

# Inflation Watch: Food prices, monthly momentum drove headline CPI to 14-month high in October

26 November, 2024

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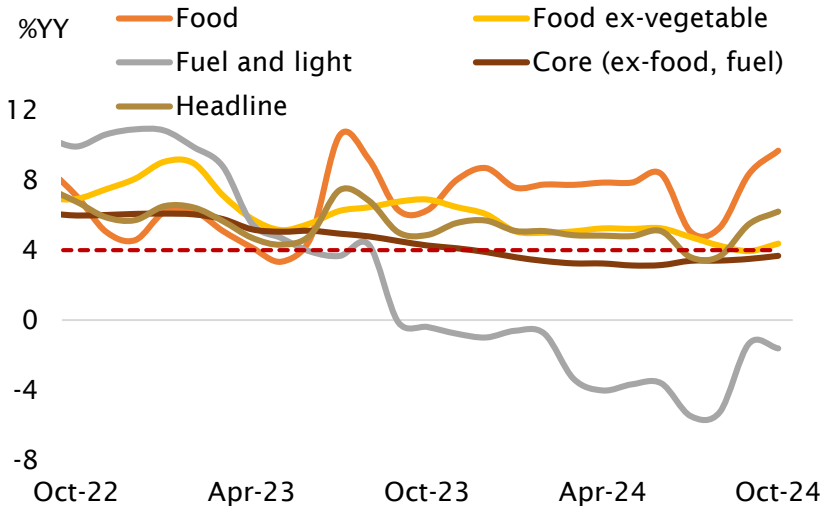
# Key takeaways

- After remaining below RBI's upper tolerance band of 6% for more than a year, headline CPI inflation reached a 14-month high of 6.21% in October from 5.49% in September. The print was above market expectations (Reuters poll: 5.81%), and buoyed by monthly momentum that was higher than historical trends and offset favorable base effects. Food, particularly vegetables, continued to add strongly to inflation. CPI ex-vegetables stayed sub-4% for the tenth straight month. Fuel index remained in deflation, while core inflation rose mildly but remained benign.

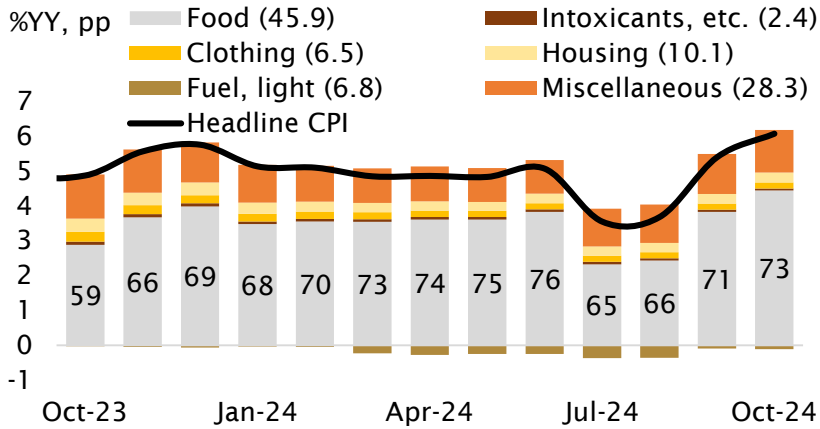
- Historical trends suggest muted momentum in headline CPI for the winter months starting November. Base effect is also slated to be favorable in November before turning slightly adverse in December. High frequency data for November has also turned sanguine for major vegetables and the first advance estimate of Kharif crops for FY24-25 is a record high. These factors could impart a downside bias to the next CPI print. But upside risks remain from higher global food prices, and second order effects from elevated food prices that are starting to emerge.

- The government has continued to actively intervene on the supply side that is helping to keep a lid on domestic food inflation, and these measures will remain crucial. With October headline CPI above 6%, inflation could exceed the RBI MPC's estimate of 4.8% for Q3, suggesting that despite the change in stance to 'neutral' at the latest meet, the MPC might prefer to wait until 2025 before it starts calibrating the policy rate.

