

**INDIA CPI INFLATION SLOUCHING TOWARDS RBI COMFORT ZONE:
SEPTEMBER HEADLINE COULD BE AT 5.5%**

Issue No. 26, FY24
Date: 12 Sep 2023

Offering some much-needed breather, CPI inflation edged lower, moderating slightly sequentially, to 6.83% (SBI estimate: 7.0%) for Aug'23 (7.44% in Jul'23). The moderation in CPI is mainly in food and beverages with vegetables and cereals exhibiting the most restraint though meat, fish and spices CPI are still at elevated levels. Core CPI for the second consecutive month is at below-5% mark and stood at 4.86% in Aug'23. It is still below the one-year average of 5.62%.

Given the spatial distribution of monsoon and its impact on Kharif sowing and subsequently on cereals inflation, as also steep decline in LPG prices offsetting CPI by 25 bps, we see good case for retail inflation to slouch towards RBI's tolerance zone. **A note of caution, though, is the asymmetry in inflation amidst various states with 13 out of 23 states reporting higher inflation than national average. Interestingly, this asymmetry is always in existence when we look at headline inflation across states.**

The good thing is that SBI's "CPI Concentration Index" results show that estimated Concentration CPI is consistently less than the Core CPI since Jan'15. For Aug'23, our CPI concentration is 112 bps less than the core CPI. Only for a brief period beginning Jan'20 till Nov'20 and also during the pandemic as supply disruptions weighed heavily, the estimated concentration CPI was higher than the core CPI. Our findings now firmly confirm that it is thus incorrect to infer that Industrial Concentration dictated pricing capacity of larger firms, a hypothesis touted by Viral Acharya sometime back.

The recently held e-auction of rice and wheat under OMOs elicited good response and price discovery, augmenting Gol's efforts to lower retail prices marred by aggravated El Nino events. **While overall rainfall is 10% below normal till now (due to 35% deficit rains in Aug), the spatial distribution is quite even. Out of 36 states/UTs, 25 received normal rains so far. Our "SBI Monsoon Impact Index / MI", with present value of 87.4 fares much better than 2022 full season MI Index at 60.2.**

The average absorption of liquidity reduced to Rs 79,600 crore on 8 Sep'23 with government surplus cash balances at Rs 1.8 lakh crore and thus system liquidity surplus coming down to Rs 66,410 crore by 8 Sep'23. Accordingly, the RBI has decided to reduce the ICRR incrementally in a month, thereby freeing up capital for banks.

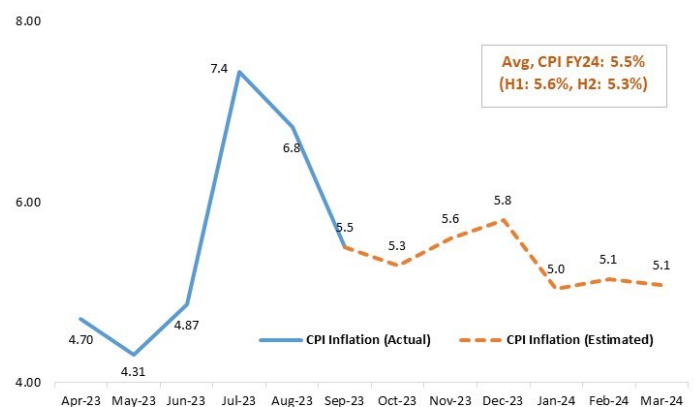
The industrial production based on IIP registered a growth of 5.7% in July 23 from 3.8% in June 23. The mining sector recorded a growth rate of 10.7% in July 23, manufacturing sector also witnessed growth of 4.6%. In FY24, Both Mining and Electricity sectors are on a continuous growth path.

While both ECB and BoE seem ready to go ahead with a 25 bps rate hike, Fed could give it a miss in the coming policy meet.

