

Overweight food basket driving India's CPI trajectory

Higher weightage on discretionary spends need of the hour

India's headline (CPI) inflation dropped to an eighteen-month low of 2.05% in January 2019, raising concerns about risks to consumer demand and growth trajectory. An in-depth analysis by Acuite Ratings indicate that the food basket is relatively overweight in the current economic context given increasing consumer spending on discretionary items, healthcare and education. Since higher weightage on food items in the consumer price index (CPI) continues to drive the current low inflation regime, a redistribution of the weightages may need to be considered for a better reflection of the consumption basket and the inflation trajectory.

Consumer inflation has slipped to an eighteen-month low of 2.05% with a nearly 165 bps fall in the last four months. While the core inflation stood at 5.45% during the said period, food inflation as a standalone metric stood at -2.17%. Acuite Ratings expects the overall CPI inflation to be pegged at 3.4% level for FY19 in the context of a weak short-term outlook for food and fuel prices.

The CPI inflation is essentially a combination of food-fuel and core inflation figures. While the former tracks the various items in the food and fuel basket, the latter contains all other products and services, which are essential in a household's basket (representing both discretionary and non-discretionary spending).

Food items account for 39% in India's overall consumer inflation basket. If we compare India's CPI weightages to that of its BRICS peers, the disparities are visible. As against 39% weightage of food basket in India, the category's share is only 25.5% and 19.1% in Brazil and South Africa, respectively. While it is understood that both these contemporaries are termed upper middle-income countries as compared to India's classification of lower middle income, India's economy is also getting increasingly aligned to that level. This is because India has been averaging a GDP growth of 7.5% (over a period of ten years) as compared to the other two, averaging less than 3%.

While analyzing other segments of the CPI basket, it is seen that the average spend on healthcare, education and lifestyle items is increasing steadily. This is primarily driven by the rising per capita income, increasing urbanization, better standards of living and reallocation of the household expenditure. As households begin to spend more on discretionary items, the prominence of food declines over time – a sign of a mature economy driven by diverse consumption categories. Further, higher inflation in protein-based items such as Meat and Fish (+5.1%) is clearly a sign of things to come; although

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the healthy supply side in some protein categories such as milk and pulses categories has diluted the firm price trend of late. The discretionary items are showing a steady price growth trend signifying inflationary tendencies in the core category.

While India's per-capita Income is growing at 5.8%, the price trend of food articles is currently in negative zone and this is a matter of comfort for the policy makers. It is evident that through improving logistical support and storage infrastructure, India has started to control its food inflation in a significant way. The low pricing volatility in seasonal fruits and vegetables as well as in high growth protein-based items in the recent past has been a driving factor for the low food inflation.

The items such as housing, amusement/ recreational expenses, consumer durables, FMCG and transportation have gained in prominence over time as part of average household expenditure but continue to represent a lower weightage in the overall price index. We believe this deserves a serious examination since the weightages in the Indian consumer price index must represent the evolving ground realities of the Indian economy.

Category wise Weight Distribution:

	India	Brazil	South Africa
Food	39.06	25.52	19.15
Household items	3.8	4.25	4.33
Housing	10.07	15.5	22.55
Transportation	8.59	18.49	14.74
Clothing	5.58	5.99	4.04
Health & personal care	9.79	11.1	1.26
Personal expenses	1.68	10.62	4.86
Education	4.46	4.71	2.34
Communication	#	3.82	2.62
Others	10.13	*	24.11
Overall Index	100	100	100

Source: MOSPI, BCB, Statistics South Africa, Acuite Research

Note: # indicates weight for communication is included in transportation, * indicates weight for that segment included in other categories.

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India's Annual Inflation:

	General	Food	Fuel, Light	Core Category
FY13	10.05	11.07	9.67	9.41
FY14	9.38	12.09	7.67	7.57
FY15	5.83	6.36	4.21	5.69
FY16	4.91	4.88	5.27	4.84
FY17	4.52	4.23	3.29	4.91
FY18	3.59	1.8	6.2	4.64
FY19 YTD	3.56	0.22	6.55	5.67

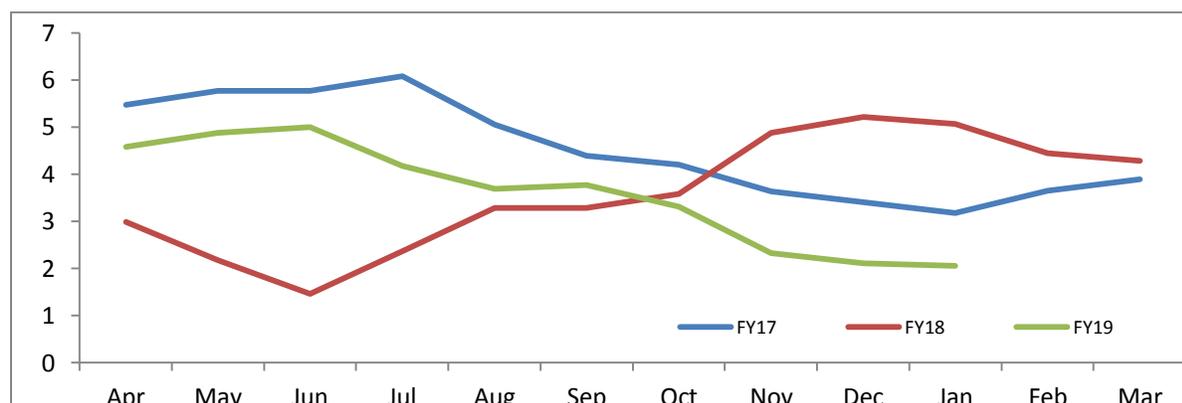
Source: MOSPI/CSO, Acuite Research

Food Inflation Trends:

Month	Weight	Jan-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Overall food	39.06	4.7	0.51	-0.86	-2.61	-2.65	-2.17
Cereals	9.67	2.41	2.9	2.59	1.25	1.25	0.88
Meat and fish	3.61	4.34	2.39	3.16	4.78	5.02	5.06
Egg	0.43	8.7	3.76	2.29	-4.06	-4.41	-2.44
Milk	6.61	4.21	2.36	0.85	0.71	0.78	0.78
Oils and fats	3.56	1.34	3.13	2.1	1.59	1.24	0.99
Fruits	2.89	6.24	1.68	0.49	0.42	-1.48	-4.18
Vegetables	6.04	26.97	-4.21	-8.12	-15.59	-16.39	-13.32
Pulses	2.38	-20.19	-8.65	-10.36	-9.22	-7.2	-5.5
Sugar	1.36	2.77	-6.42	-7.64	-9.02	-9.22	-8.16

Source: MOSPI/CSO, Acuite Research

Monthly trend in Consumer Inflation:



Source: MOSPI/CSO; Acuite Research

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