

CONSUMER PRICE INDEX

CPI inflation unexpectedly softened to 4.7% in May 2024; likely to stay below 5.0% in June 2024

JUNE 2024





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CPI inflation softened to a 12-month low of 4.75% in May 2024, led by all sub-items, barring fuel and light.

While food and beverages inflation remained stable at 7.9% in April 2024, seven of the 12 sub-groups saw a moderation.

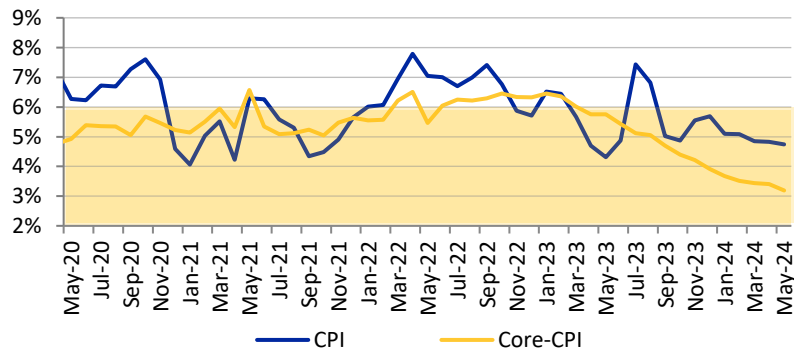
ICRA expects CPI inflation to print modestly below 5.0% in June 2024, before witnessing a sharp albeit temporary fall to 2.5-3.5% in July-August 2024, owing to favourable base.

The headline CPI inflation unexpectedly softened to 4.7% in May 2024 (ICRA's exp: +5.0%) from 4.8% in April 2024, mainly stemming from a lower-than-anticipated print for food and beverage group. Going forward, the CPI inflation is likely to print modestly below 5.0% in June 2024, based on the early data that reveals a softening in the Year-on-Year (YoY) prints of several food items, compared to May 2024. Thereafter, a favourable base is expected to lead to a sharp albeit temporary fall in the CPI inflation to 2.5-3.5% in July 2024 and August 2024. While there has been an early onset of the Southwest Monsoon, adequate volume and dispersion of rainfall in the season remain key to improve the prospects for kharif crop and replenish the reservoir levels, which would be crucial to support the rabi crop, and rein in food prices.

- **CPI inflation unexpectedly eased in May 2024:** Contrary to the expectation of an uptick (ICRA exp: +5.0%), the headline CPI inflation softened mildly to 4.7% in May 2024 (+4.3% in May 2023) from 4.8% in April 2024 (+4.7% in April 2023), amid a lower-than-anticipated print for the food and beverage group. The YoY softening in the headline numbers was largely driven by the core-CPI (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) group, which recorded a series-low inflation of 3.2% in May 2024 (+3.4% in April 2024).
- **CPI inflation expected to print modestly below 5.0% in June 2024:** ICRA estimates the food and beverages inflation to ease somewhat in June 2024 from 7.9% in May 2024, while remaining elevated above the 7.0% mark in the month. This would help contain the headline CPI inflation at sub-5.0% in June 2024. Thereafter, a favourable base is expected to lead to a sharp albeit temporary fall in the CPI inflation to 2.5-3.5% in July 2024 and August 2024. While there has been an early onset of the Southwest Monsoon, adequate volume and dispersion of rainfall in the season remain key to improve the prospects for kharif crop and replenish the reservoir levels, which would be crucial to support the rabi crop, and rein in food prices.
- **Earliest rate cut foreseen in October 2024 policy:** ICRA does not rule out a change in stance in the August 2024 meeting, if the monsoon turnout, and its impact on the growth-inflation dynamic is favourable. Consequently, we foresee the earliest possible rate cut only in the October 2024 meeting, while expecting the total quantum of rate cuts to be limited to 50 bps at best in the awaited easing cycle.

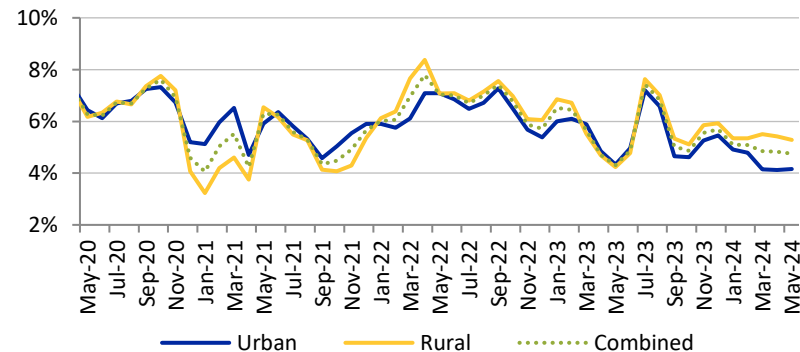
CPI inflation unexpectedly softened to 4.7% in May 2024 from 4.8% in April 2024