Headline inflation at 14-month high in October




Food prices continued to add over 70% to headline CPI




Note: Numbers in parenthesis show weights and in bars indicate contribution of food to headline CPI

# Food prices, monthly momentum drove headline CPI to 14-month high

- Headline CPI inflation breached the RBI's upper tolerance band of 6% and hit a 14-month high of 6.21% in October from 5.49% in September. The print was above most market expectations (Reuters poll: 5.81%) and driven by month-on-month momentum that offset favorable base effects. The month-on-month change in headline number at 1.34% was higher than the historical median increase of 0.68% (FY12-24) for October.

- All major categories posted month-on-month increase in prices, except for the fuel and light sub-index that remained flat. The year-on-year change was higher than in September in case of food and beverages, housing, and miscellaneous groups. Food and beverages, with a weight of 46% in the CPI basket, remained a sore point, contributing 73% to headline inflation. Within food, vegetable prices soared over 40%YY, the highest in almost five years. CPI ex-vegetables inflation remained below 4% for the tenth successive month.

- Core inflation (ex-food and fuel) rose to 3.7% from 3.5% in September, continuing to reflect that underlying inflation bottomed out post the telecom tariff hike in July. Monthly momentum in the core index was largely in line with historical trends. Various measures of core inflation rose further but remained benign. Inflation was sub-4% across groups, except for personal care and effects within the miscellaneous category that remains influenced by global prices of gold and the customs duty cut announced in the latest Union Budget.

- The fuel index has been in deflation since September 2023. In the latest print, the index was unchanged from the previous month but favorable base effects ensured that the index remained in contraction year-on-year.

Headline CPI inflation breached 6% in October

| %YY | Weight | Aug-24 | Sep-24 | Oct-24 |
|---|---|---|---|---|
| Headline CPI | 100.0 | 3.65 | 5.49 | 6.21 |
| Food | 45.9 | 5.30 | 8.36 | 9.69 |
| Intoxicants, etc. | 2.4 | 2.71 | 2.51 | 2.50 |
| Clothing | 6.5 | 2.72 | 2.71 | 2.70 |
| Housing | 10.1 | 2.66 | 2.72 | 2.81 |
| Fuel and light | 6.8 | -5.25 | -1.34 | -1.61 |
| Miscellaneous | 28.3 | 3.89 | 4.05 | 4.32 |

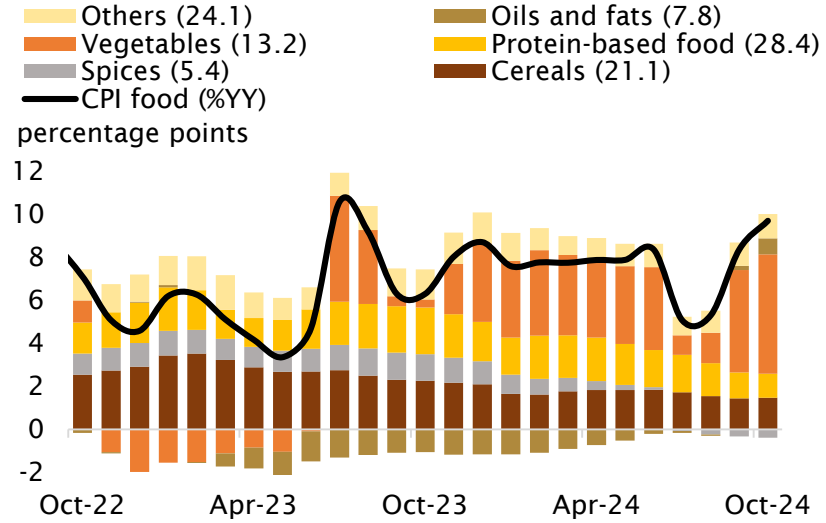
Higher monthly momentum across most major groups

| %MM, NSA | Weight | Aug-24 | Sep-24 | Oct-24 |
|---|---|---|---|---|
| Headline CPI | 100.0 | 0.00 | 0.62 | 1.34 |
| Food | 45.9 | -0.30 | 1.04 | 2.25 |
| Intoxicants, etc. | 2.4 | 0.14 | 0.05 | 0.19 |
| Clothing | 6.5 | 0.26 | 0.21 | 0.36 |
| Housing | 10.1 | 0.61 | -0.06 | 0.94 |
| Fuel and light | 6.8 | 0.40 | 0.11 | 0.00 |
| Miscellaneous | 28.3 | 0.33 | 0.38 | 0.43 |

