline and core inflation peaked in April 2022 at 7.8% and 7.0%, respectively. Both have softened since then, with core inflation below 4% for the seventh straight month. Inflation in clothing and miscellaneous groups has eased, and fuel index has slipped into deflation. Headline inflation remains above the RBI's 4% target largely due to high food inflation.
- Within food, inflation in cereals and pulses remains sticky, though it has moderated in case of spices in recent months. The deflation in oil and fats sub-index is easing, reflecting the trend in global prices. There have also been bouts of higher inflation in fruits and protein-based items such as eggs, meat and milk.

CPI inflation heat map since April 2022 when both headline and core inflation had peaked



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