CPI INFLATION AT 6.83% IN AUGUST 2023

- ◆ CPI inflation slightly moderated sequentially to 6.83% (SBI Estimate: 7.0%) in Aug'23 as compared to 7.44% in Jul'23. The moderation in CPI is mainly in food and beverages. Vegetables and cereals exhibited the most moderation. Meat & fish and spices CPI are still at elevated levels.
- ◆ Core CPI for the second consecutive month is at below-5% mark and stood at 4.86% in Aug'23. It is still below the one-year average of 5.62%.
- ◆ Though, the retail inflation remained outside the tolerance range (2-6%) of the RBI for the second consecutive month, we believe that from next month onwards it will be inside the RBI's range. Still continued vigil on the evolving inflation outlook is warranted given the spatial distribution of monsoon and its impact on Kharif sowing and subsequently on cereals inflation. The recent decline in LPG prices is estimated to moderate overall CPI by ~25 bps.

CPI Inflation Trajectory (%)



Source: SBI Research

STATE-WISE INFLATION

- ◆ Though, the overall CPI inflation eased in August but there are many bigger states, whose inflation is continue to above 7%. Among the States, Rajasthan clocked the highest inflation rate of 8.60% in August, followed by Telangana and Haryana at 8.27%.
- ◆ Among the 23 States, there are 13 States whose inflation is above India's inflation of 6.83% in August and only 6-States whose inflation is below 6%.

MODERATION IN CORE INFLATION CONTINUES

- ◆ Professor Viral Acharya in his Brookings Papers on Economic Activity, Spring 2023 noted that, "reason why the persistence in the core inflation is rising is that consumers do not seem to be fully benefiting from input price declines, which may be due to greater pricing power in increasingly concentrated industrial organization structures".
- ◆ We had earlier tested this hypothesis in detail in our **Ecowrap dated 23 Apr'23** using data of seven select sectors where there is presence of Oligopoly (Telecom/Basic Metals) Oligopsony (Passenger Vehicles / Two wheelers) and Monopsony with little evidence of any Monopoly control. Subsequently, we estimated "CPI Industrial Concentration Index" for the period Jan'15 till Aug'23.
- ◆ The resultant "CPI Concentration Index" results show that estimated Concentration CPI is consistently less than the Core CPI since Jan'15. **For the Aug'23 month our CPI concentration is 112 bps less than the core CPI.** Only for a brief period beginning Jan'20 till Nov'20 and also during the pandemic as supply disruptions weighed heavily, the estimated concentration CPI was higher than the core CPI.
- ◆ Our findings thus conclusively suggest that **it is thus incorrect to infer that Industrial Concentration dictated pricing capacity of firms.**

PRICE STABILIZATION OPERATIONS

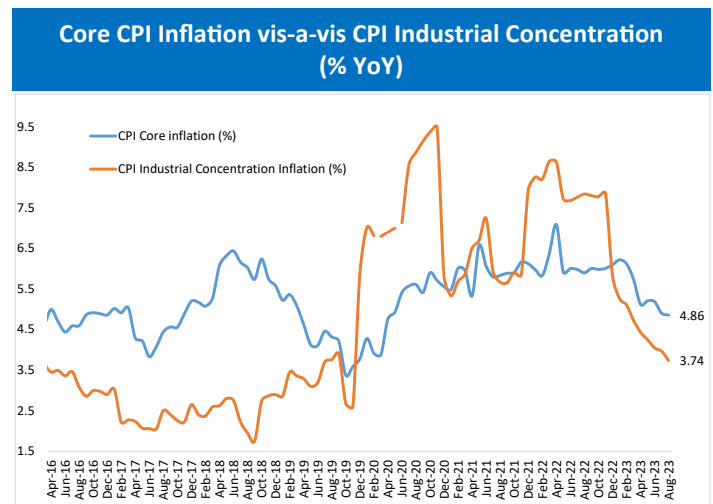
- ◆ El Nino conditions have impacted agriculture produce across globe. This has fueled the domestic prices of rise and wheat leading to sting of open market operations. So far 11 operations have been conducted.
- ◆ The 11th e-auction of 2023-24 was held on 06.09.2023. A quantity of 2.0 LMT wheat from 500 depots and 4.89 LMT rice from 337 depots were offered from across the country.