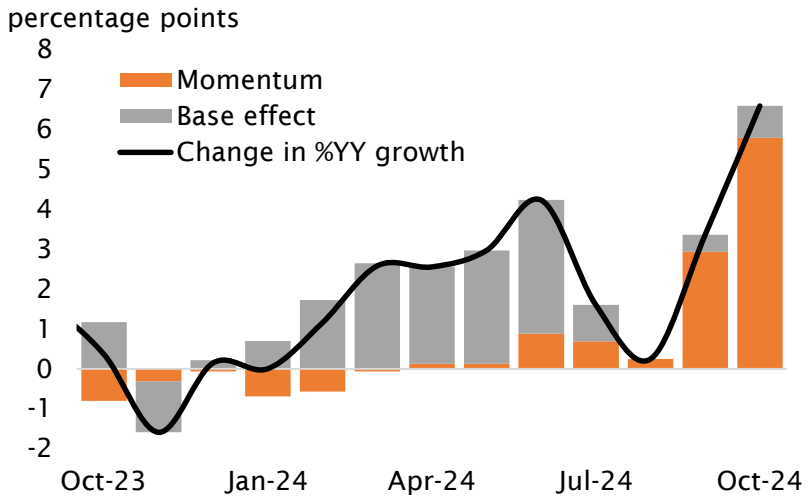
# Vegetables continued to spike food prices; edible oil prices further up

- Higher food inflation in October at 9.7% compared to 8.4% in September was driven by strong month-on-month momentum that offset favorable base effect. Among 12 major food sub-groups, the monthly change exceeded historical median for the month (FY12-24) in seven categories, and was the strongest in vegetables, followed by oils and fats, eggs and cereals.
- Vegetables continued to contribute the most to food inflation at 58%, with key items, adding 65% to inflation in vegetables. Inflation in potato and onion remained elevated amid supply disruptions due to heavy rains in major producing states, but the main culprit was tomato, with inflation spiking over 160%, a phenomenon last seen in July – August 2023. Inflation in fruits has also been volatile and above 6% since August.
- Apart from fruits and vegetables, the year-on-year change in prices remained above 6% in case of cereals and pulses. Despite moderation in recent months, disinflation in cereals remains uneven and slow, while inflation in pulses has reverted to sub-10% since September after remaining in double digits for 15 straight months. Spices, which was plagued with double-digit inflation for almost two years ending FY24, has been in deflation for four months now, with the extent deepening each month.
- The oils and fats index, which had been in deflation for 19 months, posted inflation for the second straight month in October, surging to rates last seen at the onset of the Russia-Ukraine war at around 9.5%. This could be attributable to higher global prices and the hike in import duty of edible oils effective mid-September.

