Inflation Watch: Food inflation weighs on headline CPI in November amid easing core inflation

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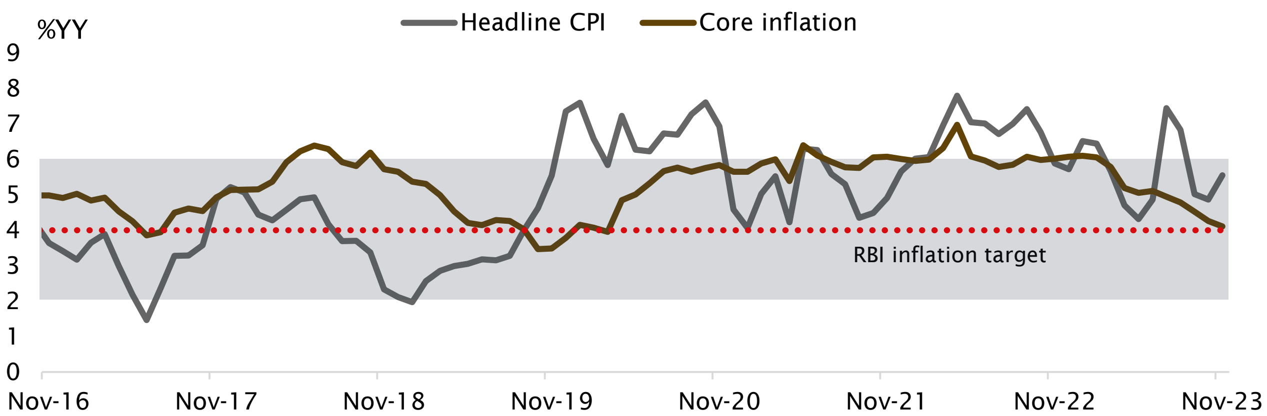
Key takeaways

- After moderating for three consecutive months, headline inflation rose to 5.6%YY in November from 4.9% in October. The increase was driven by food inflation, even as other major categories registered a moderation, with the fuel index remaining in deflation for the third straight month. The latest print was lower than most market forecasts (Bloomberg: 5.8%; Refinitiv: 5.7%), and remained within the RBI's tolerance band of 2%-6%.
  - Within food, inflation remained elevated in case of cereals, pulses and spices.
  - There was also an uptick in prices of vegetables, fruits and sugar compared to the previous year, though on a month-on-month basis, there were some favorable surprises.
- Various measures of core inflation continued to moderate, including core goods and services.
- The underlying price momentum in the consumer basket, measured by 3-month/3-month annualized percent change, eased across most major categories, including various core measures.
- The effect of volatile food prices on headline inflation is expected to fade away. However, uncertainties remain around domestic production due to El Nino conditions this year. Though active government intervention has helped to cushion the impact from supply shocks, policy measures will remain crucial to limit the upside to food inflation and prevent these spikes from turning into generalized price pressures.
- There could be some tailwinds from softening global food (except for sugar) and crude oil prices.
- In its latest meeting, the RBI MPC had anticipated higher inflation in November and December, and will likely look through the seasonal shocks, unless these translate into generalized price pressures.



