

Press Release

Favourable base drives down headline CPI inflation

Food inflation fairly benign on a sequential basis

12 October 2021

India's retail inflation eased to a 5-month low of 4.35% YoY in Sep-21 from 5.30%YoY in Aug-21, primarily supported by a favourable statistical base and benign food prices. Incorporating today's print, average CPI inflation for Q2 FY22 stands at 5.08%, remaining below RBI's tolerance threshold of 6.0% for the third consecutive quarter.

Given that the headline CPI inflation and the food inflation stood at 7.3% and 9.8% respectively in Sep-20, there was clearly the advantage of a favourable base factor for the Sep-21 print. In addition, continued easing of food inflation amidst favorable monsoon outturn along with supply side interventions taken by the government through customs duty cuts in the case of pulses and edible oils have played an important role in mitigating overall food price pressures. Sequentially, within Food & Beverages, comfort was derived from a decline in prices of vegetables (-1.64%), fruits (-2.61%) and eggs (-2.54%). However, price of sugar has surged on sequential (3.46% MoM) and annualized basis (3.01% YoY, one-year high) amidst rise in sugar prices globally (see chart 2) along with pickup in domestic demand ahead of festive season.

Looking ahead, the recent surge in global food price index to a 10-year high of 130.0 in Sep-21 primarily driven by rise in cereals and edible oil prices has raised concerns over the likelihood of imported inflation in food categories (chart 2). However, from the domestic inflation standpoint, unlike crude oil prices which has a greater influence on India's inflation (as per RBI study, a USD 10 pb rise in crude oil price leads to ~50 bps increase in inflation), the increase in overall global food prices does not have a significant impact on the domestic food basket as India is largely self-sufficient in food production. Having said that, the retail prices of edible oils in India are highly sensitive to global edible oil prices as India imports nearly 70% of its domestic oil demand. The continued rise in global edible oil prices could impart some upside risks to India's food inflation trajectory and the same has already started reflecting in the Sep-21 print with prices of edible oil increasing by 2.3% MoM after a brief respite in the previous two months. Nevertheless, a strong backloaded monsoon performance that is set to aid rabi sowing activity, prospects of healthy kharif arrivals, adequate buffer stock of food grains and winter seasonality would help in keeping a lid on food inflation pressures.

While high base of the previous year is likely to keep annualized inflation numbers for Oct-Nov in check, the significant rise in global commodity prices particularly crude oil could keep the gains capped. Additionally, pass through of higher input price pressures along with improvement in consumer sentiment supported by steady vaccination progress could fan some demand side price pressures thereby keeping core inflation sticky at elevated levels. While the headline inflation has seen a significant moderation, core inflation stood relatively high at 5.85% YoY in Sep-21. While we continue to maintain our FY22 CPI inflation at 5.5%, we believe there are material upside risks to that figure if high commodity prices and raw material shortages persist along with a recovery in consumption demand.

Chart 1: CPI inflation in Sep-21 eases to a 5-month low at 4.35% YoY

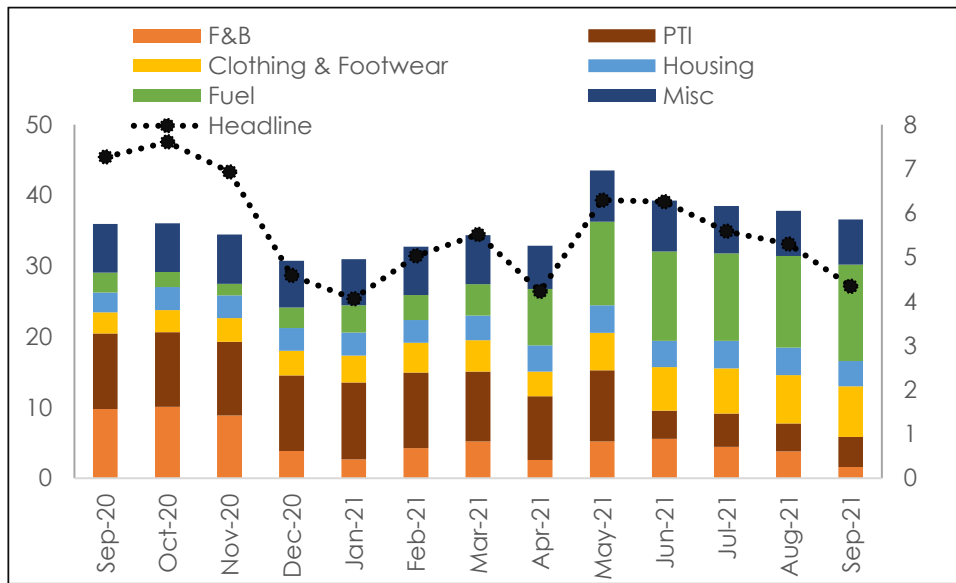
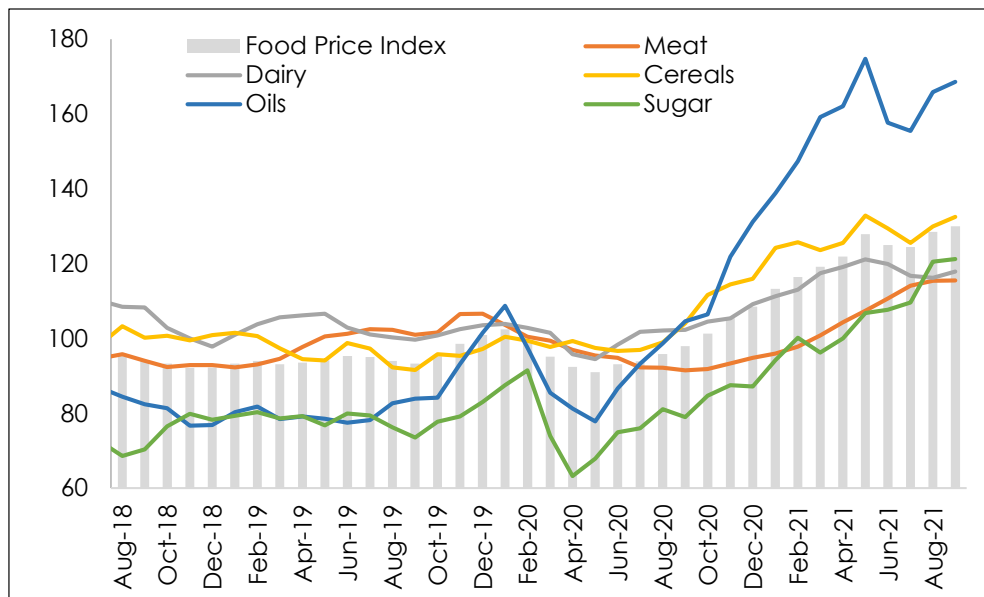


Chart 2: Global Food Price Index rose to the highest level in a decade



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