Vegetables added the most to food inflation in October



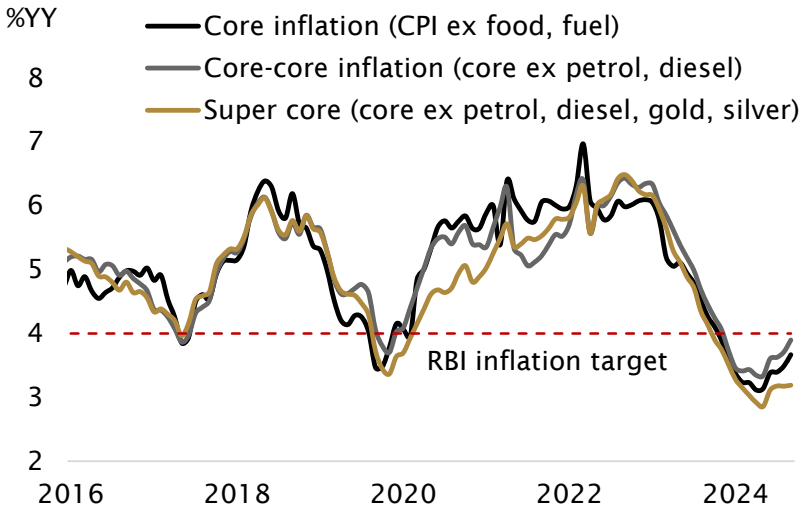

Edible oil prices reflect effect of import duty hike

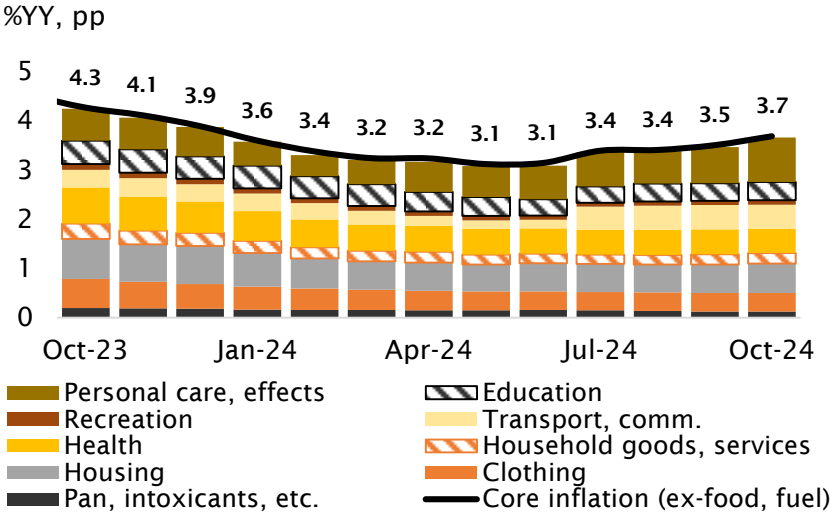


# Various core inflation metrics posted gains but remained benign

- Core inflation (ex-food and fuel) rose to 3.7% in October from 3.5% in September due to higher inflation in housing, household goods and services, recreation, education, and personal care and effects. However, inflation remained sub-4% in these categories, except for personal care and effects that posted double-digit inflation for the first time since mid-2023. Inflation in this category has been above 6% since April 2024, tracking the surge in global prices of precious metals due to safe haven demand and the increase in domestic demand post the customs duty cut announced in the latest Union Budget. Other measures of core inflation are also rising but remain benign and below the RBI's 4% target.
- The marginal increase in core services inflation to 3.5% from 3.4% in September was due to higher contribution from housing, followed by transport, education and health. The transport and communication group has been adding more to inflation since July, post the telecom tariff hike. The contribution from household goods and services, though tepid, has been signaling an important trend, as was also noted by authors of the 'state of the economy' article in the latest monthly RBI bulletin. Despite modest year-on-year increase in the sub-index for domestic servant/cook services, the monthly increase in August was the steepest in three years, possibly suggesting higher cost of living pressures due to elevated food prices beginning to transmit to certain wages.
- The fractionally softer core goods inflation at 2.8% compared to 2.9% in September was due to moderation in the health sub-index within the miscellaneous group.