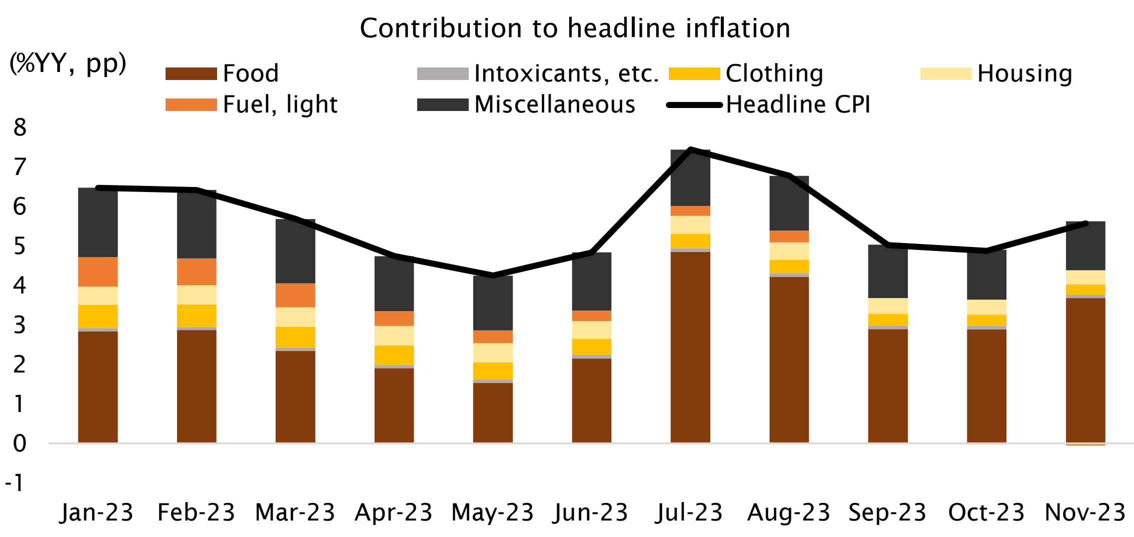
Source: MoSPI

Key takeaways

Various measures of core inflation continue to moderate

India headline CPI and core measures of inflation						
%YY	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Headline CPI	4.9	7.4	6.8	5.0	4.9	5.6
Core	5.1	4.9	4.8	4.5	4.3	4.1
Core-core (core, ex petrol, diesel)	5.4	5.2	5.0	4.7	4.4	4.3
Super core (core, ex petrol, diesel, gold, silver)	5.1	4.9	4.7	4.3	4.1	3.9
Core goods	6.0	5.7	5.4	5.0	4.7	4.4
Core services	4.3	4.2	4.1	3.8	3.6	3.5
Note: Color code is based on %3m3m, SAAR data						

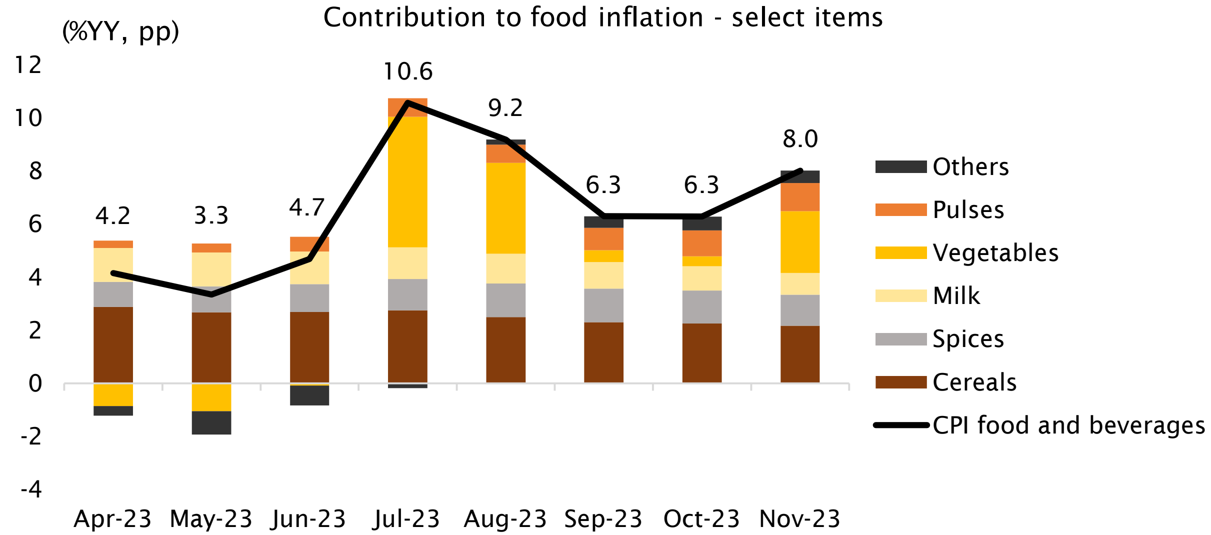
Except for food, inflation moderated across major categories in November

