

“Top” pling inflation

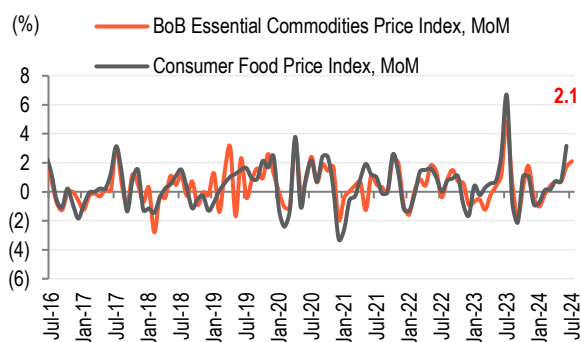
BoB Essential Commodity Index (BoB ECI) has shown considerable momentum. It has risen by 2.1% and by 5%, on MoM and YoY basis, respectively. The sequential push is partly attributable to seasonal phenomenon. Importantly, inflation is not broad-based and is concentrated only on a few items. TOP (Tomato, Onion and Potato) is topping the charts, registering double digit sequential growth. In Jun’24, the volatile items (identified in our [report](#)) pushed up headline CPI by 1.3%, the Jul’24 run rate shows that these items have the potential of pushing up CPI by another 2.1%, apart from the normal rate. Thus, despite a favorable base of above 260bps, CPI is likely to be ~3.8-4% in Jul’24.

To know more about the methodology for calculation of the index, please refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

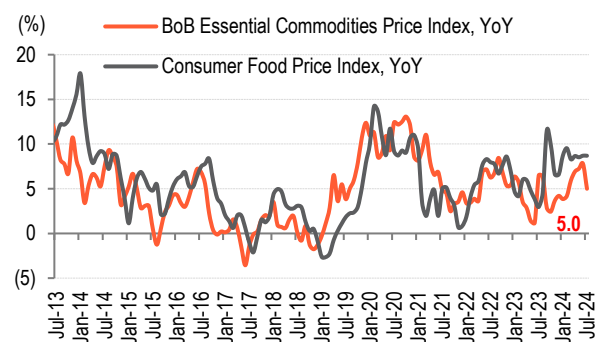
- On MoM basis, BoB ECI rose by 2.1% in Jul’24 compared to 1.7% in Jun’24. Sequentially, TOP (Tomato, Onion and Potato) topped the chart of inflation. It has risen by 57.3%, 21.4% and 16.2%, respectively in Jul’24. Apart from this, there was some degree of loss of momentum in prices of major essential commodities such as rice, all categories of pulses (Moong, Gram and urad witnessing maximum decline), and edible oils (especially mustard and sunflower oil). On a seasonally adjusted basis, the increase in BoB ECI is lesser at 1.5% in Jul’24. Thus, part of the increase is attributable to seasonal phenomenon. On YoY basis, BoB ECI inched up by 5% in Jul’24, albeit an elevated base. Price buildup for Potato and onion were considerable.