Various measures of core inflation rising but remain benign; second order effects from higher food inflation starting to emerge

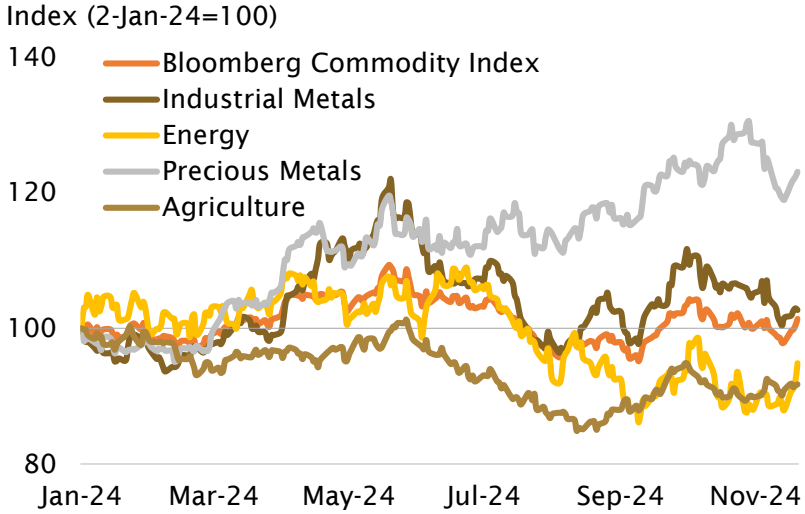


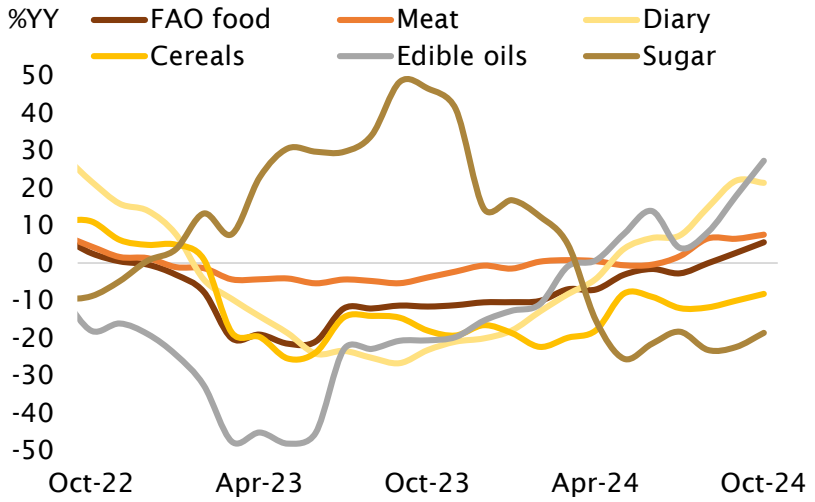



# Domestic fuel index stayed in deflation; global commodities mixed

- The domestic fuel and light index has been in deflation since September 2023. In the latest print, the index was unchanged month-on-month, compared to the historical (FY12-24) median increase of 0.6% in the month of October. Favorable base effects ensured continued year-on-year contraction at (-)1.6%, steeper than (-)1.3% fall in September, albeit shallow than the average decline of 4% in the preceding six months. Electricity, firewood and chips sub-indices posted higher inflation, while LPG and diesel sub-groups remained in deflation.
- Global commodity prices have been mixed. In early November, the outcome of US Presidential elections and USD rally drove correction in prices of precious metals that are trending up again, as markets reprice US Fed rate actions based on incoming inflation data. Geopolitical tensions have mostly contributed to the surge in precious metal prices in 2024 on safe haven demand. Energy prices have been range-bound since September, and off the USD90/b mark reached in April. Latest futures data indicate prices to remain sub-USD75/b in the next couple of months. The Bloomberg commodity index remains close to levels seen at the beginning of 2024. However, global food inflation is on the rise. After remaining in deflation since December 2022, the UN FAO index posted inflation for the second month in October, led by gains in edible oils, diary and meat.
- In its latest monthly report, the US EIA noted that India would account for 25% of global oil consumption growth in 2024 and 2025. The agency maintained its forecast of Brent spot in 2024 at USD81/b but lowered it for 2025 by USD2/b to USD76/b.