EXHIBIT: Headline and Core CPI Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Rural and Urban CPI Inflation (YoY)

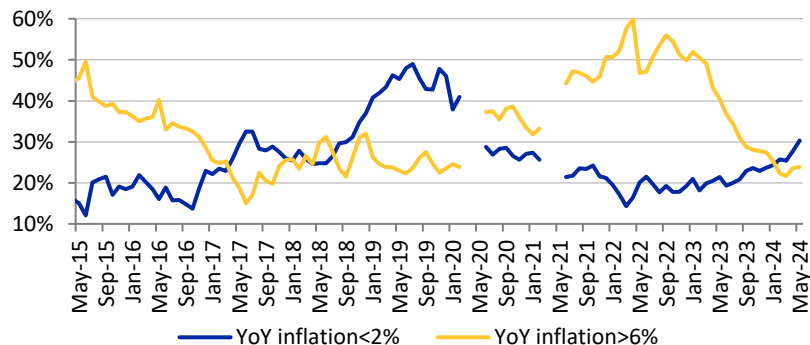


Source: NSO; CEIC; ICRA Research

- Contrary to the expectation of an uptick (ICRA exp: +5.0%), the headline CPI inflation softened mildly to a 12-month low of 4.7% in May 2024 (+4.3% in May 2023) on a YoY basis from 4.8% in April 2024 (+4.7% in April 2023), mainly on account of lower-than-expected print for food and beverage group. Moreover, the CPI inflation trailed the 6.0% threshold of the MPC's medium-term forecast of 2.0-6.0% for the ninth consecutive month.
- In addition, the core-CPI inflation (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) softened to a series-low of 3.2% in May 2024 from 3.4% in April 2024. With a slightly sharper fall in core-CPI inflation vis-à-vis the headline figure, the wedge between the two widened to 156 bps from 143 bps in April 2024.
- The CPI inflation in rural areas softened (to +5.3% in May 2024 from +5.4% in April 2024) in May 2024 relative to April 2024, while that in urban areas (to +4.2% from +4.1%) witnessed an uptick. The gap between the two has narrowed to 113 bps in May 2024 from 131 bps in April 2024, while remaining elevated.

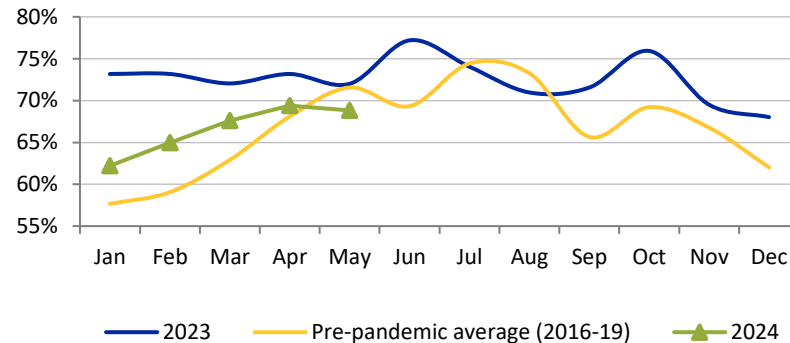
Share of items in CPI basket that witnessed a sequential rise in prices slipped below the pre-pandemic average in May 2024

EXHIBIT: Share of items in the CPI* with YoY inflation outside the MPC's target range of 2.0-6.0% (%)



*Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research

EXHIBIT: Share of items in the CPI basket* reporting a sequential increase in prices (%)

