

BoB Essential Commodities Index (BoB-ECI)

*Inflation indices in India are presented on a monthly basis at both the wholesale and retail levels. The 12th of every month normally has the CPI release where we get an idea of how retail inflation has played out. **BoB Essential Commodities Index (BoB-ECI)** looks at a sub-set of the CPI and presents how their cumulative prices have moved for the basket for the month. It is in a way a leading indicator of the food component of the CPI.*

BoB-ECI is a weighted average composite Index of commodities considered 'essential' by the government and are part of the CPI. Department of Consumer Affairs publishes prices of 20 essential commodities which are included in the index. To maintain comparability with the CPI the same base year is chosen and the BoB-ECI calculated.

In Apr'23, BoB Essential Commodity Index has moderated to 2.8% in Apr'23 from 3.5% in Mar'23, on YoY basis. The H1FY24, CPI prints would get comfort from favourable elevated base.

Price picture using BoB Essential Commodity Index:

- Department of Consumer Affairs publishes data on essential commodities on a daily basis. This includes data on retail, wholesale prices, spot and future prices. The data is collected from 340 market centres spread across the country.
- In an attempt to capture the price scenario, we have constructed the BoB Essential Commodity Index. This Index is a weighted average index of 20 commodities tracked by Department of Consumer Affairs, with a weight of 22.8% in overall CPI basket. The base has been in alignment with CPI (2012=100). It captures 58.3% weight in the overall food basket of the CPI index and hence can be used as a leading indicator of prices.
- In our administered 135 period of study since Jan'12 (on YoY basis), there has not been much divergence between the BoB-ECI and Consumer Food Price Index and directionally both exhibit the same trend. Our back testing results show, only in 33 period out of 135, the difference between the two series has been more than 2% points.
- The top 10 items (in terms of weight in the CPI basket) of the BoB-ECI include Milk, Rice, Atta, Mustard oil (Packed), Sugar, Tea loose, Potato, Tur/Arhar dal, Soya oil (Packed), Sunflower oil (Packed).
- On YoY basis, the BoB-ECI moderated to 2.8% in Apr'23 from 3.5% in Mar'23. From a peak of 8.5% in Oct'22 in FY23, BoB-ECI has considerably dropped to 2.8% in Apr'23 and for the 7-days in May'23, it has fallen further to 1.3%.

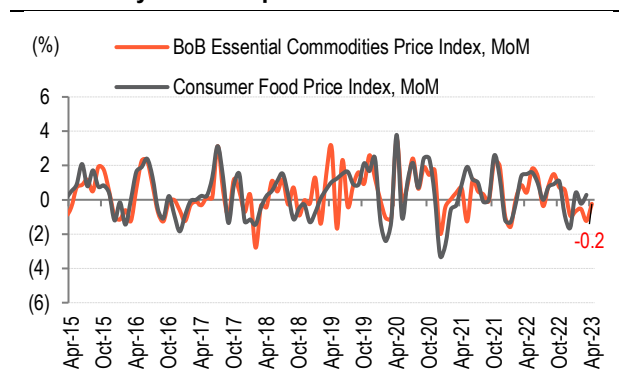
Table 1. Movement of BoB Essential Commodity Index vis a vis Consumer Food Price Index

	BoB-ECI % YoY	CFPI % YoY
FY19	0.3	0.2
FY20	7.7	6.7
FY21	10.7	7.8
FY22	4.6	3.8
FY23	6.0	6.6

Source: CMIE, Bank of Baroda Research, Note: The major divergence is observed in FY21, where distortions in prices occurred on account of Covid induced restrictions

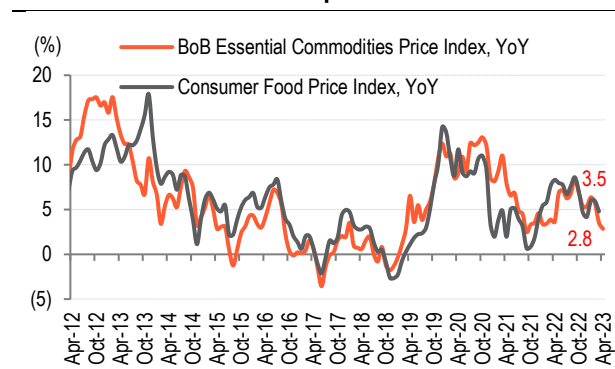
- On sequential basis, BoB-ECI has fallen by 0.2% in Apr'23 compared to 1.2% decline in Mar'23. Notably, the pace of decline in Apr'23 has moderated due to pick up in retail prices of items such as onion, salt (pack), sugar, moong dal etc.