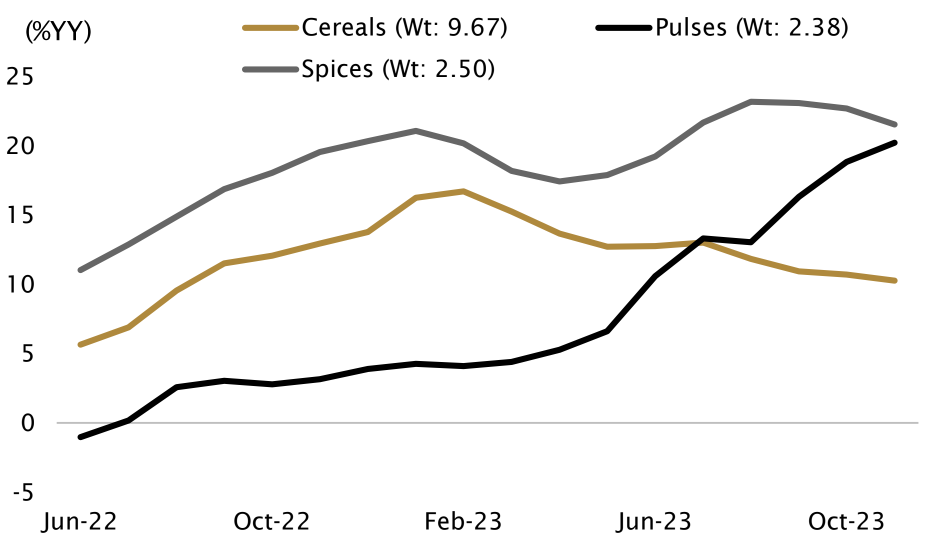


Source: MoSPI

Food inflation weighs on headline CPI

- The food price index surged 8.0%YY, up from 6.3% in October.
- **Inflation in spices, cereals, and pulses has remained in double-digits** for 18, 15, and 6 months, respectively.
- However, it is the **volatility in prices of vegetables that has been roiling the headline print since June.** The **impact has been pronounced in in case of tomatoes and onions.** Seasonality, marked by erratic distribution (both spatial and temporal) of south-west rainfall due to El Nino conditions this year, has wrought havoc on overall food production and supply.
- The vegetable index surged 17.7%YY in November from 2.8% in October. Inflation has also been rising in case of fruits, hitting double digit in the latest print. In fact, excluding vegetables, the CPI index moderated to 4.7% from 5.0% in October.
- **In November, sugar prices rose 7.1%YY, the sharpest increase in more than five years.** In its latest monthly bulletin, the RBI, citing estimates from the Indian Sugar Mills Association (ISMA), noted concerns over the





Source: MoSPI

Food price outlook remains uncertain amid a few green shoots

possibility of low domestic sugar output. This was also highlighted by the UN FAO in its monthly update on global food prices. The organization noted the surge in global sugar prices due to worsening production prospects from leading exporters, including India. To contain sugar prices and ensure local availability, the Indian government, in October, extended the ban on sugar exports and more recently, banned use of sugarcane juice and sugar syrup to produce ethanol.

