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Chart A: Component-wise contribution to food & beverages inflation

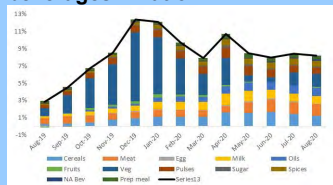


Chart B: Contribution to headline inflation

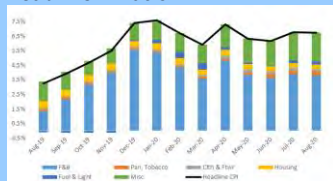


Chart C: Contribution to core inflation



Chart D: Contribution to services inflation



CPI Monitor

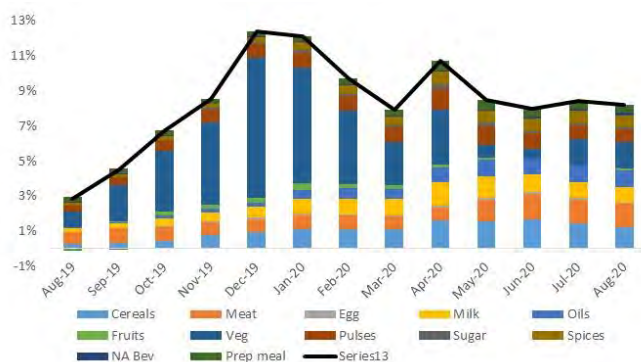
CPI eases moderately to 6.69%; WPI turns positive

- **CPI eases moderately in sequential terms, still uncomfortably high:** Headline retail inflation eased moderately to 6.69% in Aug '20 from 6.73% in Jul '20 although sharply higher than 3.28% twelve months ago. With this print, average retail inflation in Q2FY21 and H1FY21 so far stands at 6.7% and 6.6% respectively. Daily food price data shows that food prices have remained elevated in the first two weeks of Sep '20 as well. Hence, we expect CPI in Sep '20 to remain above 6%, taking inflation in Q2 and H1FY21 above the upper limit of MPC's comfort zone.
- **Food inflation accounts for almost three-quarter of y/y increase in inflation:** During Aug '20 and Aug '19, headline inflation increased by 341bps. Out of this, increase in food inflation accounted for 72%, followed by services (19%), fuel (10%), pan & tobacco (4%) and clothing & footwear (3%). On the other hand, falling housing inflation shaved off ~20bps (5%) from headline inflation. This shows that almost three-quarters of increase in headline inflation during Aug '20 and Aug '19 was due to rising food prices.
- **In Aug '20, ~40% of food basket registers double-digit inflation:** Certain food items such as meat & fish, oils, pulses and spices have been recording double-digit inflation since the beginning of lockdown in end-Mar/Apr '20. In Aug '20, six food items viz. meat & fish, eggs, oils & fats, vegetables, pulses and spices recorded double-digit inflation. These items collectively account for 40% of 'food and beverages' basket and 19% of CPI basket. Persistently high inflation in these items shows supply disruption due to lockdown.
- **Vegetable and pulses inflation could start easing from Sep-Oct '20:** We expect vegetable and pulses inflation to start moderating from Sep '20 and Oct '20 respectively due to base effect. These two items together account for almost one-fifth of food basket and hence meaningful decline in their inflation rates could keep a lid on headline inflation as well.
- **Services inflation rises sharply due to transportation and personal care costs:** Services inflation increased sharply to 7% in Aug '20 from 4.7% twelve months ago and 6.8% in Jul '20. Higher transportation inflation (11% in Aug '20 vs 1.2% in Aug '19) and personal care costs (14.5% vs 6.4%) drove the increase in services inflation. Interestingly, all other services components apart from these two recorded lower inflation in Aug '20 compared to Aug '19. Core inflation eased moderately to 5.8% in Aug '20 from 5.9% in the preceding month.
- **WPI turns positive after 4 months:** In a separate data release, wholesale inflation came in at 0.16% in Aug '20 reversing preceding four months' trend of negative prints. However, in y/y terms WPI fell from 1.17% in Aug '19. Higher inflation in manufacturing (1.3% in Aug '20 vs 0.5% in Jul '20) and primary articles (1.6% vs 0.6%) drove WPI higher while fuel inflation continued to be in the red.
- **Modest decline in CPI unlikely to tilt scales in favour of rate cut:** Today's CPI print of 6.7% will be the last available print when the MPC meets on 5 Oct. We believe the modest decline in headline inflation in Aug '20 will not be sufficient to tilt the scales in favour of rate cut. Hence, we expect the MPC to opt for status quo at the Oct '20 policy review.

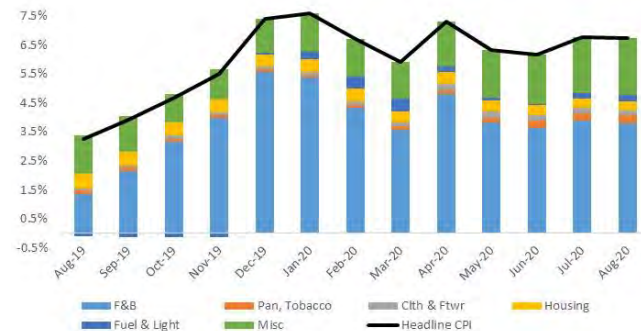
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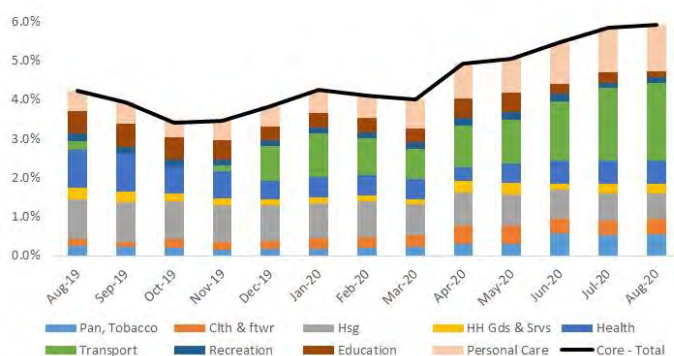
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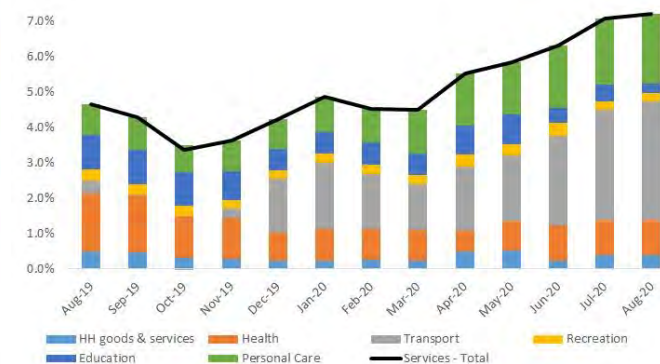
Source: Mospi, I-Sec Research

Chart B: Component-wise contribution to headline inflation

Source: Mospi, I-Sec Research

Chart C: Component-wise contribution to core inflation

Source: Mospi, I-Sec Research

Chart D: Component-wise contribution to services inflation

Source: Mospi, I-Sec Research

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