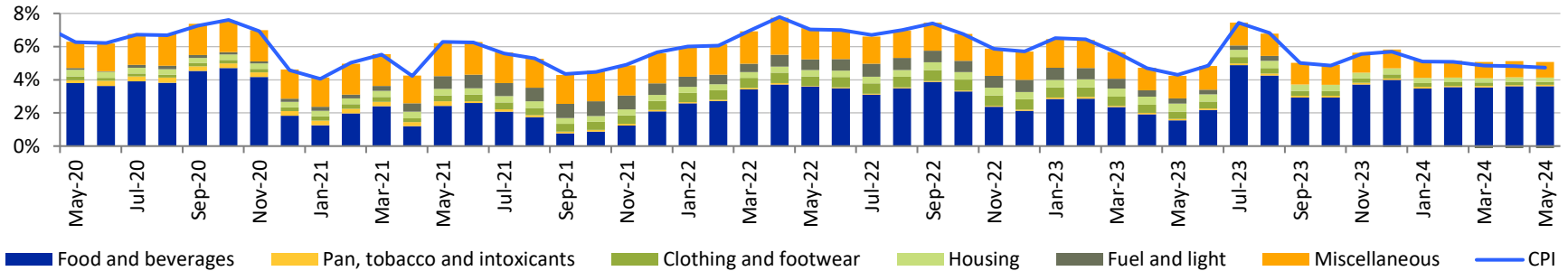


*Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research

- The share of items in the CPI basket that witnessed a sequential increase in prices eased marginally 68.8% in May 2024 from 69.4% in the prior month, while slipping below the average levels recorded in the pre-pandemic period during the month (FY2017-20 for May: 72%).
- In addition, the share of items in the CPI basket that reported a YoY inflation below the 2.0% mark rose to 30.4% in May 2024 (highest since Feb 2020) from 27.7% in April 2024. However, the share of items that reported a YoY inflation rate above the MPC's upper limit of 6.0% also inched up to 23.9% from 23.6%, respectively.

Barring fuel and light, inflation for all other sub-groups either softened or was stable in May 2024 compared to April 2024

EXHIBIT: Composition of CPI Inflation (YoY)

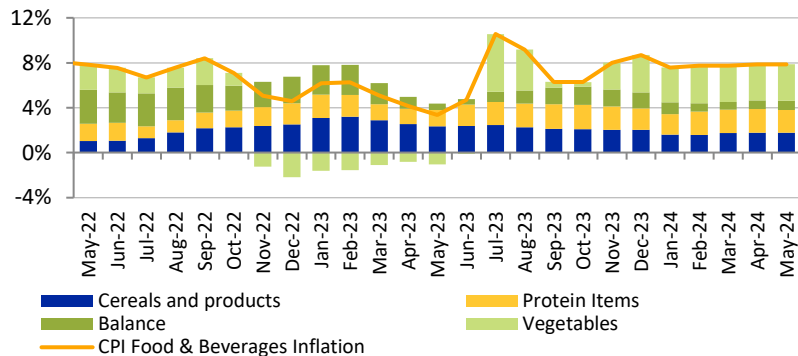


Source: NSO; CEIC; ICRA Research

- The mild easing in the headline inflation in May 2024, compared to the prior month was mainly driven by clothing and footwear (to +2.7% from +2.9%), miscellaneous items (to +3.4% from +3.5%) and housing (to +2.6% from +2.7%).
- In contrast, the YoY deflation narrowed for fuel and light (to -3.8% from series-low -4.2%) in May 2024, compared to April 2024, while the inflation for pan, tobacco and intoxicants (+3.0%), and food and beverages (+7.9%) remained unchanged at the respective levels that prevailed in the previous month.
- Encouragingly, all the sub-groups other than food and beverages saw sub-4% inflation for the fifth consecutive month in May 2024.

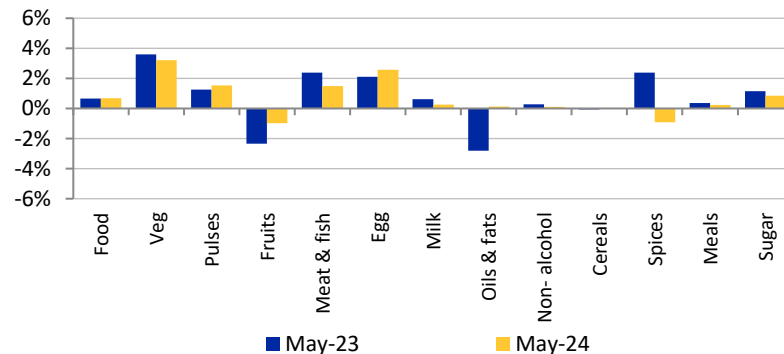
Inflation in food and beverages was stable at 7.9% in May 2024, while remaining above the 7.0% mark for seventh straight month

EXHIBIT: Composition of Food and Beverages Inflation (YoY)



Proteins comprises meat and fish, egg, milk and products, pulses and products; Balance comprises oil and fats, fruits, sugar and confectionary, spices, non-alcoholic beverages, prepared meals, snacks, sweets etc.; Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM Change in Food and Beverage Sub-Index

