

RESEARCH**BOB ECONOMICS RESEARCH | CPI AND IIP**

Inflation eased – Veggie spike cooled a bit

Daily macro indicators

Indicator	8-Sep	11-Sep	Chg (%)
US 10Y yield (%)	4.26	4.29	2bps
India 10Y yield (%)	7.21	7.25	4bps
USD/INR	82.95	83.03	(0.1)
Brent Crude (US\$/bbl)	90.7	90.6	0
Dow	34,577	34,664	0.3
Hang Seng	18,202	18,096	(0.6)
Sensex	66,599	67,127	0.8
India FII (US\$ mn)	7-Sep	8-Sep	Chg (\$ mn)
FII-D	49.0	0.8	(48.2)
FII-E	(86.5)	(11.7)	74.8

Source: Bank of Baroda Economics Research

SUMMARY**INDIA ECONOMICS: CPI AND IIP**

CPI print remained broadly aligned with our estimate of 6.9% in Aug'23 and came in at 6.8% far lower compared to 7.4% seen in Jul'23. Food inflation especially vegetable inflation provided the desired relief. Government's supply side efforts came into play in cooling of prices of perishables to a certain extent. Even wholesale mandi prices are also on a downtrend and much of the pass through from wholesale to retail price channels has already been observed.

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CPI AND IIP

12 September 2023

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Dipanwita Mazumdar | Jahnavi
Economist

The Sep'23 high frequency price data is also showing softening of prices. Our BoB ECI has fallen by 1.7% (sequentially) and moderated by 3% (YoY). Sep'23 is likely to witness sharp correction in prices. We maintain our estimate of 5.5% for headline CPI in FY24. Q3 and Q4 will remain well anchored within the 6% target band.

CPI excluding vegetables has remained below the 6% mark for 5 consecutive months in a row. Even core has eased quite a bit. RBI will be cautiously on pause balancing and counterbalancing the underlying factors throughout this year.

CPI inflation cooled off

Food pacified headline CPI: CPI inflation came in at 6.8% in Aug'23 (YoY basis) broadly in line with our estimate of 6.9% and far lower compared to 7.4% print observed in Jul'23. The likely comfort came in from 157bps drop in food inflation which moderated to 9.9% from 11.5% in Jul'23. Amongst broad categories, 5 out of 12 of them noticed moderation in inflation. Amongst them, vegetable inflation edged down significantly to 26.1% in Aug'23 from 37.4% in Jul'23. Government supply side initiatives such as subsidizing sale of those vegetables whose prices were increasing, target release of stocks and imposing export duties have actually resulted in controlling food inflation of these items to a certain extent. Other than vegetables, cereals (-118bps fall), milk (-61bps) and pulses (-29bps) have witnessed fair degree of moderation in inflation.

On sequential basis, food inflation has fallen by 0.7% in Aug'23 (on a seasonally adjusted basis, it has fallen at a sharper pace by 0.9% in Aug'23) compared to 6.7% increase in Jul'23. Sequentially, in broad categories of food, 6 of them noticed moderation. Amongst them, majority is on account of fall in vegetable prices by 5.9% in Aug'23 from 38.2% increase seen in Aug'23. Other than this, fruits inflation have edged down to 0.2% from 4.4%. Even comfort was visible for egg and pulses category. So the broad fear of vegetable and pulses price spiral is considerably tamed compared to previous month.

Core CPI (excl. food and fuel) has moderated to 4.8%. All sub components of core noticed a drop in inflation in Aug '23. Amongst them, considerable impact was visible for demand side components such as personal care and effects (-78bps, YoY drop), and household goods and services (-45bps).



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