Global commodity prices around same levels as at the start of 2024; food prices on the rise, led by edible oils



# Outlook

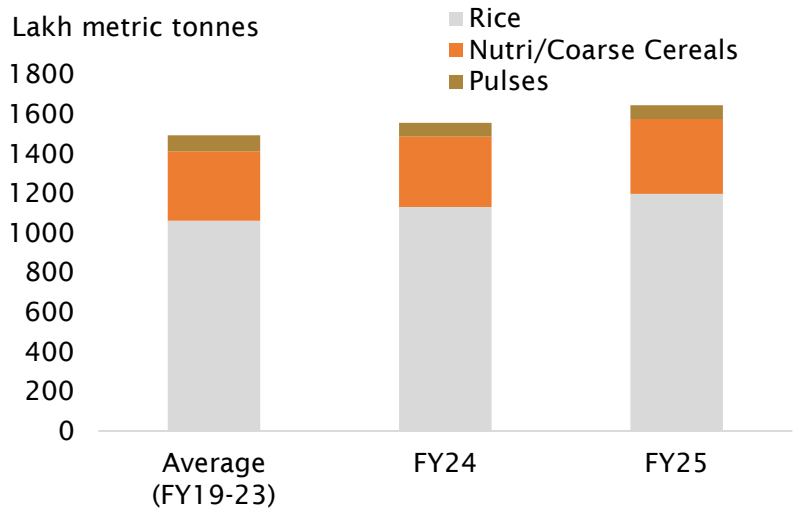
- **The historical lens:** In November, base effects are slated to be favorable, shaving off around 0.50 percentage point from headline CPI and 0.25pp from core inflation. Also, monthly momentum tends to be weak in the winter months, starting November, particularly in the headline print, which could enable softening to sub-6%, even as core inflation rises gradually. Historical trends (FY12-24) based on average and median month-on-month change indicate headline inflation in November at around 5.9-6.0% and core inflation around 3.7-3.8%. However, high frequency data on certain food items indicates downward bias to the headline estimate.
- **High frequency data:** Daily data from the Department of Consumer Affairs (as on November 25) shows significant easing in prices of major vegetables, in terms of both year-on-year and month-on-month trends. Also, data on cereals, pulses and sugar indicate softer inflation vis-à-vis October. However, edible oils have moved out of deflation, and price pressures are continuing to build post the import duty hike that was effective mid-September. It needs to be seen how all these trends aggregate over the entire month but softening in prices of key vegetables could ease food inflation in November, compared to October.
- **Monsoon and reservoir levels:** Data on post-monsoon season rainfall from Oct 1 – Nov 20 shows that the country as a whole received cumulative rainfall that was 11% below the long period average (LPA) but remained within the normal range. The spatial distribution was skewed, with all regions, except for east and north east, receiving deficient rains that were, however, within the normal range for the season. The east and north east recorded rains 4% above the LPA. Data till November 21 suggests that reservoir levels were above normal, except for the northern region that continued to record deficiency vis-à-vis normal and previous year's levels.
- **Sowing:** As of November 8, Rabi sowing was lower compared to last year's levels, particularly in case of wheat and pulses. However, in terms of percent of normal Rabi area sown, progress is steady at 23% versus 25% in the same period of FY24. Among key horticulture crops, as of November 6, Kharif onion and tomato sowing exceeded last year's levels, was almost at par in case of potato but deficient in case of late Kharif onion.
- **Procurement and stock:** In Kharif Marketing Season (KMS) 2024-25, 126.07 LMT of paddy in terms of rice had been procured (as on Nov 10) against previous season's respective amount of 147.24 LMT. The procurement of wheat in Rabi Marketing Season (RMS) 2024-25 was 266.05 LMT, up from 261.97 LMT in RMS 2023-24. As of October-end, stocks of wheat and rice in the central pool amounted to 519.56 LMT, higher than the buffer norm of 307.70 LMT, and the stock of 419.14 LMT in the same period of 2023.
- **First estimate of Kharif output:** The first advance estimate of Kharif crops for FY25 shows 5.7% year-on-year increase in output of food grains to a record level of 1647.05 LMT. Rice and maize production marked a new record, while output was lower year-on-year in case of bajra, ragi, small millets and urad dal.

