

## RETAIL INFLATION

14 October 2019

### Core moderates, food accelerates

**Retail inflation rose to a 14-month high at 4% in Sep'19 led by food inflation, particularly vegetable (15.4%) and meat and fish (10.3%). However, core inflation moderated to 4%, a 26-month low led by transport and communication, amusement & recreation and clothing & footwear. Given the seasonal/rain related reasons for spike in vegetable prices we believe food inflation will come-off in the next few weeks and months. Thus RBI should look at propping growth with 25bps cut in Dec'19.**

**Sameer Narang**

+91 22 66985713

chief.economist@bankofbaroda.com

**Dipanwita Mazumdar**

dipanwita.mazumdar@bankofbaroda.com

**Aditi Gupta**

aditi.gupta3@bankofbaroda.com

#### KEY HIGHLIGHTS

- CPI inflation rises to 4% in Sep'19 led by food.
- Food inflation picks up to 5.1% from 3% in Aug'19 led by vegetables (15.4%) and meat and fish (10.3%).
- Core inflation at a 26-month low of 4%.

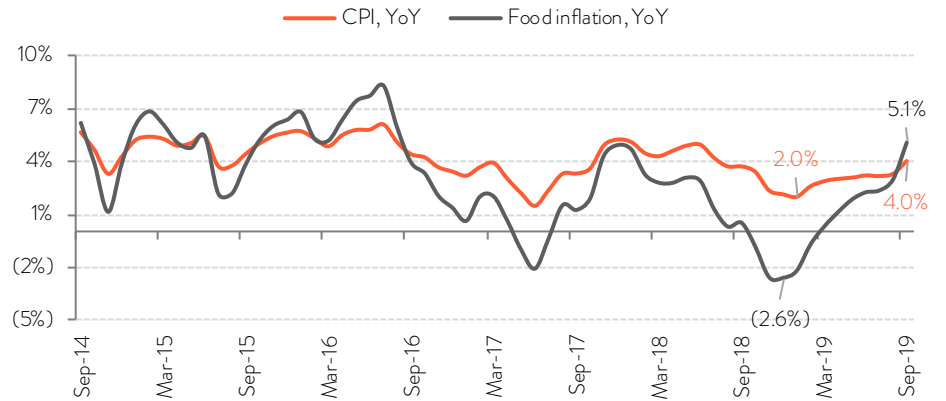
**Food inflation rises:** Food inflation rose to a 37-month high in Sep'19 at 5.1% from 3% in Aug'19. This was led by sharp uptick in vegetable prices at 15.4% (19-month high) versus 6.9% in Aug'19. Prices of meat and fish accelerated to a 68-month high of 10.3% versus 8.5% in Aug'19. Similar trend was also visible in pulses with prices increasing by 7.4% in Sep'19 compared with 2.3% in Aug'19.

**Core at more than 2-year low:** CPI inflation excluding food and fuel fell by 30bps to 4% in Sep'19 (lowest since Jul'17) compared with 4.3% in Aug'19 and 5.9% in Sep'18. Most categories of core inflation reported a softening bias led by transport and communication (110bps to 0.1%), recreation and amusement (30bps MoM to 5.1%) and clothing and footwear (30bps to 1%). Only personal care and effects category reported a 30bps MoM increase due to higher gold prices (up by 0.3% MoM in Sep'19). Given muted domestic demand and relatively benign international oil prices, we expect core inflation at 4% in H2FY20 compared with 4.2% in H1FY20 and 5.8% in FY19.

**CPI to be within MPC's target:** CPI print in Q2FY20 was 10bps higher compared to RBI's estimate of 3.4%. This was led by sharp acceleration in food inflation to 3.5% in Q2FY20 from 1.7% in Q1FY20. At the same time, core inflation has eased from 4.2% in Q1FY20 to 4.1% in Q2FY20. Should the uptick in CPI inflation to 4% matter and does it change our view for FY20/ FY21 inflation? No. The acceleration is driven by vegetable prices which in turn can be explained by excess rainfall in the last few months. As seasonal vegetable crop hits the market in the next few weeks and months, this should revert to normal. Thus growth should remain an overarching concern for RBI and the MPC should look at cutting rates by 25bps in Dec'19.

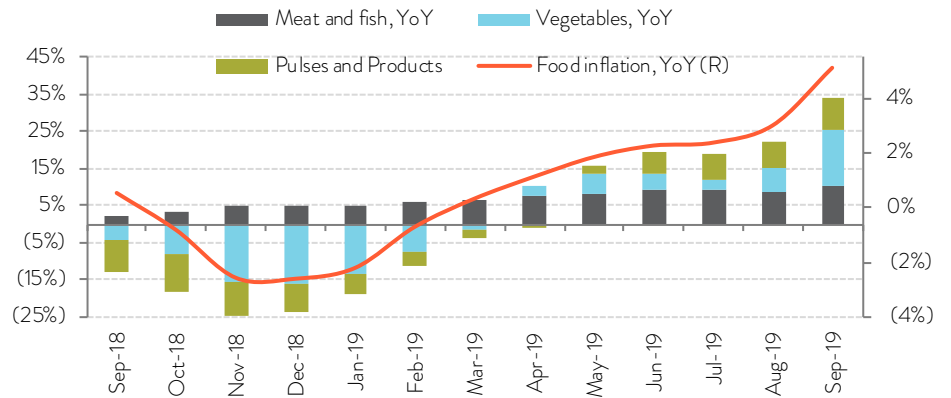


**FIG 1 – FOOD INFLATION INCHES UP TO A 37-MONTH HIGH**



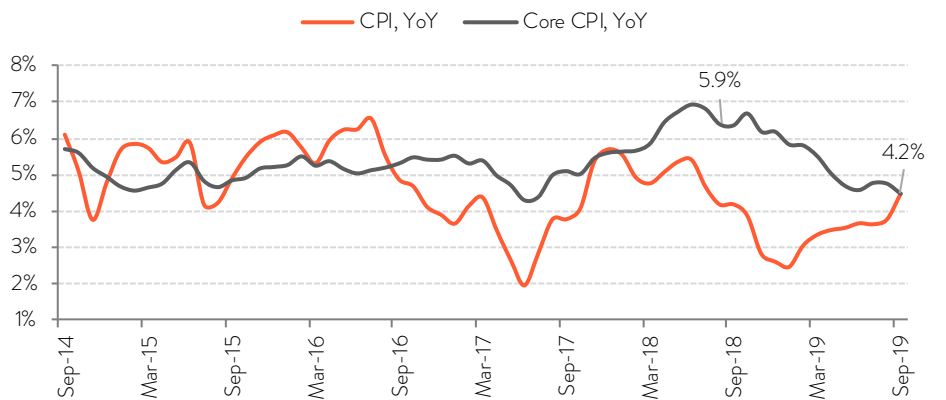
Source: CEIC, Bank of Baroda Research

**FIG 2 – LED BY HIGHER VEGETABLE PRICES**



Source: CEIC, Bank of Baroda Research

**FIG 3 – CORE CPI EASES TO 4% IN SEP'19**



Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

### Economics Research Department

Bank of Baroda

+91 22 6698 5713

[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)