Figure 1: On MoM basis, BoB ECI has risen by 2.1% in Jul’24 from 1.7% in Jun’24



Source: CMIE, Bank of Baroda Research

Figure 2: On YoY basis, it was at 5% in Jul’24



Source: CMIE, Bank of Baroda Research

Table 1. Prices in Jul'24 has the effect of favourable base

| Price of major essential commodities (% YOY) | Wts in CPI | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 |
|--|------------|--------|--------|--------|--------|--------|--------|--------|
| Milk | 6.4 | 4.8 | 4.5 | 3.9 | 3.5 | 3.0 | 2.6 | 2.8 |
| Rice | 4.4 | 14.4 | 14.2 | 14.2 | 13.8 | 13.5 | 12.8 | 9.1 |
| Atta (Wheat) | 2.6 | -3.2 | -3.5 | 3.4 | 4.7 | 4.7 | 4.6 | 2.9 |
| Mustard oil (Packed) | 1.3 | -18.7 | -17.3 | -14.6 | -11.5 | -9.0 | -3.3 | -2.0 |
| Sugar | 1.1 | 6.5 | 6.5 | 6.5 | 5.7 | 5.2 | 4.9 | 4.2 |
| Tea loose | 1.0 | 1.2 | 2.0 | 1.8 | 1.3 | 1.8 | 0.7 | -0.2 |
| Potato | 1.0 | -1.7 | 5.3 | 22.0 | 38.9 | 41.7 | 45.8 | 55.1 |
| Tur/Arhar dal | 0.8 | 35.1 | 33.7 | 31.7 | 29.7 | 30.2 | 27.0 | 24.6 |
| Soya oil (Packed) | 0.7 | -18.5 | -16.8 | -14.5 | -11.3 | -9.2 | -6.8 | -6.1 |
| Sunflower oil (Packed) | 0.7 | -24.6 | -22.6 | -20.0 | -16.6 | -13.7 | -9.5 | -8.4 |
| Onion | 0.6 | 41.3 | 28.9 | 40.1 | 41.4 | 43.4 | 57.9 | 64.9 |
| Tomato | 0.6 | 31.8 | 38.2 | 36.2 | 40.4 | 38.7 | 28.3 | -40.0 |
| Urad dal | 0.3 | 14.5 | 15.5 | 15.7 | 15.0 | 14.7 | 13.8 | 11.9 |
| Moong dal | 0.3 | 12.4 | 11.7 | 11.6 | 9.9 | 9.0 | 8.7 | 7.1 |
| Masoor dal | 0.3 | -0.4 | 0.4 | 0.6 | 0.5 | 1.0 | 2.5 | 1.5 |
| Groundnut oil (Packed) | 0.3 | 1.4 | 1.0 | 0.7 | 0.3 | -0.4 | -0.8 | -1.6 |
| Salt pack | 0.2 | 4.7 | 3.7 | 3.7 | 2.7 | 2.3 | 2.7 | 2.3 |
| Gram dal | 0.1 | 14.5 | 14.5 | 15.3 | 14.5 | 14.9 | 17.6 | 18.9 |
| Vanaspati (Packed) | 0.1 | -9.7 | -8.6 | -7.3 | -5.1 | -4.5 | -3.7 | -2.9 |
| Gur | 0.1 | 8.7 | 9.1 | 8.5 | 8.5 | 7.9 | 7.2 | 6.8 |

Source: CMIE, Bank of Baroda Research, Note: Commodities where price change is more than 6% on YoY basis, have been marked in red

So where is CPI print headed?

High frequency price data showed that inflation is not threatening in a holistic manner. It is concentrated in a few vegetable items such as Tomato, Onion, Potato and Garlic. The volatile items of CPI with a weight of 5.48%, e contributed to a 1.3% increase in the headline index in Jun'24. In Jul'24, it has risen by 37.7%, thus it has the potential of pushing up CPI by another 2.1%, barring the normal adjustments.

Further, these perishable items have the potential to be impacted thoroughly on account of weather-related vagaries. For Tomato, both the May-Jul transplanting and Jul harvest have been affected either due to excess rainfall or heatwaves. Thus, prices would possibly be higher in the coming months, as well. For Onion, the Jul sowing might be impacted as major Onion producing States such as Maharashtra, Karnataka have been reeling under pressure of excess rainfall (cumulative as of 2nd Aug 2024) (Table 2). For Potato, fresh harvest comes generally during Sep'24, thus there might be a Cobb Web effect on prices.

For controlling prices, direct price intervention by the government, export duty or stock limits may prove to be efficient in the short run. However, in the long run, coherent policies such as large-scale clusters for vegetable production closer to major consumption centers, as announced in the Budget, are more welcoming to check volatility.

Thus, balancing and counterbalancing all these factors, our headline estimate of CPI stands at 3.8-4% in Jul'24, with risks tilted to the upside.

Table 1. Rainfall picture of major vegetable producing States

| Major "TOP" producing States | Rainfall situation | Major share of "TOP" |
|------------------------------|--------------------|----------------------|
| Andhra Pradesh | Excess | Tomato |
| Bihar | Deficient | Potato, Tomato |
| Gujarat | Normal | Tomato |
| Karnataka | Excess | Tomato |
| Madhya Pradesh | Normal | Tomato |
| Maharashtra | Excess | Onion, Tomato |
| Odisha | Normal | Tomato |
| Rajasthan | Normal | Onion |
| Uttar Pradesh | Normal | Potato |
| West Bengal | Normal | Potato |

Source: <https://agriwelfare.gov.in/>, IMD, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com
dipanwita.mazumdar@bankofbaroda.com