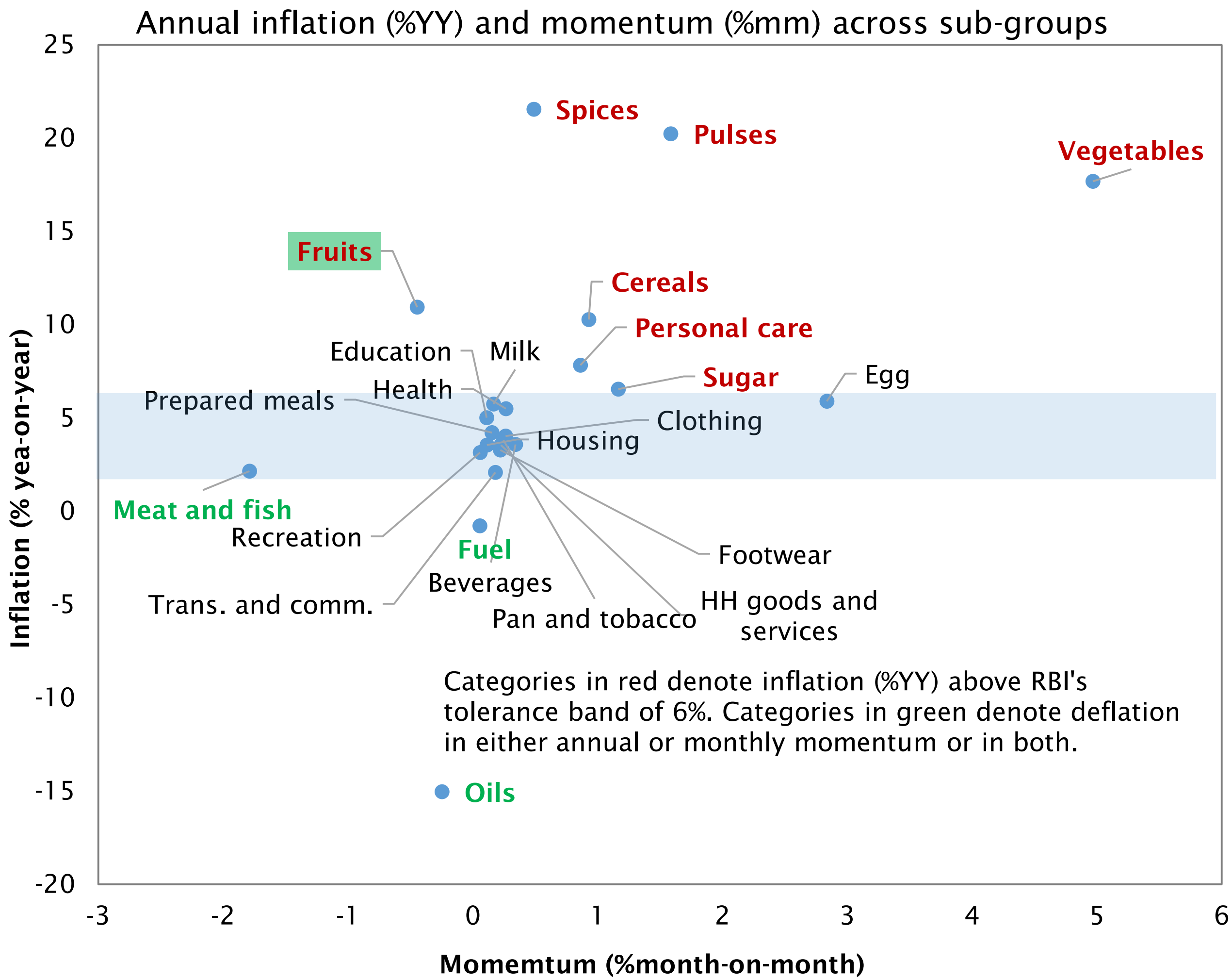
- The outlook for food inflation remains clouded by uncertainties around production due to the El Nino impact this year that skewed the distribution of rainfall. **Government intervention to address supply side concerns have helped and will remain crucial to keeping food inflation in check.**
  - As of December 8, the area sown under Rabi crops was 14.2% below that of the previous year. The deficiency in case of pulses was worrying at 10.9%. Also, the first advance estimate of Kharif production suggests lower output compared to the previous year. However, stocks of rice and wheat in the central pool have been improving over the previous year since October.
  - In addition to the five-year extension of the free food grain program (Pradhan Mantri Garib Kalyan Anna Yojana – PMGKAY), some of the recent measures include prohibiting exports of onions till March 2024, lowering wheat stock limits for traders and millers, selling wheat flour at subsidized prices, conducting open market sales of wheat and rice, etc.
  - High frequency data till December 12 suggests double-digit inflation could continue in case of pulses. Inflation also remains elevated in case of rice and key vegetables (tomato, onion), though some softening is likely in case of wheat.
  - **On the bright side, in seasonally adjusted terms, prices fell month-on-month in over half of the food basket (57%).**
  - **Also, global food prices (except for sugar) remain muted,** with the overall UN FAO index unchanged in November from the previous month, and lower from a year ago levels.

%YY	Wt. in CPI	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23*
Tomato	0.57	-34.1	202.1	179.2	-21.4	-43.9	11.4	27.8
Onion	0.64	1.7	11.8	23.3	35.9	42.4	86.5	95.9
Potato	0.98	-13.8	-13.3	-14.3	-15.6	-17.7	-15.6	-7.6
Vegetables	6.04	-0.7	37.4	26.1	3.4	2.8	17.7	
%MM		Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23*
Tomato	0.57	66.2	214.3	-22.0	-64.9	-18.6	40.9	12.4
Onion	0.64	8.2	18.9	12.4	10.0	15.7	47.8	-6.0
Potato	0.98	10.6	10.9	2.3	-1.9	0.4	-1.1	1.8
Vegetables	6.04	12.5	38.2	-5.9	-15.7	3.5	5.0	

Note: *All India retail price till December 12. Source: Department of Consumer Affairs

Food price outlook remains uncertain amid a few green shoots

Though the outliers in the consumer basket, where inflation exceeded the RBI’s upper tolerance band of 6%, were mainly food items, there was month-on-month decline in case of certain items such as fruits and meat.

