

# INFLATION

## Headline benign, but core picks up

India Equity Research | Economy

Headline CPI inflation for October came in at 3.3% YoY (Edelweiss estimate 3.6%), lower than ~3.8% in September. While food inflation fell more than expected, core inflation surprised on the upside. Key takeaways: a) core CPI (ex-commodities) rose 40bps to 5.9% with rise in several components, perhaps partly reflecting effect of a weak INR & rising raw material prices; and b) food inflation came in at zero on a base of 2% with sustained deflation in vegetables & pulses. Other food items such as milk, meat and even cereals also remained quite benign.

Overall, while food inflation continues to remain low, the effect of weak INR and rising raw material prices seems to be filtering into a few components of core inflation, although services components of core (especially medical care) too have picked up. To the extent that crude oil prices have fallen sharply in recent weeks and the INR has stabilised, the rise in core inflation should be temporary, although it still needs monitoring. That said, the headline CPI trajectory for rest of the year should remain below RBI's projections.

### CPI falls more than expected to 3.3% led by food

CPI inflation for October came in 30bps lower than expected at 3.3% YoY and 50bps lower than the previous reading. Importantly, the fall was essentially led by food inflation, even as core inflation actually jumped sharply. Notably, food inflation for October was zero on a low base of 2%. This weakness in food prices has been persistent and also broad based with outright deflation continuing in pulses & vegetables and extremely benign trend in other food items such as milk and meat. Even cereals inflation despite MSP hike continues to remain benign. What's more, the base in food inflation is rising sharply going forward and, therefore, will keep a check on overall food inflation.

### Surprisingly, core inflation inched sharply higher

The surprise in the data was the sharp rise in core inflation (ex-commodities) to 5.9%, up 40bps from September. Specifically, a large jump was seen in three components. On the services front, medical care inflation jumped by nearly 2%, which is unusual and also concerning, and therefore, needs monitoring going forward. Outside that, inflation picked up in personal care goods and also household requisites and our sense is that the rise in these two categories perhaps partly reflects the effect of weak INR and rising raw material prices. In this regard, the recent fall in crude oil prices and stabilisation in INR should limit the upside in these categories.

### Headline CPI to remain benign; trend in core needs monitoring

Overall, headline inflation is broadly in line with MPC's inflation trajectory and should continue to remain so for the rest of the year. The core inflation jump may partly reflect weak forex/rising commodities, but definitely needs monitoring.

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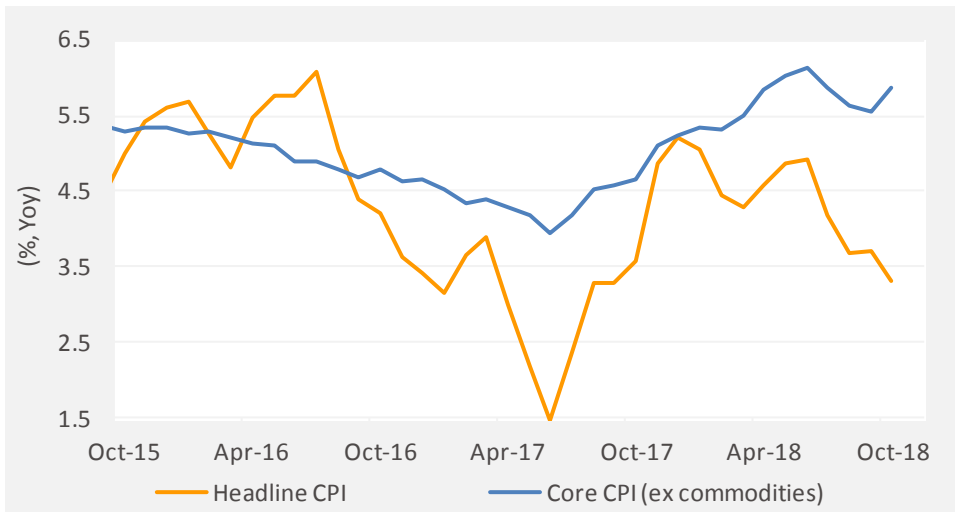
November 12, 2018