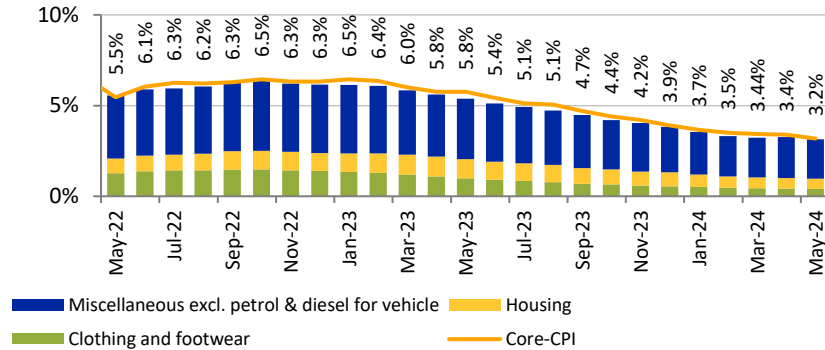


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non-alcohol: Non-alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- The inflation in food and beverages (with a weight of 45.9% in the CPI) was stable at 7.9% in May 2024 (+3.3% in May 2023), in line with the level seen in the previous month (+4.2% in April 2023), while remaining above the 7%-mark for the seventh consecutive month.
- However, the disaggregated trend revealed that the YoY inflation softened for seven of the 12 sub-groups (with a weight of 26.9% in the CPI basket) including vegetables (to +27.3% from +27.8%, led by ginger, garlic, tomato, etc.), milk and products (to +2.6% from +3.0%), meat and fish (to +7.3% from +8.2%), sugar (to +5.7% from +6.0%), spices (to +4.3% from +7.8%), non-alcoholic beverages (to +2.4% from +2.6%) and prepared meals and snacks (to +3.3% from +3.5%) in May 2024, compared to April 2024. In contrast, the inflation for cereals and products (to +8.7% from +8.6%), oils and products (to -6.7% from -9.4%), fruits (to +6.7% from +5.2%) and pulses (to +17.1% from +16.8%) witnessed an uptick between these two months.
- In MoM terms, the index of food and beverages rose by 0.7% in May 2024, in line with the year-ago level. The higher MoM print in May 2024 vs. May 2023 for pulses (+1.5% vs. +1.3%), and oils and fats (-0.1% vs. -2.8%), was offset by lower prints in vegetables (+3.2% vs. +3.6%) and spices (-0.9% vs. +2.4%), etc.

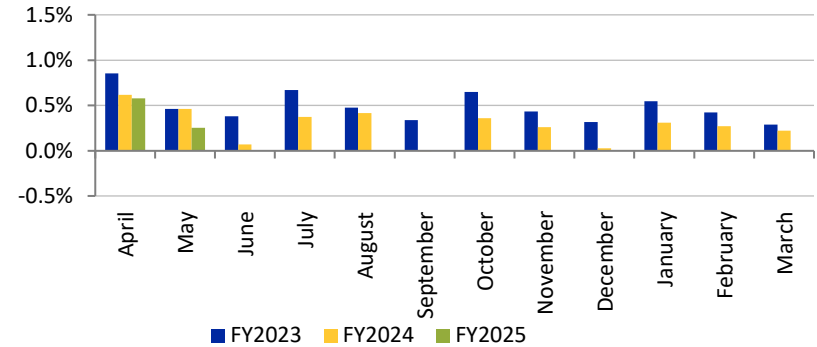
Core-CPI inflation moderated to a fresh series-low 3.2% in May 2024

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

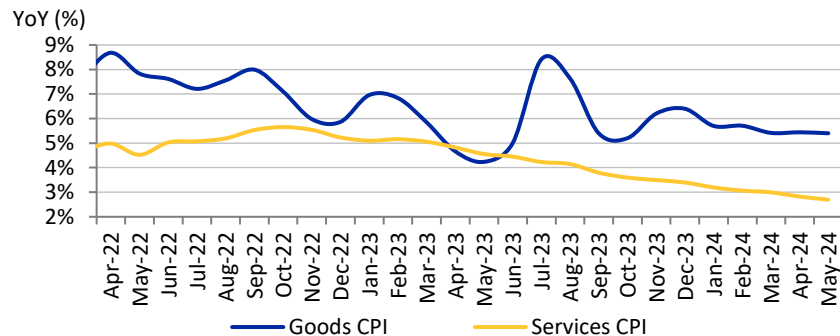


Source: NSO; CEIC; ICRA Research

- The core-CPI items recorded a series-low inflation of 3.2% in May 2024 (+3.4% in April 2024). Inflation in the miscellaneous group, excluding petrol and diesel indices, eased to 3.8% in May 2024 from 3.9% in April 2024, led by all sub-categories, barring personal care and effects, which reported a slight uptick (to +7.7% from +7.4%, led by gold).
- A stricter measure of core-CPI, computed as CPI excluding food and beverages, fuel and light, petrol and diesel indices for vehicles, and gold, also moderated to a series low of 2.8% in May 2024 from 3.0% in April 2024.
- In MoM terms, the core-CPI rose by 0.3% in May 2024, lower than the uptick of 0.5% seen in the same month of 2023, mirrored by the trend in miscellaneous group, excluding petrol and diesel indices (+0.3% vs. +0.4%), as well as clothing and footwear (+0.2% vs. +0.3%) and housing (+0.1% vs +0.2%) sub-groups.

