

How prices look in Dec'23

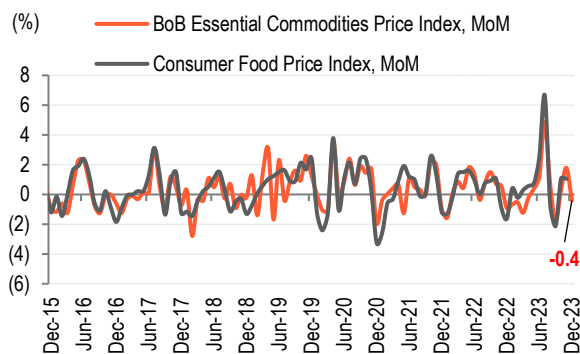
BoB Essential Commodity Index (BoB ECI) has fallen by 0.4% in Dec'23, on a sequential basis. This is the first drop since Sep'23. Correction in vegetable prices, seasonal drop in prices and arrival of fresh crops in the harvest month; have all contributed to a favourable outlook for inflation. The drop in prices has been broad based with items such as pulses, edible oil, tea and sugar, all showing moderation. The YoY number is bit charred by unfavourable base. We expect headline CPI to settle at ~5.5% in Dec'23 (adverse base of ~20bps). In the coming months (Jan and Feb), the drop in inflation is likely to be more pronounced, as is already visible in major high frequency price data of Jan'24.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

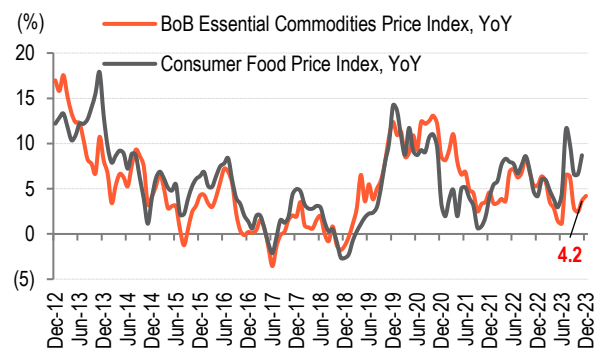
- On MoM basis, BoB ECI fell by 0.4% in Dec'23 from 1.8% increase seen in Nov'23. This is the first decline in the index since Sep'23. 16 out of 20 commodities that is captured in the index have registered a decline in Dec'23 compared to Nov'23. Among them, sharpest correction was visible in case of vegetable prices. Onion prices have fallen by 14.8% in Dec'23 from 56.2% increase in Nov'23, on MoM basis. Even tomato and potato prices have fallen by 4.8% and 4.4%, respectively. Other commodities where prices have inched down are all items of pulses (Gram, Tur, Urad, Moong, Masur), edible oil, tea, sugar and milk. However, on a seasonally adjusted basis, it has risen slightly by 0.9% in Nov'23.
- On YoY basis, BoB ECI registered growth rate of 4.2% in Dec'23. 7 out of 20 commodities have registered softening of prices. Notable ones include edible oil, potato, Masur and Wheat (Atta). Unfavourable base affected prices of other vegetables such as Tomato and Onion.
- For the first 4 days of Jan-24, BoB ECI has fallen by 1% on MoM basis and even on a YoY basis it has moderated to 3.9%. Sequential correction was visible in the prices of rice, wheat, pulses and most importantly for major vegetables (Onion, tomato and potato).

Figure 1: On MoM basis, BoB ECI has fallen by 0.4% against 1.8% increase seen in Dec'23



Source: CMIE, Bank of Baroda Research

Figure 2: On YoY basis, it was at 4.2%



Source: CMIE, Bank of Baroda Research

Table 1. Price pressure seen easing, some vegetable prices are seen elevated due to higher base

