

Fig 1: Headline CPI jumps as expected on higher food inflation in September'24; % y/y

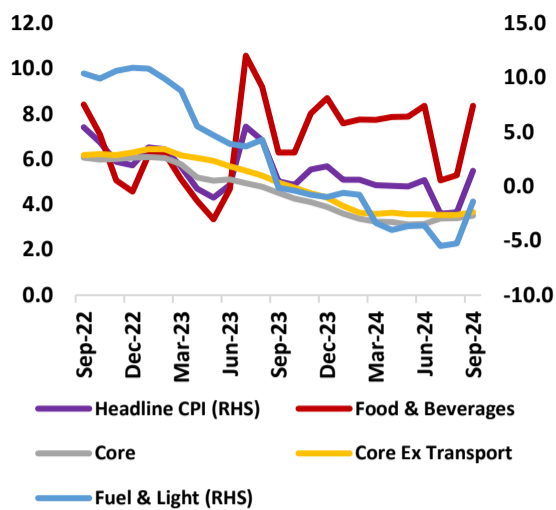
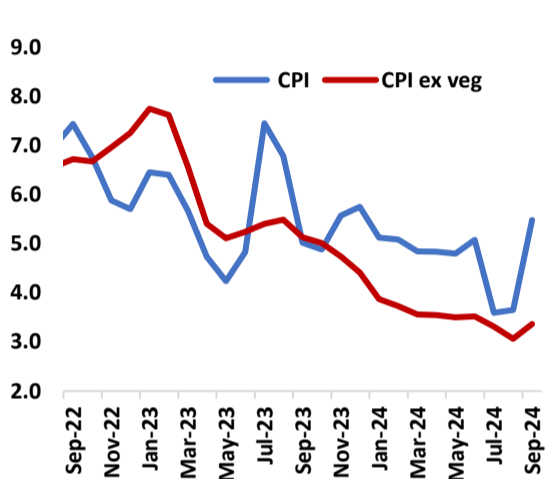


Fig 2: CPI ex veggies too spurts to 3.36%; % y/y



Source: CEIC, UBI Research

Sep'24 CPI clocks higher than our above consensus (5-5.3%) estimate of 5.4%

September'24 CPI took a sharp U-turn from 3.65% in August'24 to 5.49% in line with our expectation ([please refer our CPI preview](#)) because of expected thinning of high base effect (CPI for the month of Sept'23 was 5% vis-a vis 6.8% in Aug'23) and partly because of firming up of food prices during the month; core inflation also hardened to 3.51%, in line with our estimate of 3.46%, pushed up by a spurt in gold prices. Consequently, CPI-ex veg spiked to 3.36% vs. 3.07% last month, yet stayed subdued.

Food CPI saw a pickup on expected spike in veggie prices while cereals threw a surprise

As expected, y/y vegetables inflation in the month of September went up sharply from 10.75% in August'24 to 36%, perfectly in line with our estimate of 37.26%, after remaining subdued in July and August. The flooding in some parts of the country led to supply disruptions thereby driving veggie prices higher with upward momentum persisting in October. M/M inflation in most of the food segments like edible oils, eggs, vegetables, cereals and pulses pushed up y/y food inflation to 8.36%, (our estimate of 8.17%), same as in June this year, as against 5.30% last month. The surprise was in cereals as OTG prices signalled a m/m drop in prices while for second consecutive month they showed a pickup in CPI. Meanwhile pulses inflation cooled as expected into single digits. Going forward, while favourable monsoon and crop sowing bode well for food inflation outlook, we will watch for risks like unseasonal rains in October and rising LaNina effects.

Risk of unseasonal rains in October on close watch

The monsoon has ended the 2024 season with good progress followed by good sowing of kharif crops. However, IMD has given a probability forecast indicating a higher chance of development of LaNina conditions during post monsoon season, 2024, whereas currently, neutral El Nino-southern Oscillation (ENSO) conditions are observed over the equatorial Pacific Ocean. The World Meteorological Organisation (WMO) has predicted 60% probability of La Nina conditions emerging towards the end of this year which is expected to cause a significant drop in temperatures and increased rainfall across the country that could impact winter crops. Unseasonal rains during winter months/ harvest season, may again cause disruptions in food supply chain and pose an upward risk to the food and headline inflation.