Services inflation continued to soften, touching a multi-year low 2.7% in May 2024

EXHIBIT: YoY Trends in Goods and Services CPI



Services items constitute to 23.4% weight in the CPI basket; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY Trends in services – top 5 items by weight

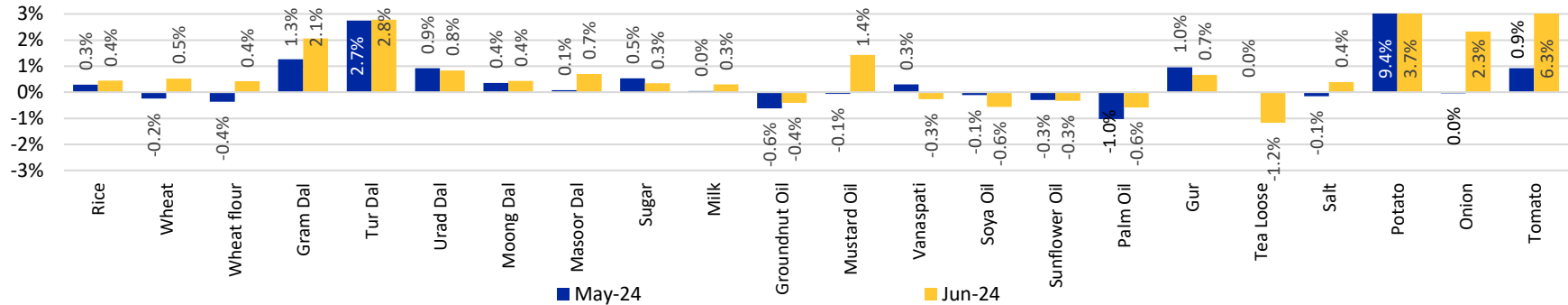
Services item	Weight in CPI	YoY (%)		
		Mar-2024	Apr-2024	May-2024
House rent, garage rent	9.51	2.7%	2.6%	2.6%
Tuition and other fees	2.90	5.0%	4.4%	4.2%
Telephone charges: mobile	1.84	1.5%	1.4%	1.0%
Bus/tram fare	1.37	1.8%	1.5%	1.5%
Cable TV connection charges	0.82	2.6%	2.7%	2.5%

Source: NSO; CEIC; ICRA Research

- In terms of a services vs. goods approach to assessing the CPI, services inflation (with a weight of 23.4% in the CPI) softened for 16th consecutive month, to a fresh series-low of 2.7% in May 2024 (+4.6% in May 2023) from 2.8% in April 2024 (+4.8% in April 2023). The YoY inflation either moderated or remained steady between these months for as many as 21 of the 34 services items covered in the CPI basket (with a weight of 21.4% in the CPI), including house rent (weight: 9.5%; to +2.57% from +2.58%), tuition and other fees (2.9%; to +4.2% from +4.5%), telephone charges: mobile (1.8%; to +1.0% from +1.4%), etc.
- The inflation in the goods segment (with a weight of 76.6% in the CPI) was unchanged at 5.4% in May 2024, at par with the level of April 2024, echoed by the trend in food and beverages group (weight: 45.9%; unchanged at +7.9%), even as non-food and beverages goods segment (30.8%; to a multi-year low +1.6% from +1.8%) reported a mild dip.

OUTLOOK: Food inflation to ease slightly, albeit print above 7.0%-mark in June 2024; headline CPI inflation to print modestly below 5.0% in the month