# Policy implication

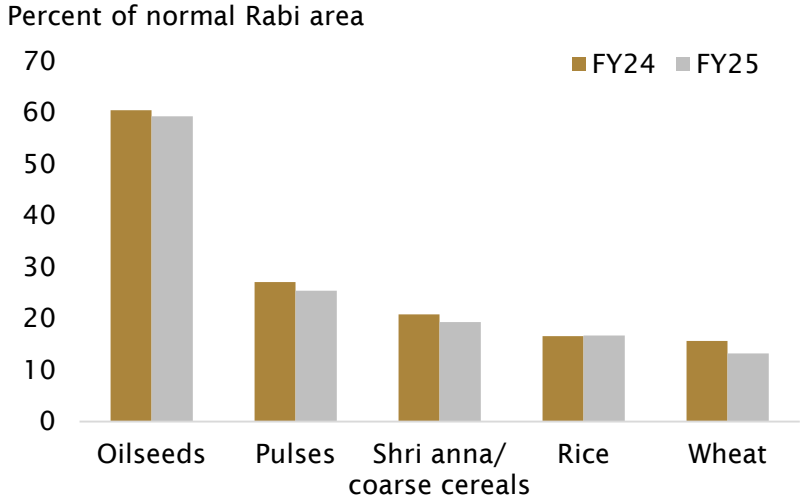
- **Government intervention:** The government continues to actively intervene on the supply side via different measures to ensure availability of food grains and horticulture items at reasonable prices. Some of the recent steps include transport of onions by rail rake; and distribution of pulses, rice and wheat flour at subsidized prices under the 'Bharat' brand. Amid the uncertainties related to climate related events and the recent rise in global food prices, government intervention will remain instrumental in keeping a lid on domestic inflation.

- **Latest views from the RBI:** In its latest policy meeting, the RBI MPC had penciled in a bump in headline CPI to an average of 4.8% in Q3 from 4.2% in Q2. But higher-than-expected print of over 6% in October poses upside risk to the central bank's estimate, as inflation will need to average 4.2% in November and December to meet the forecast for Q3. Also, in the RBI's latest monthly bulletin for November, authors of the 'state of the economy' article noted early signals of second order effects or spill overs of high food prices to components of the CPI basket such as processed food and wages of domestic servant/cook. The article noted how inflation was already biting into urban consumption, and firms' earnings and capex, with the possibility of undermining prospects for industry and exports. These pointers suggest that despite the change in stance to 'neutral' at the latest meet, the RBI MPC might prefer to wait until 2025 before it starts calibrating the policy rate.

Initial estimates of Kharif food grains output in FY25

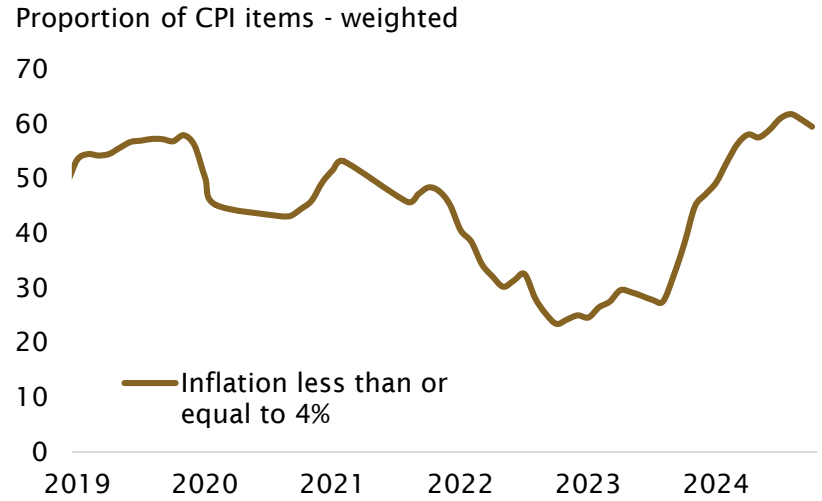



Rabi sowing largely on track (Data since Oct 1)