Top 5 and bottom 5 items contributing to Headline Inflation				
Items	Weight	Jul-23	Aug-23	Change in bps
Top 5 Items Weighted Contribution				36
Kerosene – PDS	0.3	-0.3	-0.2	10
Onion	0.6	0.1	0.2	8
Chicken	1.2	0.0	0.1	7
Jeera	0.4	0.3	0.4	6
Garlic	0.3	0.2	0.2	6
Bottom 5 Items Weighted Contribution				-61
Other vegetables	0.6	0.1	0.0	-5
Wheat/ atta – other sources	2.6	0.3	0.2	-6
Brinjal	0.4	0.1	0.1	-7
Green chillies	0.3	0.1	0.1	-9
Tomato	0.6	1.3	1.0	-34
Headline inflation	100.0	7.44	6.83	-61

Source: SBI Research

State-Wise Inflation Rates (YoY %)							
States	Jun-22	Jul-22	Aug-22	Sep-22	Jun-23	Jul-23	Aug-23
Andhra Pradesh	8.63	7.38	6.62	8.06	4.92	8.11	7.84
Assam	7.60	7.91	7.73	7.08	2.54	3.91	4.01
Bihar	4.68	5.21	6.31	6.38	6.10	7.75	6.58
Chhattisgarh	6.60	6.17	5.65	6.44	1.30	6.05	5.52
Delhi	5.06	4.13	4.16	4.03	1.98	3.78	3.09
Goa	2.88	2.42	2.54	2.50	3.21	3.55	2.95
Gujarat	7.50	7.85	8.22	7.95	4.63	7.46	6.88
Haryana	8.14	7.83	7.71	7.95	6.16	8.32	8.27
Himachal Pradesh	5.61	4.58	4.88	4.54	4.33	7.12	7.01
Jammu and Kashmir	7.97	6.78	6.93	6.88	2.84	4.98	5.45
Jharkhand	6.86	5.65	6.24	7.22	4.83	9.16	7.91
Karnataka	6.20	4.86	4.98	5.75	4.15	7.85	7.79
Kerala	5.41	5.36	5.73	6.45	5.25	6.48	6.26
Madhya Pradesh	7.77	7.41	7.83	8.65	2.98	6.78	6.07
Maharashtra	7.97	7.68	7.99	8.03	4.80	6.67	6.12
Odisha	7.71	6.13	6.82	8.06	3.92	8.78	8.23
Punjab	6.23	5.64	5.61	5.60	4.84	7.08	7.28
Rajasthan	7.34	6.93	7.15	7.45	5.11	9.66	8.60
Tamil Nadu	5.08	4.78	5.14	6.93	6.41	8.95	7.76
Telangana	10.05	8.64	8.11	8.73	5.58	8.61	8.27
Uttar Pradesh	6.85	6.89	7.62	7.85	5.59	8.13	7.20
Uttarakhand	6.88	6.11	7.23	7.27	6.32	8.58	7.90
West Bengal	7.34	7.80	8.94	9.44	4.43	5.96	4.79
All India	7.01	6.71	7.00	7.41	4.87	7.44	6.83

Source: SBI Research



Source: SBI Research

- ◆ The weighted average selling price was Rs. 2169.65/ qtl for FAQ wheat against the reserve price of Rs. 2150/qtl Pan India. The weighted average selling price was Rs. 2956.19/qtl for rice against the reserve price of Rs. 2952.27/qtl Pan India.
- ◆ The reduction in retail price is being targeted by offering up to 100 tons maximum for a buyer for wheat and 1000 tons for rice.

MONSOON UPDATE

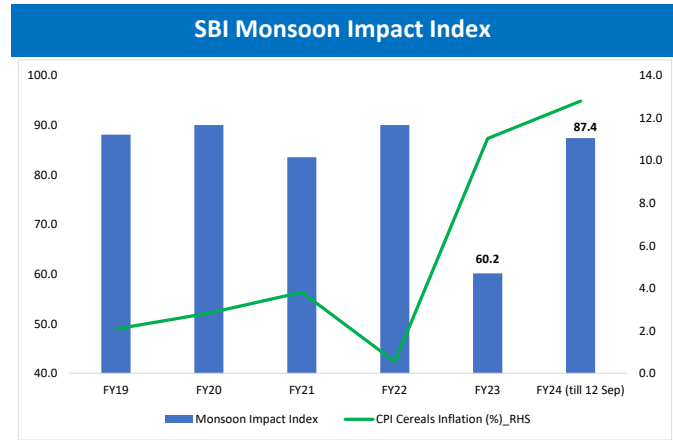
- ◆ While overall rainfall is 10% below normal till now (due to 35% deficit rains in Aug), the spatial distribution is quite even. Out of 36 states/UTs, 25 received normal rains so far. Our “SBI Monsoon Impact Index / MI”, with present value of 87.4 fares much better than 2022 full season MI Index at 60.2.
- ◆ The Northwest region which is the core monsoon region and also the prime agriculture supply regions has received a marginal surplus implying the domestic supply pressure will be contained.