EXHIBIT: MoM trends in retail prices in May 2024 and June 2024*

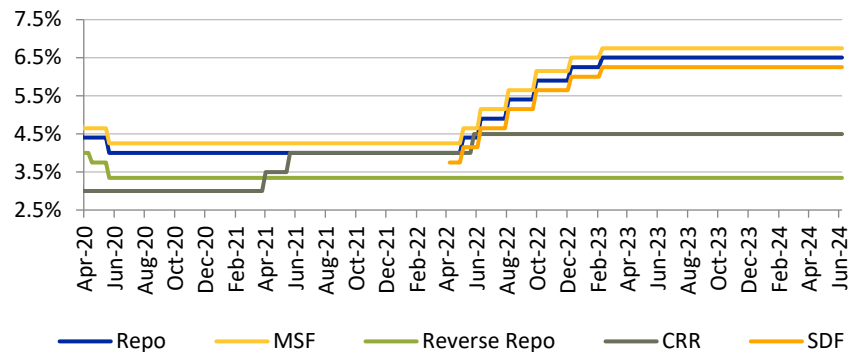


*Till June 9, 2024; Source: DCA; CEIC; ICRA Research

- The retail data released by the Department of Consumer Affairs (DCA) indicates a sequential hardening in prices of essential vegetables (potato, onion and tomato) in June 2024, stemming from lower arrivals of onion and potato amid a dip in production in 2023-24, and crop damage in tomato-growing states. In addition, the average retail prices of cereals (rabi rice output: -11.0%) and pulses (-3.7%) witnessed an uptick in the current month, compared to May 2024, while that of edible oils have softened, mirrored by the trend in global prices.
- Nevertheless, the MoM uptick in only eight of 22 items was stronger in June 2024 vis-à-vis June 2023. Besides, the favourable base has contributed to a softening in the YoY inflation print for 14 of these 22 items in June 2024 relative to May 2024. Consequently, **ICRA estimates the food and beverages inflation to ease somewhat in June 2024 vis-à-vis the May 2024 print, which will help contain the headline CPI inflation at sub-5.0% in June 2024. Thereafter, a favourable base is expected to lead to a sharp albeit temporary fall in the CPI inflation to 2.5-3.5% in July 2024 and August 2024.**
- **Going forward, the uptick in prices of pulses and vegetables need to be closely monitored, as the yearly decline in rabi production of these crops has raised concerns related to supply of these food items. The Southwest Monsoon has seen an early onset in Kerala (June 1) and Northeast India (June 5) by two and six days, respectively, over the normal onset date. Nevertheless, adequate volume and dispersion of rainfall in the season remain key to improve the prospects for kharif crop and replenish the reservoir levels, which would be crucial to support the rabi crop, and rein in food prices.**

OUTLOOK: Rates unlikely to be cut before Oct 2024 policy

EXHIBIT: Movement in Key Rates



Source: RBI; CEIC; ICRA Research

EXHIBIT: RBI's GDP growth and CPI inflation forecasts

YoY (%)	CPI Inflation*		GDP Growth (at constant 2011-12 prices)	
	April 2024	June 2024	April 2024	June 2024
MPC Policy Reviews				
Q1 FY2025	4.9%	4.9%	7.1%	7.3%
Q2 FY2025	3.8%	3.8%	6.9%	7.2%
Q3 FY2025	4.6%	4.6%	7.0%	7.3%
Q4 FY2025	4.5%	4.5%	7.0%	7.2%
FY2025	4.5%	4.5%	7.0%	7.2%

*Based on the assumption of a normal monsoon; Source: RBI; ICRA Research

- The Monetary Policy Committee (MPC) kept the policy rates and stance unchanged in its second bi-monthly policy meeting for FY2025, in line with expectations. However, the voting pattern on both changed to 4:2 in the June 2024 policy from 5:1 in the previous meeting, with the two dissenting members voting for a 25 basis points (bps) rate cut and change in the policy stance to neutral.
- While the MPC kept its CPI inflation projection for FY2025 unchanged at 4.5%, that for GDP growth was raised to 7.2% from 7.0%.
- ICRA's assessment of growth-inflation dynamics and outlook, and the MPC's continued focus on aligning inflation to the 4.0% target on a durable basis suggest that the Committee is likely to maintain status quo on rates for at least another meeting. Nevertheless, we do not rule out a change in stance in the August 2024 meeting, if the monsoon turnout, and its impact on the growth-inflation dynamic is favourable. Consequently, **ICRA foresees the earliest possible rate cut only in the October 2024 meeting, while expecting the total quantum of rate cuts to be limited to 50 bps at best in the awaited easing cycle.**