| Price of major essential commodities (% YOY) | Wts in CPI | Dec-22 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
|----------------------------------------------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Milk | 6.4 | 11.0 | 10.8 | 10.9 | 10.7 | 10.7 | 10.7 | 8.8 | 7.7 | 6.4 | 5.4 |
| Rice | 4.4 | 7.0 | 8.6 | 8.9 | 9.4 | 11.2 | 11 | 11.1 | 11.8 | 13.5 | 14.2 |
| Atta (Wheat) | 2.6 | 18.3 | 6.5 | 4.3 | 2.7 | 2.7 | 0.3 | -1.4 | -1.1 | -1.1 | -1.6 |
| Mustard oil (Packed) | 1.3 | -9.2 | -17.3 | -19.4 | -20.8 | -20 | -18.6 | -17.9 | -17.6 | -18.6 | -18.6 |
| Sugar | 1.1 | 0.5 | 1.7 | 2.2 | 2.4 | 3.4 | 3.1 | 2.6 | 3.5 | 4.7 | 5.9 |
| Tea loose | 1 | -3.5 | -3.2 | -3.7 | -3 | -2.2 | -1.5 | -1.3 | -1.2 | -0.3 | 0.8 |
| Potato | 1 | 9.7 | -8.7 | -9.7 | -13.3 | -10.6 | -11.3 | -12.6 | -13.7 | -13.2 | -7.7 |
| Tur/Arhar dal | 0.8 | 8.9 | 13.1 | 16.1 | 23.8 | 29.6 | 27.3 | 31.5 | 35.7 | 37.6 | 38.1 |
| Soya oil (Packed) | 0.7 | 1.3 | -15.2 | -20.1 | -21.7 | -20 | -17.6 | -17.5 | -17.3 | -19.8 | -18.9 |
| Sunflower oil (Packed) | 0.7 | 2.4 | -20.5 | -25.7 | -28.7 | -29.1 | -28.2 | -26.3 | -25.6 | -27.0 | -25.9 |
| Onion | 0.6 | -21.6 | -13.6 | -6.4 | -4.6 | 4.7 | 17.6 | 29.5 | 36.6 | 90.6 | 81.9 |
| Tomato | 0.6 | -44.6 | -13.2 | -45.1 | -37.5 | 177.4 | 195.9 | -3.9 | -35.4 | 3.6 | 28.0 |
| Urad dal | 0.3 | 1.0 | 3.3 | 4.4 | 7 | 8.9 | 7.6 | 8.4 | 9.8 | 12.7 | 14.1 |
| Moong dal | 0.3 | 1.4 | 4.3 | 5.6 | 7.1 | 8.8 | 9.2 | 10.7 | 12.1 | 12.5 | 12.8 |
| Masoor dal | 0.3 | -1.7 | -3.4 | -4.1 | -4.6 | -4.4 | -5.0 | -3.2 | -1.4 | -1.5 | -0.8 |
| Groundnut oil (Packed) | 0.3 | 4.0 | 2.7 | 1.1 | 0.9 | 1.2 | 1.9 | 2.7 | 2.4 | 1.7 | 1.9 |
| Salt pack | 0.2 | 17.4 | 14.1 | 12.8 | 11.2 | 11.1 | 10.9 | 7.2 | 4.2 | 3.2 | 3.7 |
| Gram dal | 0.1 | -3.3 | -1.3 | -0.1 | 1.2 | 2 | 4.4 | 9.8 | 12.9 | 13.6 | 14.6 |
| Vanaspati (Packed) | 0.1 | 2.0 | -15.7 | -19.4 | -20.6 | -18.5 | -15.6 | -14.5 | -12.9 | -12.5 | -10.6 |
| Gur | 0.1 | 0.8 | 1.3 | 2.1 | 3.9 | 5.6 | 5.1 | 4.6 | 4.7 | 4.3 | 6.7 |

Source: CMIE, 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

So where is CPI print headed?

Based on the price dynamics, we expect CPI to settle at ~5.5% in Dec'23. This month witnessed major correction in vegetable prices. Also this coincides with harvest month. Thus, further downtrend may not be overruled. This coupled with seasonality in prices of major food crops, improved Rabi sowing and stable energy prices provide comfort to inflation. Even Jan and Feb'24 prints will witness a statistical base in their favour.

The core services inflation is trailing below 4% currently. Thus the demand side pull of inflation does not seem to be much of a concern now. Overall inflation outlook looks much more balanced as supply side pressures have palliated a bit, for now.

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