Core inflation trends broadly aligned with our expectations

Spike in gold prices pushed the core inflation too higher in the month of September. Y/Y inflation in personal care segment spiked from 8% in August to 9% in September, on dot with our projection of 8.92%. Both core inflation and core ex transport inflation also have gone up from 3.39% and 3.54% in August to 3.51% and 3.66% in September respectively. Core inflation is expected to trend higher in the coming months as base effects fade and gold prices probably remain elevated in a volatile world yet lower oil, metal prices and relatively contained demand pressures may help keep a lid.

Persistence of high food inflation likely to delay rate cuts as expected to Q4 FY25

Q2 average inflation clocked 4.25% versus a downwardly revised 4.1% forecast for the Monetary Policy Committee (MPC). With the next inflation print also tracking above 5.5% levels (given trends in OTG food prices in first fortnight of October) before likely easing in food inflation pressures by end-Q3 / Q4-FY25, we maintain our call the start of a shallow 50bps rate cut cycle from Q4-FY25, as highlighted in our MPC outcome report "[India MPC: Stance shifts to neutral; "unambiguous" inflation focus stays](#)". A few upside risks for inflation like domestic food prices amid unseasonal rainfall risks, geopolitics led spike in oil prices, China stimulus & US Presidential election impact on global inflation will be keenly watched out for. Further, growth risks on close watch as a significant downward revision from the current 7.2% growth forecast is warranted before starting the rate cut cycle.

Fig 3: OTG food prices are firming up again in recent weeks

% Change in Price (m/m)	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24**
Cereals	0.64	-0.40	-1.67	-0.42	0.26
Pulses	2.56	1.86	-1.09	-0.59	0.09
Oils	0.49	-0.14	-1.92	1.73	6.50
Vegetables (OTP*)	16.61	29.43	-7.09	0.42	12.73
Milk	0.55	0.34	0.02	-0.89	0.20
Sugar	0.49	0.18	-0.09	-0.25	0.27

Source: MCA, UBI Research

*Onion, tomato & Potato

** Prices taken for October 01st to October 11th

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Fig 4: Vegetables index remains elevated in September 2024