Table A.1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base					M-o-M
		Mar-24	Apr-24	Apr-24	May-24	May-24	
		Final	Provisional	Final	Provisional	Provisional	
CPI (combined)	100.00	4.9%	4.8%	4.8%	4.7%	0.5%	
Food and beverages	45.86	7.7%	7.9%	7.9%	7.9%	0.7%	
Cereals and products	9.67	8.4%	8.6%	8.6%	8.7%	0.0%	
Meat and fish	3.61	6.4%	8.2%	8.2%	7.3%	1.5%	
Egg	0.43	10.3%	7.1%	7.1%	7.6%	2.6%	
Milk and products	6.61	3.4%	3.0%	3.0%	2.6%	0.3%	
Oils and fats	3.56	-11.7%	-9.4%	-9.4%	-6.7%	0.1%	
Fruits	2.89	3.0%	5.2%	5.2%	6.7%	-1.0%	
Vegetables	6.04	28.3%	27.8%	27.8%	27.3%	3.2%	
Pulses and products	2.38	17.8%	16.8%	16.8%	17.1%	1.5%	
Sugar and confectionary	1.36	7.3%	5.9%	6.0%	5.7%	0.9%	
Spices	2.50	11.4%	7.8%	7.8%	4.3%	-0.9%	
Pan, tobacco and intoxicants	2.38	3.1%	3.0%	3.0%	3.0%	0.2%	
Clothing and footwear	6.53	3.0%	2.9%	2.9%	2.7%	0.2%	
Housing	10.07	2.7%	2.7%	2.7%	2.6%	0.1%	
Fuel and light	6.84	-3.4%	-4.2%	-4.0%	-3.8%	0.8%	
Miscellaneous	28.32	3.5%	3.5%	3.5%	3.4%	0.3%	
Household goods and services	3.80	2.7%	2.7%	2.7%	2.5%	0.1%	
Health	5.89	4.3%	4.3%	4.3%	4.2%	0.3%	
Transport and communication	8.59	1.5%	1.1%	1.1%	1.0%	0.1%	
Recreation and amusement	1.68	2.8%	2.6%	2.6%	2.5%	0.2%	
Education	4.46	4.7%	4.2%	4.2%	4.1%	0.3%	
Personal care and effects	3.89	6.0%	7.4%	7.4%	7.7%	0.9%	
CPI-Food	36.55	8.5%	8.7%	8.7%	8.7%	0.7%	
CPI-Core	44.97	3.3%	3.2%	3.2%	3.0%	0.2%	
CPI Rural	3.4%	3.4%	3.4%	3.4%	3.2%	0.3%	
CPI Urban	5.5%	5.4%	5.4%	5.4%	5.3%	0.4%	

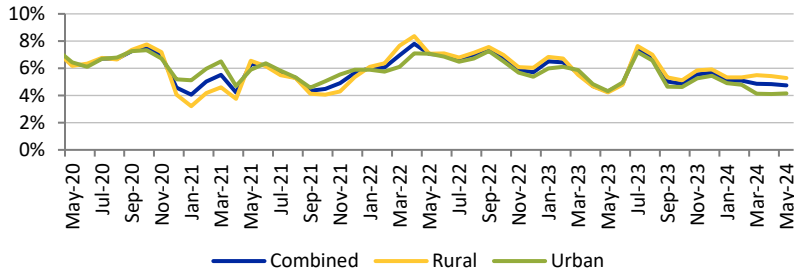
Source: National Statistical Office (NSO); CEIC; ICRA Research

Table A.2: Sub-sectors with major contribution in CPI Inflation

Sub-Group	Item Description	Weight (%)	Sub-Group	Item Description	Weight (%)
Food and Beverages	Milk: Liquid	6.42	Housing	House Rent, Garage Rent	9.51
	Rice – other sources*	4.38		Residential Building and Land (cost of repairs only)	0.28
	Wheat/Atta – other sources*	2.56		Water Charges	0.16
	Cooked Meals Purchased	2.42		Watch man Charges	0.11
Pan, Tobacco and Intoxicants	Bidi	0.43	Fuel and Light	Electricity	2.26
	Foreign/Refined Liquor or Wine	0.40		Firewood and Chips	2.07
	Country Liquor	0.35		LPG (excluding conveyance)	1.29
	Other Tobacco Products	0.26		Dung Cake	0.44
Clothing and Footwear	Saree	0.90	Miscellaneous	Medicine (non-institutional)	4.01
	Cloth for Shirt, Pyjama, Kurta, Salwar, etc.	0.68		Tuition and Other Fees (school, college, etc.)	2.90
	Shirts, T-shirts	0.57		Petrol for Vehicle	2.19
	Shorts, Trousers, Bermudas	0.55		Telephone Charges: Mobile	1.84

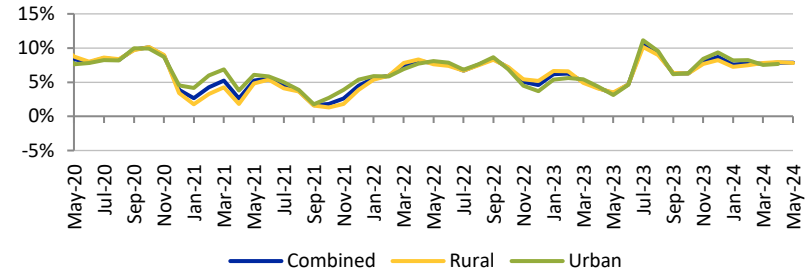
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