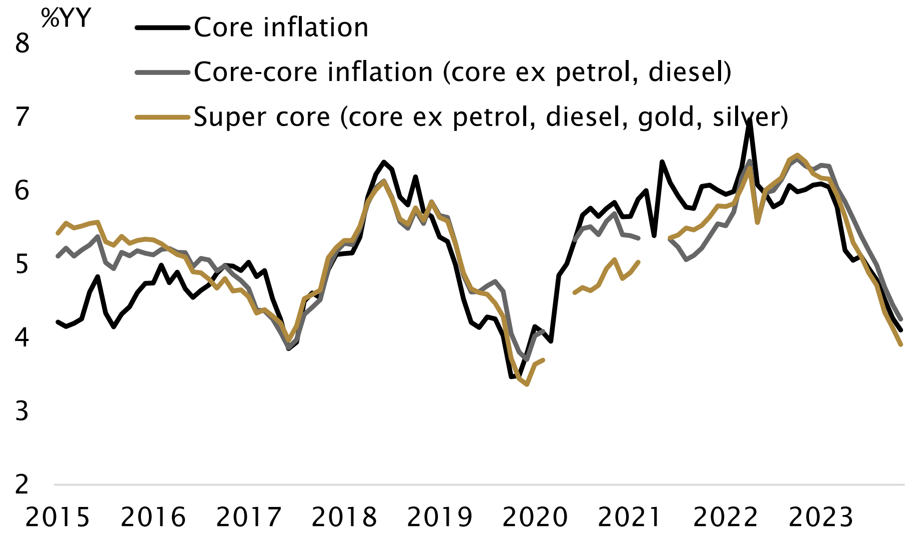


Source: MoSPI

Various measures of core inflation continue to moderate

- **Fuel:** The fuel index remained in deflation for the third straight month. The reduction in LPG prices in August and an increase in subsidy in October aided the year-on-year decline in prices. Inflation in electricity remained in double digits, though it has moderated from the peak in August, when demand reached a record high.

- **Core:** Core inflation (ex-food and fuel) continued to soften and printed at 4.1%, lower than 4.3% in the previous month. A similar trend was evident in core-core (ex-food, fuel, petrol, diesel) and super core inflation (ex-food, fuel, petrol, diesel, gold, silver).
  - Both goods and services core inflation also continued to soften, with core services inflation printing below 4% for the third straight month.
  - Sticky price inflation, constructed using items from the consumer basket exhibiting lower standard deviation over the long run, moderated to 4.9% from 5.2% in the previous month.
  - Other than food and fuel, inflation in other major categories moderated in November and printed below 4%, except for miscellaneous items (weight: 28.3) that largely consist of services. Within miscellaneous, inflation remained elevated in personal care and effects, weighed by prices of gold and silver. In fact, super core inflation that excludes these two items, slipped below 4% to 3.9%, the lowest print since the onset of the pandemic in 2020.
  - **The continued easing in core inflation suggests that so far, the momentum in economic activity has not created price pressures in the economy. The expected moderation in growth in H2-FY24 is likely to support the softness in core inflation.**



Source: MoSPI

Outlook and policy implication

- **Outlook:**
  - With core inflation continuing to ease, **inflation outlook continues to hinge on food prices**. Within food, while the volatility in prices of perishables such as vegetables is expected to be seasonal and likely to fade away, high inflation in case of cereals and pulses remains worrisome due to its sticky nature.
  - **Active government intervention will remain key to assuage supply side shocks and cushion the impact on headline inflation.**
  - Muted prospects for agriculture production due to El Nino conditions will likely keep the government on its toes to ensure domestic availability and contain prices, particularly ahead of the general elections.
  - On the positive side, global crude oil prices have continued to soften, with Brent futures recently slipping below $75/barrel after breaching $90/barrel in September.
    - In its latest monthly note, the US Energy Information Agency slashed its 2024 Brent price forecast by $11/barrel to $83/barrel due lower global demand growth, though accounting for the latest production cuts from OPEC+ that could provide a slight boost from current levels. The Indian basket is also currently near $75/barrel. Lower crude prices could help contain domestic inflation.
  - The **possibility of fuel price cuts ahead of the polls next year could further help tame price pressures.**

- **Policy implication:** In its latest monetary policy meeting in December, the RBI MPC had cautioned about food price spikes in the months of November and December. So, it is likely that the it might look through the latest print and any upside surprise next month as well. **The latest print is unlikely to change the policy path for the central bank.**

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