**Table 1: CPI by category**

Component (New Base: 2012)	Weights	Oct-18	Sep-18	Aug-18	Jul-18	Jun-18	May-18	Apr-18	Oct-17
<b>CPI</b>	<b>100</b>	<b>3.3</b>	<b>3.7</b>	<b>3.7</b>	<b>4.2</b>	<b>4.9</b>	<b>4.9</b>	<b>4.6</b>	<b>3.6</b>
<b>Core CPI</b>	<b>47</b>	<b>6.2</b>	<b>5.9</b>	<b>5.9</b>	<b>6.3</b>	<b>6.4</b>	<b>6.2</b>	<b>5.9</b>	<b>4.5</b>
<b>Core CPI (ex commodities)</b>	<b>44</b>	<b>5.9</b>	<b>5.5</b>	<b>5.6</b>	<b>5.9</b>	<b>6.1</b>	<b>6.0</b>	<b>5.8</b>	<b>4.6</b>
<b>Food, beverages &amp; tobacco</b>	<b>46</b>	<b>(0.1)</b>	<b>1.0</b>	<b>0.9</b>	<b>1.7</b>	<b>3.1</b>	<b>3.3</b>	<b>3.0</b>	<b>2.2</b>
Cereals and products	10	2.6	2.9	3.0	2.9	2.7	2.8	2.6	3.7
Milk and products	7	0.9	2.4	2.7	2.9	3.0	3.2	3.2	4.3
Vegetables	6	(8.1)	(4.2)	(7.0)	(2.3)	7.8	8.0	7.5	7.5
Oils and fats	4	2.2	3.1	3.5	2.8	2.6	2.5	2.2	1.0
Meat and fish	4	3.0	2.4	3.2	2.3	2.2	3.5	3.6	3.1
<b>Fuel &amp; light</b>	<b>7</b>	<b>8.5</b>	<b>8.6</b>	<b>8.5</b>	<b>8.0</b>	<b>7.2</b>	<b>5.8</b>	<b>5.2</b>	<b>6.4</b>
<b>Housing</b>	<b>10</b>	<b>6.6</b>	<b>7.1</b>	<b>7.6</b>	<b>8.2</b>	<b>8.4</b>	<b>8.4</b>	<b>8.5</b>	<b>6.7</b>
<b>Clothing, bedding &amp; footwear</b>	<b>7</b>	<b>3.6</b>	<b>4.6</b>	<b>4.9</b>	<b>5.3</b>	<b>5.6</b>	<b>5.5</b>	<b>5.1</b>	<b>4.7</b>
<b>Miscellaneous</b>	<b>28</b>	<b>6.7</b>	<b>5.6</b>	<b>5.5</b>	<b>5.8</b>	<b>5.7</b>	<b>5.4</b>	<b>5.0</b>	<b>3.5</b>
Transport and communication	9	7.7	6.5	6.0	6.6	6.2	5.3	4.5	2.3
Medical care	6	7.9	6.0	5.8	5.9	6.0	5.9	5.5	4.1
Education, stationery etc.	4	6.2	6.4	6.1	5.8	5.5	5.5	5.1	4.2
Personal care and effects	4	5.2	4.1	4.5	5.3	5.4	5.6	5.0	3.4
Household requisites	4	6.1	4.8	5.0	5.1	5.1	5.0	4.8	4.0
Recreation and amusement	2	4.9	5.2	4.9	5.1	5.3	4.9	5.0	4.0

Source: CMIE, Edelweiss research

**Chart 1: Headline and core inflation continue to slow**



Source: CMIE, Edelweiss research

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#### Recent Research

Date	Title	
31-Oct-18	<b>Economy Release Calendar</b>	November 2018
16-Oct-18	<b>IIP</b>	Moderates due to high base
16-Oct-18	<b>Inflation</b>	Remains benign due to lower food inflation
15-Oct-18	<b>External Trade</b>	Trade deficit narrows largely due to lower imports

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