

Sep'24 CPI inflation inches up to nine-month high of 5.5%

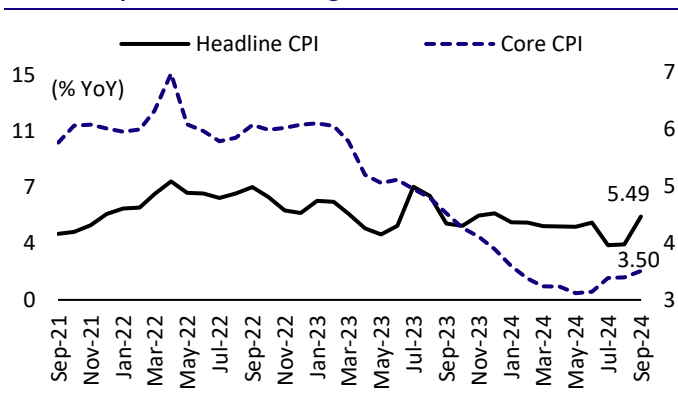
Led by a spike in food inflation

- Headline CPI inflation accelerated to a nine-month high of 5.5% YoY in Sep'24 vs. 3.7% in Aug'24. The acceleration was mainly led by higher food inflation (especially fruits & vegetables, highest in 56 months), which went up to a three-month high of 9.3% in Sep'24. Additionally, core inflation inched up to 3.5% (vs. 3.4% in Aug'24). The inflation number was higher than our forecast of 5% and the Bloomberg consensus of 5.1%. In 1HFY25, inflation stood at 4.5% vs. 5.6% in 1HFY24.
- Food inflation came in at 9.3% YoY in Sep'24 vs. 5.7% in Aug'24. Details suggest that higher food inflation (vs. last month) was mainly driven by a spike in the prices of fruits & vegetables (27.5% in Sep'24, highest in 56 months) and oils & fats. Vegetable prices grew 36% in Sep'24 (highest in 14 months), following a 10.7% YoY increase in Aug'24. CPI, excluding veggies, stood at a three-month high of 3.4% in Sep'24 (vs. 3.1% in Aug'24). At the same time, inflation in cereals, pulses and eggs came down during the month, though still remained high. Notably, the prices of fuel and light items contracted at the slowest pace in 13 months (-1.3% YoY in Sep'24 vs. -5.2% in Aug'24).
- Other details suggest that: 1) Core inflation (excluding F&B and F&L) rose 3.5% in Sep'24, highest in eight months. Excluding mobile charges (weight = 1.82%), core inflation stood at 3.3% in Sep'24; 2) Services inflation was at an 11-month high of 3.5% YoY, led by an increase in housing inflation (2.8% in Sep'24, highest in eight months) and higher inflation in the personal care & effects category. Core services inflation (services excluding housing) stood at 4% in Sep'24 vs. 3.9% in Aug'24; 3) CPI, excluding veggies (weight 94%), stood at a three-month high of 3.4% YoY; 4) Imported inflation jumped to a 19-month high of 3.1% in Sep'24, while domestically generated inflation increased to 5.8%, highest in six months (vs. 4% in Aug'24) (Exhibit 3); 5) Standard core inflation (excluding food & energy) stood at 3.7% YoY in Sep'24 (vs. 3.5% in Aug'24), highest in eight months; 6) Details confirm that 27% of the CPI basket posted 5%+ inflation, which was the highest in six months.
- Overall, the inflation print came in much higher than our estimates. Inflation in 2QFY25 averaged 4.2%, higher than the RBI's forecast of 4.1%. We expect inflation at ~4.5%-5.0% YoY in 3QFY25. With this higher inflation print, uncertainties regarding food inflation and the risks of rising crude oil prices (due to Middle East tensions), we believe that a rate cut is difficult in the Dec'24 policy. Thus, we do not see any impact of this data on the monetary policy. We continue to expect a rate cut in 2025 unless growth falters.