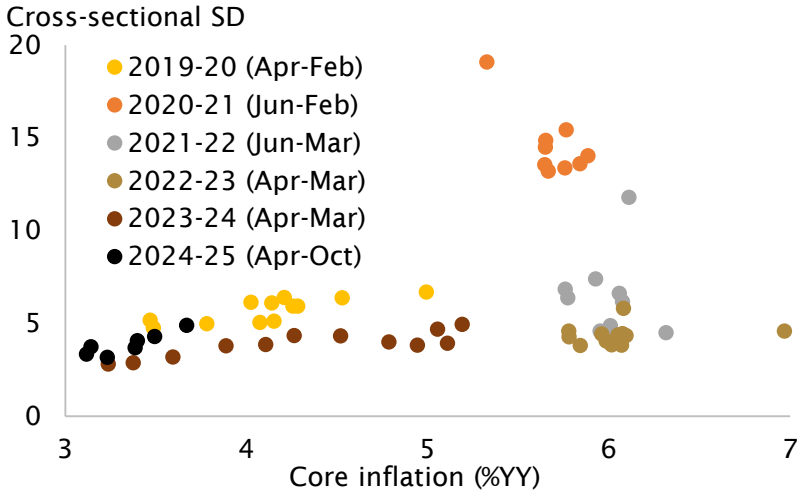


# Appendix

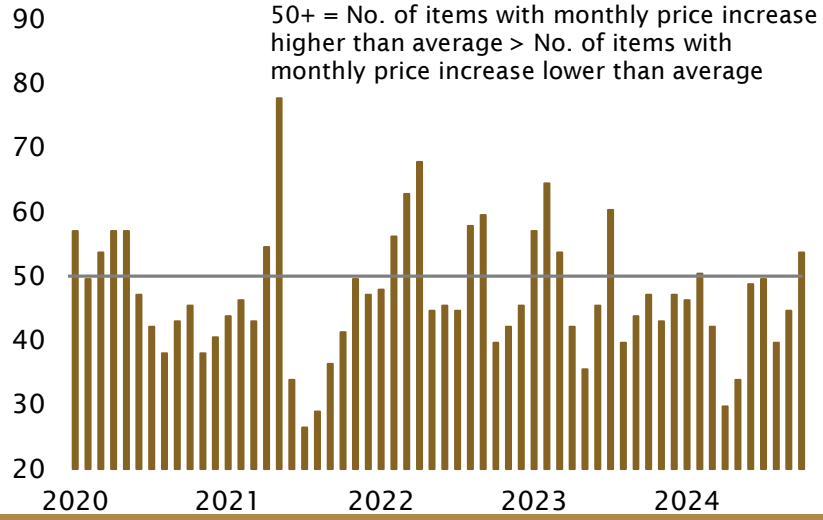
## Inflation sub-4% in items with around 60% weight in CPI




## Core inflation remains benign despite gradual rise




## Slight worsening of food diffusion index in October




## Price pressures have eased in major vegetables in Nov

| %YY | Tomato | Onion | Potato | Vegetables |
|---|---|---|---|---|
| Wt. in CPI | 0.57 | 0.64 | 0.98 | 6.0 |
| Aug-24 | -47.9 | 54.1 | 64.1 | 10.7 |
| Sep-24 | 42.9 | 66.1 | 65.2 | 36.0 |
| Oct-24 | 161.3 | 51.8 | 64.9 | 42.2 |
| Nov-24* | 15.9 | -3.6 | 49.8 | |
| %MM | | | | |
| Aug-24 | -28.8 | 7.9 | 1.3 | -2.5 |
| Sep-24 | -3.6 | 18.5 | -1.3 | 3.5 |
| Oct-24 | 48.8 | 5.8 | 0.2 | 8.2 |
| Nov-24* | -20.0 | 3.1 | 1.0 | |

Note: *All India retail price till Nov 25.
Source: Department of Consumer Affairs

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1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

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