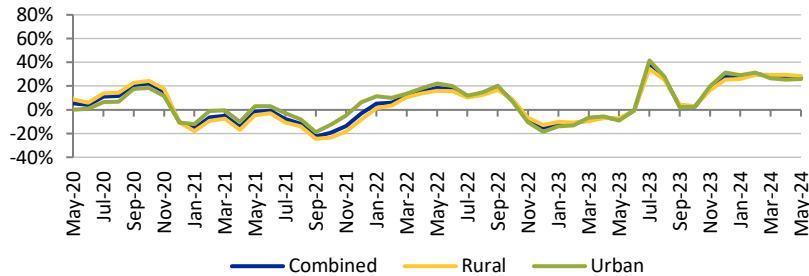
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



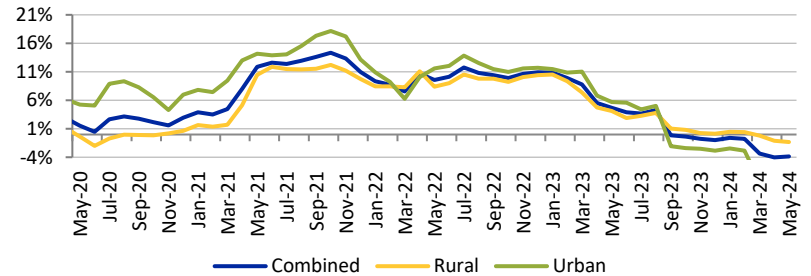
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



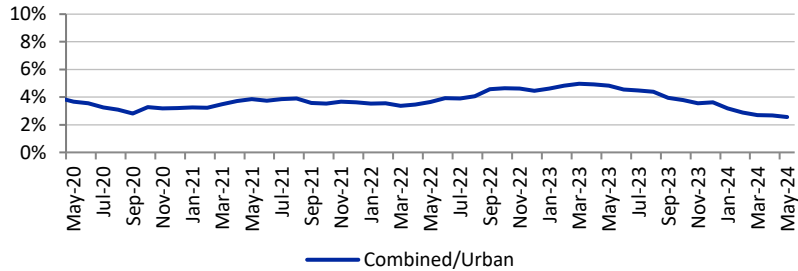
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



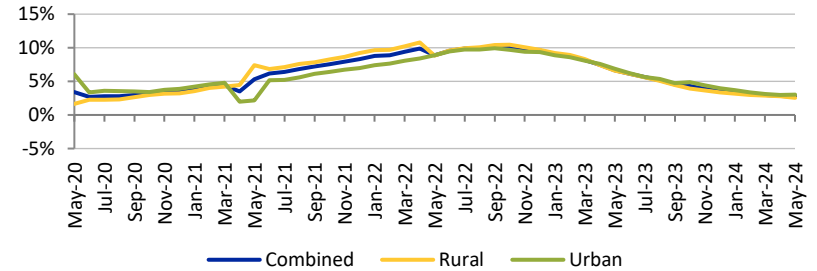
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



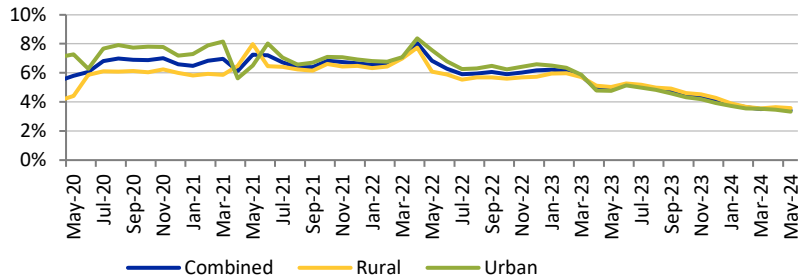
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



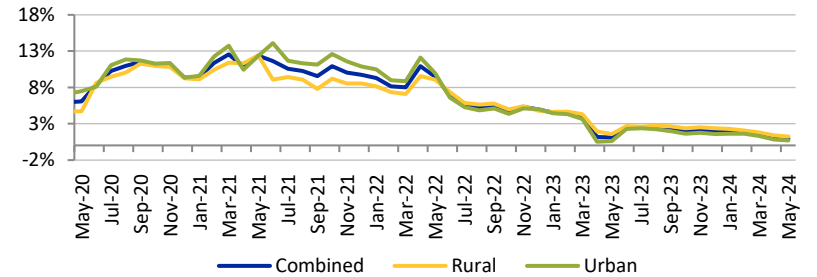
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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