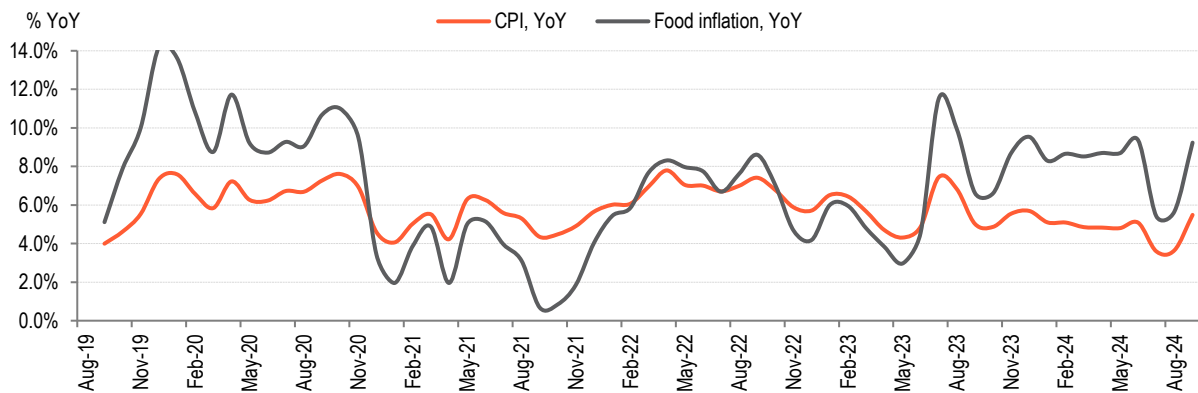


Inflation picks up

CPI inflation inched up sharply to 5.5% in Sep'24 from 3.7% in Aug'24, as the favorable base effect waned. Further, food inflation inched up sharply to 9.2% from 5.7% in Aug'24. This can be attributed to higher prices of vegetables, particularly tomato and onion. Significant price pressures were also visible in case of edible oils, in line with an uptick in global prices. Prices of cereals and pulses saw some much-needed correction, and are expected to ease further as fresh kharif harvest enter the market. Higher gold prices also fed into core inflation, which picked up to 3.5%. The outlook on inflation hinges on how food prices behave. High frequency price data shows that prices of key items such as tomato and onion have maintained an upward momentum even in Oct'24. Hence, we expect inflation to remain elevated in Oct'24 as well, barring any adverse weather shock. Unseasonal rains remain a key risk, specially since prices of perishables is highly sensitive to weather shocks. We expect inflation to average ~4.5-5% in FY25. The possibility of a rate cut is likely to open up only in Feb'25, as inflation is likely to peak in Q3 FY25.

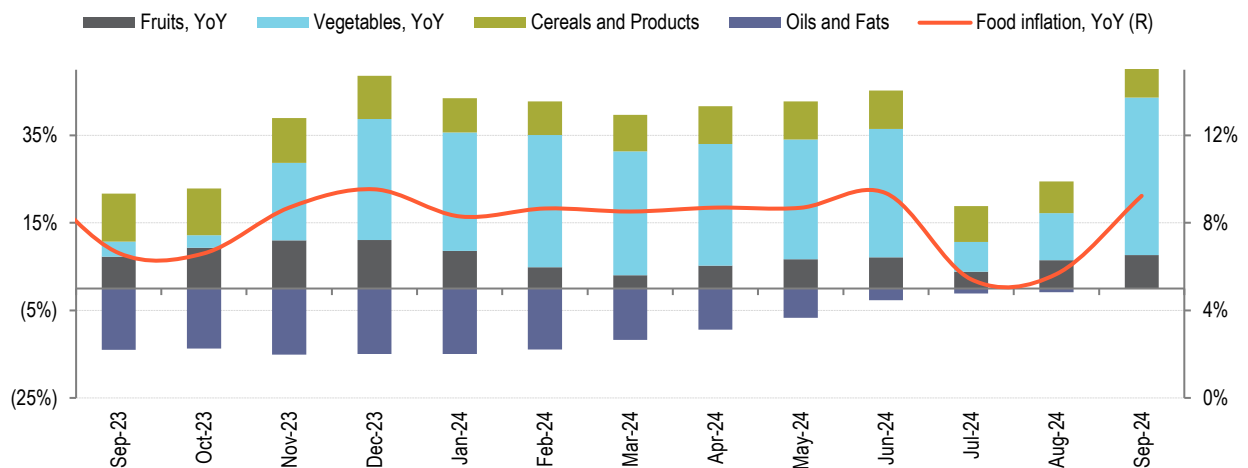
CPI inflation: CPI inflation inched up sharply to 5.5% in Sep'24 from 3.7% in Aug'24. This was higher than our estimate of a 5.1% increase. The increase in headline inflation can be attributed to higher food inflation. Food inflation inched up to 9.2% in Sep'24 after moderating to 5.7% in Aug'24. Within food, significant upward momentum was witnessed in vegetable prices. In fact, vegetable prices rose sharply by 36% in Sep'24 from 10.7% in Aug'24. While a part of this can be attributed to base effect (vegetable prices had increased by 3.4% in Sep'23), prices of key vegetables, particularly tomato and onion inched up sequentially in Sep'24. Apart from vegetables, prices of edible oils also increased by 2.5% in Sep'24, after remaining in deflation in the last 19-months. Prices of fruits also inched up by 7.6% compared with 6.5% in Aug'24. On the positive side, inflation in both pulses and cereals eased. For pulses, the moderation in inflation was significant at 9.8% (lowest since May'23) versus 13.6% in Aug'24. For cereals, the rate of inflation eased to a 27-month low of 6.8% in Sep'24 versus 7.3% in Aug'24.

Figure 1: CPI inflation inches up sharply



Source: CEIC, Bank of Baroda Research

Figure 2: ... Led by pickup in food inflation



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) picks up: Core inflation inched up to 3.5% in Sep'24 from 3.4% in Aug'24, led by a sharp pickup in in personal care and effects category. Inflation in the personal care and effects segment rose to 9% in Sep'24 from 8% in Aug'24. Apart from this, inflation in transport and communication and household goods and services also picked up marginally.

Fuel and light: Deflation in the fuel and light category further narrowed to 1.4% in Sep'24, compared with a decline of 5.3% in Aug'24. This was notwithstanding lower global crude prices.

Way forward: The uptick in CPI inflation can be attributed to a large extent to elevated food prices. High-frequency data suggests that prices of onion and tomato have maintained an upward momentum even in Oct'24. The 37.7% increase in tomato prices in Oct'24 is particularly an area of concern and can be attributed to excess rainfall in key producing states of Andhra Pradesh, Karnataka and Maharashtra. Even onion prices are 5.8% higher. Prices of edible oils are also inching up, amid a surge in global prices as well as higher import duty. We expect inflation to remain elevated even in Oct'24 led by an unfavorable base as well as continued stickiness in food prices. However, food prices should ease as new harvest begins entering the market by the end of this month. The outlook on core inflation is also marred with uncertainties, given the recent upheaval in global commodity markets due to geo-political tensions. Even so, we do not expect core inflation to breach the 4% mark. Overall, we expect inflation trajectory to evolve broadly in line with RBI's expectations. The change in stance gives RBI flexibility to wait out for a few more data points before it is sure that inflation has eased on a durable basis. We continue to expect a rate cut only in Feb'25.

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