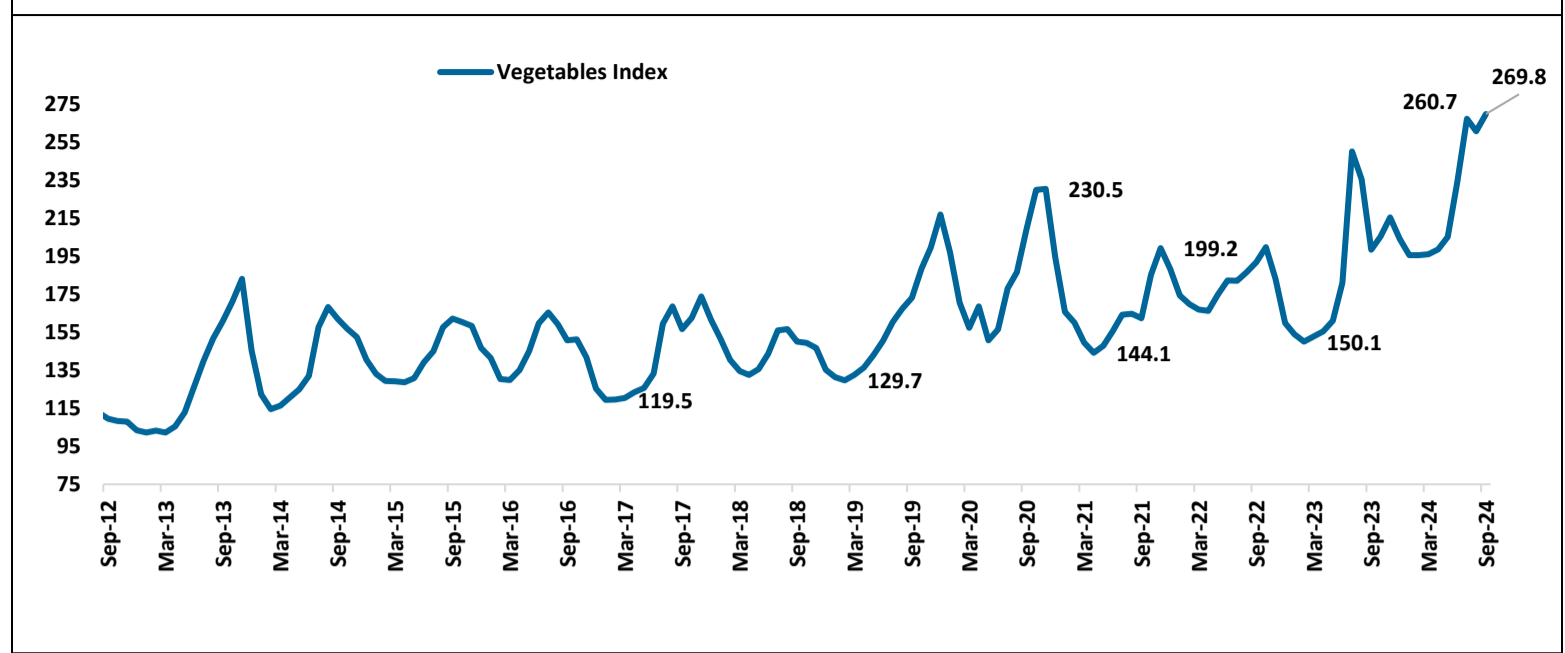


Fig 5: Food inflation remains sticky; change in ppt contribution (September'24 vs August'24)