- **CPI inflation at nine-month high in Sep'24:** Headline CPI inflation accelerated to a nine-month high of 5.5% YoY in Sep'24 vs. 3.7% in Aug'24. The acceleration was mainly led by higher food inflation (especially fruits & vegetables, highest in 56 months), which went up to a three-month high of 9.3% in Sep'24. Core inflation inched up to 3.5% (vs. 3.4% in Aug'24) (Exhibit 1). The inflation number was higher than our forecast of 5% and the Bloomberg consensus of 5.1%. In Apr-Sep'24, inflation stood at 4.5% vs. 5.6% in Apr-Sep'23.
- **Food inflation inched up to 9.3% in Sep'24:** Food inflation came in at 9.3% YoY in Sep'24 vs. 5.7% in Aug'24. Details suggest that higher food inflation (vs. last month) was mainly driven by a spike in the prices of fruits & vegetables (27.5% in Sep'24, highest in 56 months) and oils & fats. Vegetable prices grew 36% in Sep'24 (highest in 14 months), following a 10.7% YoY increase in Aug'24. CPI, excluding veggies, stood at a three-month high of 3.4% in Sep'24 (vs. 3.1% in Aug'24) (Exhibit 2). At the same time, inflation in cereals, , pulses and eggs came down during the month, though still remained high. On the other hand, prices of spices contracted for the third consecutive month in Sep'24 (-6.3% YoY vs. -4.4% in Jun'24). Notably, the prices of fuel and light items contracted at the slowest pace in 13 months (-1.3% YoY in Sep'24 vs. -5.2% in Aug'24).

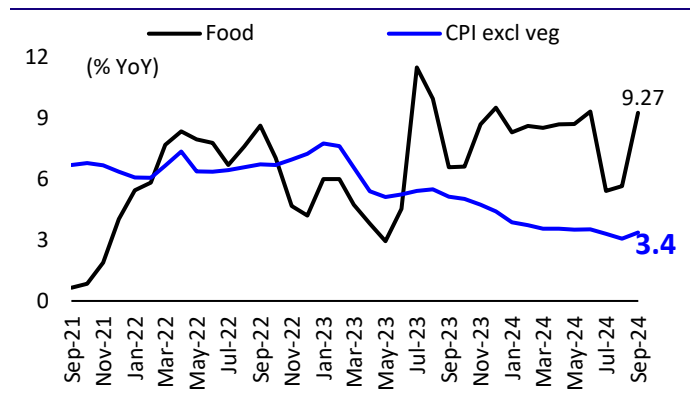
- Other details suggest that:** 1) Core inflation (excluding F&B and F&L) rose 3.5% in Sep'24, highest in eight months. Excluding mobile charges (weight 1.82%), core inflation stood at 3.3% in Sep'24; 2) Services inflation was at an 11-month high of 3.5% YoY, led by an increase in housing inflation (2.8% in Sep'24, highest in eight months) and higher inflation in personal care & effects category. Core services inflation (services excluding housing) stood at 4% in Sep'24 vs. 3.9% in Aug'24; 3) CPI, excluding veggies (weight 94%), stood at a three-month high of 3.4% YoY; 4) Imported inflation jumped to a 19-month high of 3.1% in Sep'24, while domestically generated inflation increased to 5.8%, highest in six months (vs. 4% in Aug'24) (*Exhibit 3*); 5) Standard core inflation (excluding food & energy) stood at 3.7% YoY in Sep'24 (vs. 3.5% in Aug'24), highest in eight months; 6) Details confirm that 27% of the CPI basket posted 5%+ inflation, which was the highest in six months. (*Exhibit 4*)
- Our view:** Overall, the inflation print came in much higher than our estimates. Inflation in 2QFY25 averaged 4.2%, higher than the RBI's forecast of 4.1%. We expect inflation at ~4.5%-5.0% YoY in 3QFY25. With this higher inflation print, uncertainties regarding food inflation and the risks of rising crude oil prices (due to Middle East tensions), we believe that a rate cut is difficult in the Dec'24 policy. Thus, we do not see any impact of this data on the monetary policy. We continue to expect a rate cut in 2025 unless growth falters.

