

Inflation

2.57% YoY

CPI inflation rises

Items	Weights(%)	Dec-18	Jan-19	Feb-19
CPI	100.0	2.1	2.0	2.6
CFPI	39.1	(2.6)	(2.2)	(0.7)
Core CPI	47.3	5.7	5.3	5.3
Fuel	6.8	4.5	2.1	1.2

YoY inflation (%)

Items	Weights(%)	Dec-18	Jan-19	Feb-19
CPI	100.0	2.11	1.97	2.57
Food & beverages	45.9	-1.64	-1.29	-0.07
Fuel & light	6.8	4.47	2.12	1.24
Core CPI	47.3	5.67	5.35	5.31
Pan,tobacco & intox.	2.4	5.71	5.49	5.49
Clothing & Footwear	6.5	3.38	2.88	2.73
Housing	10.1	5.32	5.20	5.10
Misc.	28.3	6.38	6.04	6.02

MoM inflation (%)

Items	Weights(%)	Dec-18	Jan-19	Feb-19
CPI	100.0	-0.50	-0.36	0.21
Food & beverages	45.9	-1.07	-0.58	0.07
Fuel & light	6.8	-1.65	-2.24	-0.79
Core CPI	47.3	0.19	0.19	0.37
Pan,tobacco & intox.	2.4	0.25	0.12	0.12
Clothing & Footwear	6.5	0.07	-0.27	0.07
Housing	10.1	-0.27	0.82	0.54
Misc.	28.3	0.37	0.07	0.37

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CPI February

Mild pick-up in headline CPI...

Key readings

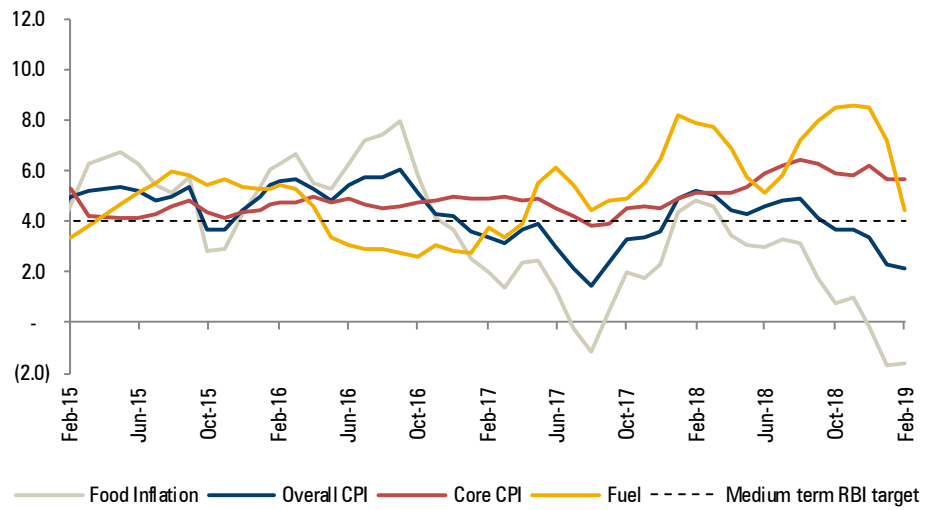
- Retail inflation for February printed 2.57% YoY, up marginally from a 19-month low reading of 1.97% in January 2019. CPI in February 2018 was at 4.44%. The pick-up was on account of lower deflation in food prices
- While the food basket was down 0.07% YoY, marking the fifth consecutive month of deflation, it picked up from the previous three months' average of -1.54%. Segments like vegetables (-7.69%), sugar (-6.92%) and pulses (-3.82%) continued to remain in the red. Important segments like cereals (1.32%) and milk (0.78%) increased mildly
- Fuel inflation fell to a further series low of 1.24% YoY on the back of stable of crude oil prices around ~US\$65 per barrel. Petrol prices (part of transport & communication sub-segment) de-grew 4.3% YoY against the previous six-month average of +8.3%
- Core CPI (CPI ex-food, ex-fuel) remained largely static at 5.31% YoY against the previous month's reading of 5.35% YoY. High readings for segments such as health (8.82%) and education (8.13%) imparted stickiness to the core basket

Looking deeper...

1. **Oil & fuel inflation:** After dipping substantially by more than 20% from the October levels in December and January, Brent crude oil prices stabilised somewhat at ~US\$65 per barrel. Averaging ~US\$64 per barrel during February, the sharp decline from earlier levels of ~US\$75-80 per barrel has also helped cool domestic fuel prices. This is reflected in the lower readings for petrol and other crude oil derivate products like LPG and kerosene
2. **Food prices continue to drive CPI direction:** High weight items like cereals, milk are below their long-term averages. Also, the persistent deflation in vegetables and pulses are helping keep food inflation and overall headline CPI firmly under check. On a sequential basis, the food basket (~46% CPI weight) moved into the positive zone for the first time in six months. Sub-segments such as vegetables, sugar, fruits and oils & fats have been driving deflation in the last few months
3. **Favourable base effects:** Base effects are likely to continue to impact several segments in the coming months as well as the overall print itself. The housing segment has been recording easing prints since the central government HRA revisions are now behind us. The headline CPI print can also benefit positively from a favourable base effect during Q4FY19 and Q1FY20 (Q4FY18 CPI average 4.59%, Q1FY19 average 4.79%)
4. **Reading far below RBI's estimate:** February headline print of 2.57% is far below RBI's revised Q4FY19 inflation trajectory of 2.8%. The RBI in its February meeting revised its CPI projection trajectory downwards to reflect lower food & fuel prices. Actual CPI readings have persistently undershot the RBI's inflation trajectory over the last few quarters

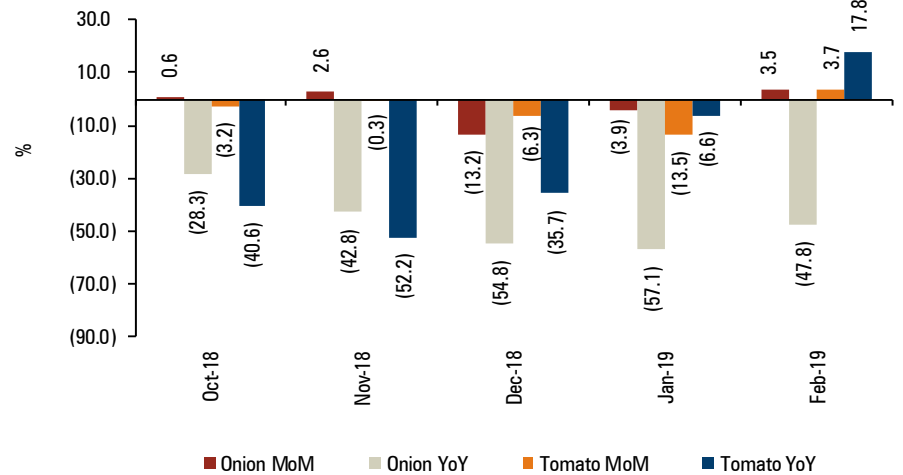
Exhibit 1: Huge divergence between recent trend in fuel and food prices

Core CPI persistence has been highlighted by the RBI repeatedly as a key monitorable. Thus far, persistence in core inflation has not allowed headline CPI to cool to the entire extent of cooling in food prices. Recently, fuel prices also started rising due to elevated crude prices



Source: CSO, ICICI Direct Research

Exhibit 2: Vegetable deflation in past few months



Source: CSO, ICICI Direct Research



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