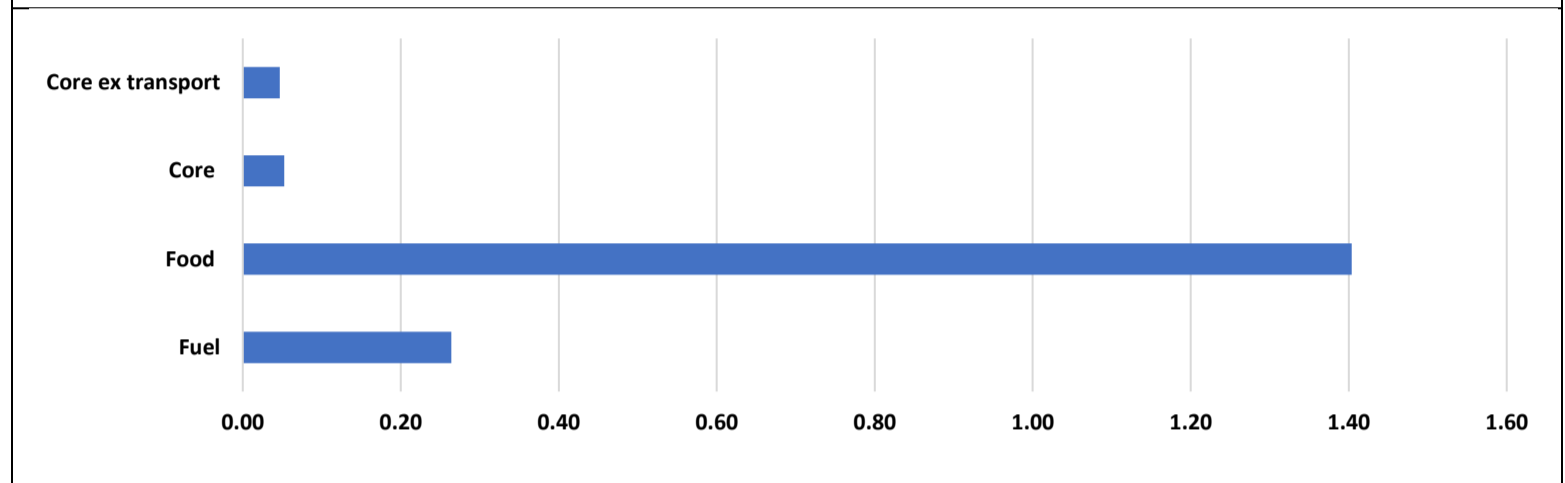


Fig 6: Inflation numbers at a glance

Y/Y, %	Headline CPI	Food & Beverages	Cereals	Pulses	Vegetables	Fuel	Core	Core Ex Transport	Transport & Communication
Sep-23	5.02	6.3	10.9	16.3	3.4	-0.1	4.5	5.0	2.3
Oct-23	4.87	6.3	10.7	18.8	2.8	-0.4	4.3	4.7	2.0
Nov-23	5.55	8.0	10.3	20.3	17.7	-0.8	4.1	4.5	2.1
Dec-23	5.69	8.7	9.9	20.7	27.6	-1.0	3.9	4.3	2.0
Jan-24	5.10	7.6	7.8	19.5	27.1	-0.6	3.6	3.9	2.0
Feb-24	5.09	7.8	7.7	18.9	30.2	-0.8	3.4	3.6	1.8
Mar-24	4.85	7.7	8.4	17.8	28.3	-3.4	3.2	3.6	1.5
Apr-24	4.83	7.9	8.6	16.8	27.8	-4.0	3.2	3.6	1.1
May-24	4.8	7.9	8.7	17.1	27.4	-3.7	3.1	3.6	1.0
Jun-24	5.1	8.4	8.8	16.1	29.3	-3.6	3.1	3.6	1.0
Jul-24	3.6	5.1	8.1	14.8	6.8	-5.5	3.4	3.5	2.6
Aug-24	3.65	5.30	7.31	13.60	10.75	-5.25	3.39	3.54	2.71
Sep-24	5.49	8.36	6.84	9.81	35.99	-1.39	3.51	3.66	2.77

Fig 7: Inflation in transport & communication and personal care behind firming up of the otherwise benign core inflation (% growth, y/y)

	Pan; tobacco; and intoxicants	Clothing	Footwear	Housing	Household goods and services	Health	Personal care and effects	Recreation and amusement	Education	Transport and communication
% y/y										
Sep-23	3.88	4.64	4.07	3.95	4.31	5.91	8.54	3.40	5.26	2.28
Oct-23	3.87	4.45	3.59	3.80	3.93	5.88	7.84	3.27	5.07	1.96
Nov-23	3.81	4.04	3.29	3.55	3.50	5.51	7.83	3.15	5.01	2.09
Dec-23	3.65	3.75	3.05	3.63	3.37	5.08	7.28	3.08	4.82	1.96
Jan-24	3.28	3.46	2.87	3.20	3.07	4.88	5.88	2.89	4.93	1.96
Feb-24	3.12	3.18	2.64	2.88	2.82	4.53	5.23	2.71	4.75	1.83
Mar-24	3.11	3.12	2.57	2.71	2.70	4.28	6.02	2.76	4.69	1.52
Apr-24	2.99	2.89	2.40	2.68	2.75	4.27	7.45	2.64	4.20	1.09
May-24	3.03	2.83	2.17	2.56	2.51	4.20	7.67	2.57	4.07	0.97
Jun-24	3.08	2.77	2.05	2.69	2.39	4.13	8.23	2.33	3.57	0.97
Jul-24	3.02	2.76	1.99	2.68	2.33	4.06	8.44	2.20	3.54	2.60
Aug-24	2.71	2.75	2.10	2.66	2.43	4.10	8.00	2.37	3.85	2.71
Sep-24	2.51	2.80	1.98	2.78	2.55	4.09	9.00	2.31	3.79	2.77

Source: CEIC, UBI Research

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