Exhibit 1: Retail inflation inched up to nine-month high of 5.5% in Sep'24 vs. 3.7% in Aug'24



Core CPI excludes food & beverages and fuel & light

Exhibit 2: Food inflation increased to 9.3% in Sep'24, highest in three months



* Excluding food & energy

Exhibit 3: Imported inflation jumped to a 19-month high of 3.1% in Sep'24

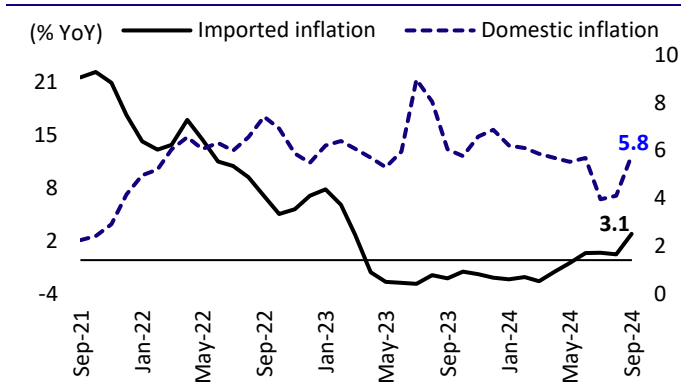
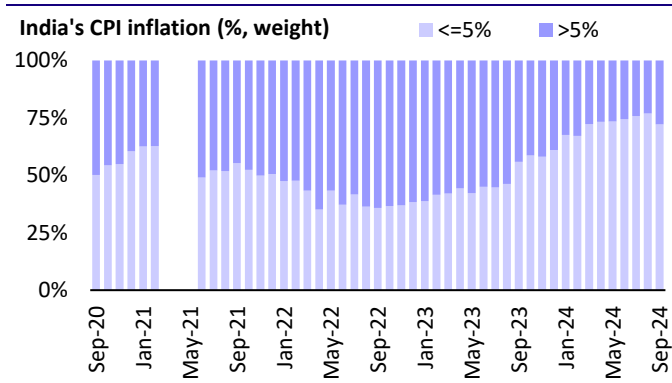


Exhibit 4: 27% of the CPI basket recorded more than 5% inflation in Sep'24, highest in six months



Based on 299 items

Exhibit 5: CPI and its key components

	FY24	1HFY24	1HFY25	Sep-23	Jul-24	Aug-24	Sep-24
Overall CPI	5.4	5.6	4.5	5.0	3.6	3.7	5.5
Food and beverages	7.0	6.2	7.0	6.3	5.1	5.3	8.4
Cereal and products	10.7	13.2	8.3	10.9	8.1	7.3	6.8
Pulses and products	15.2	8.9	16.0	16.3	14.8	13.6	9.8
Meat and fish	2.3	0.6	6.2	4.1	5.9	4.3	2.7
Milk and products	6.5	8.6	3.0	7.0	3.0	2.9	3.0
Vegetables	14.9	7.3	19.9	3.4	6.8	10.7	36.0
Pan, tobacco, and intoxicants	3.6	3.6	3.0	3.9	3.0	2.7	2.5
Fuel and light	1.2	5.1	-4.2	-0.1	-5.5	-5.2	-1.3
Housing	3.9	4.7	2.7	4.0	2.7	2.7	2.8
Clothing and footwear	4.7	6.5	2.8	4.6	2.7	2.7	2.7
Miscellaneous	4.5	5.1	3.6	4.8	3.8	3.9	4.0
Transport and communication	1.9	2.3	1.6	2.3	2.6	2.7	2.8
Core CPI*	4.3	5.1	3.3	4.5	3.4	3.4	3.5

*Excluding food & beverages and fuel & light

Source: Central Statistics Office (CSO), MOFSL

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