LIQUIDITY UPDATE

- ◆ The RBI in its Aug’23 monetary policy decided to impound on additional liquidity on account of deposit of Rs 200 notes through incremental CRR of 10%, which in turn led to moderate reduction in surplus durable liquidity to Rs 2.5 lakh crore by end-Aug though the system liquidity which was around Rs 2 lakh crore by 10 aug’23 reduced to Rs 1.0 lakh crore by end-Aug.
- ◆ The average absorption reduced to Rs 79,600 crore on 8 Sep’23 with government surplus cash balances at Rs 1.8 lakh crore and thus system liquidity surplus down to Rs 66,410 crore by 8 Sep’23. Accordingly, the RBI decided to reduce the ICRR incrementally in a month, thereby freeing up capital for banks.

INDEX OF INDUSTRIAL PRODUCTION

- ◆ The IIP registered a growth of 5.7% in July 23 from 3.8% in June 23. The mining sector recorded a growth rate of 10.7% in July 23, manufacturing sector also witnessed growth of 4.6%.
- ◆ In FY24, Both Mining and Electricity sectors are on a continuous growth path. Mining growth has increased from 5.1% in Apr 23 to 10.7% in July 23.
- ◆ Electricity sector which struggled for growth in initial two months of FY24 has also improved a lot with growth rate of 8% in July 23 in comparison to 4.2% growth in June 23, 0.9% growth in May 23 and 1.1% degrowth in April 23.

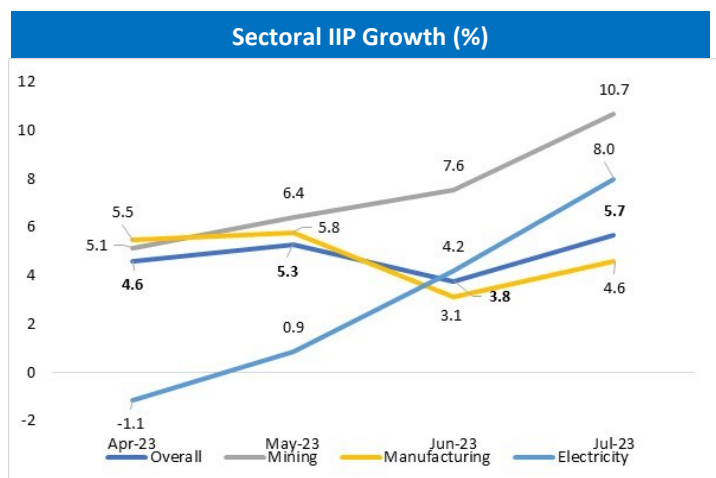


Source: SBI Research

- ◆ Manufacturing growth which saw a dip in June 23 after initial two months good growth, has again improved to 4.6% growth in July 23.

UNCERTAINTY PLAGUES GLOBAL OUTLOOK

- ◆ Buoying crude prices built on steep production cuts and the great slowdown in Chinese juggernaut duly added by a defiant dollar colouring the outlook are making policy makers/regulators jittery as markets price in the probability of DMs staying course on rate front as the US CPI is expected to show prices edging up in August, giving fresh salvo to Fed to act tougher. Both ECB and BoE seem ready to side with a 25 bps hike this month, though Fed seems more aligned to a pause this month and a hike in next.
- ◆ **The general trends in international commodity prices shows continued correction from the peaks observed in previous years. The prices of agriculture commodities, energy commodities are lower than previous levels but are showing signs of firming up on better prospects for China, possible soft landing in the US.**



Source: SBI Research

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