Figure 1: On MoM basis, BoB Essential Commodity index fell by 0.2% in Apr'23



Source: CMIE, Bank of Baroda Research

Figure 2: On YoY basis, BoB Essential Commodity index softened to 2.8% in Apr'23 from 3.5% in Mar'23



Source: CMIE, Bank of Baroda Research

How subcomponents of Essential Commodities moved?

- The YoY picture shows that, for items such as milk whose weight in CPI basket is as high as 6.4% has been fairly stubborn. Since Nov'22, the price change has been in double digits. This is on account of reports of rising fodder cost and lower dairy yield.
- Within cereals, price of rice has been high in the past few months. This has been in line with increase in international price of rice, as seen in the World Bank data. However, wheat prices got comfort from better Rabi sowing.
- Edible oil is also likely to get comfort from falling prices of Mustard oil, Soya oil and Sunflower oil. Within vegetables, tomato and potatoes would keep price in check. However, some hint of reversal in onion prices are likely to be closely watched.
- Pulses are likely to witness some upward momentum due to increase in prices of Urad and Moong.

Table 2. Inflation of components of BoB-ECI

Price of major essential commodities, % YOY	Wts in CPI	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Milk	6.4	8.7	9.7	10.2	11.0	11.2	11.1	11.3	10.8	10.8
Rice	4.4	8.3	7.9	6.8	7.0	7.6	7.8	7.5	8.6	8.7
Atta (Wheat)	2.6	17.7	17.3	17.7	18.3	20.2	18.3	9.4	6.5	4.2
Mustard oil (Packed)	1.3	-4.9	-9.4	-8.6	-9.2	-9.5	-13.3	-16.3	-17.3	-18.5
Sugar	1.1	2.9	0.5	0.5	0.5	1.0	1.5	1.2	1.9	1.9
Tea loose	1.0	-0.9	-1.2	-0.7	-3.5	-3.7	-4.4	-4.0	-3.2	-3.7
Potato	1.0	36.3	29.1	10.8	9.7	8.5	2.5	-6.8	-8.7	-11.9
Tur/Arhar dal	0.8	5.4	5.8	7.5	8.9	9.2	8.7	9.9	13.1	14.6
Soya oil (Packed)	0.7	-1.4	-3.2	0.9	1.3	1.8	-0.8	-10.4	-15.3	-19.5
Sunflower oil (Packed)	0.7	1.1	-0.9	2.1	2.4	1.5	-0.3	-12.0	-20.5	-24.5
Onion	0.6	-9.5	-27.4	-22.6	-21.6	-22.0	-27.9	-27.7	-14.0	-7.1
Tomato	0.6	46.2	4.3	-34.0	-44.6	-30.0	-12.7	-0.4	-13.6	-47.4
Urad dal	0.3	1.3	1.2	1.1	1.0	1.1	0.5	1.8	3.3	3.9
Moong dal	0.3	0.9	1.5	1.1	1.4	1.8	2.3	2.6	4.3	5.2
Masoor dal	0.3	4.8	0.6	-0.8	-1.7	-2.7	-4.2	-4.7	-3.5	-3.8
Groundnut oil (Packed)	0.3	3.9	3.3	4.7	4.0	4.4	5.5	4.3	2.7	0.9
Salt pack	0.2	14.3	16.9	18.0	17.4	15.0	15.4	14.2	14.1	12.3
Gram dal	0.1	-3.2	-3.8	-3.5	-3.3	-3.0	-3.1	-2.7	-1.3	-0.3
Vanaspati (Packed)	0.1	10.1	5.9	4.5	2.0	0.7	-3.1	-11.0	-15.8	-19.4
Gur	0.1	6.3	5.4	3.2	0.8	0.0	-0.6	0.6	1.3	1.4

Source: Department of Consumer Affairs, Bank of Baroda Research, Note: Commodities where price change is more than 6% on YoY basis, have been marked in red, green shaded areas are the recent drop in prices, Data of May'23 is till 7th.

So where is CPI print headed?

The Apr'23 CPI would get comfort from a favourable base of around 84bps (CPI print in Apr'22 was 7.8% against 7% in Mar'23). Thus, we expect the headline number to be around 4.6% in Apr'23. Despite this, the sequential picture of CPI might reflect some upside risk emanating from 1) risks to vegetable and fruits inflation due to early onset of summer 2) volatility in oil and gold prices and 3) fairly robust domestic macros.

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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