

Inflation may surprise on the upside

BoB Essential Commodity Index (BoB ECI) exhibited some stickiness in Sep'24. Its pace of disinflation reduced led by vegetables such as tomato and onion. For tomato, the Sep'24 mandi arrival have more than halved compared to Aug'24, on account of excess rainfall. Seasonality along with supply side disruption is making the cycles of these volatile items of CPI more entrenched. Core inflation is also likely to exhibit upward correction amidst revival in rural demand on the back of improved sowing. This coupled with ongoing festive demand and elevated gold prices as an effective hedge amidst geopolitical conflict, might pose upside pressure on core in the near term.

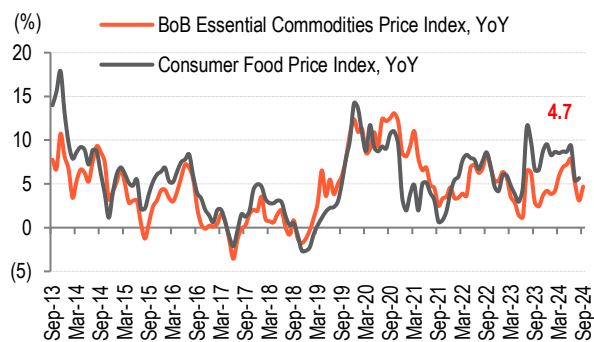
We expect CPI to settle around 5.1% in Sep'24, with risks tilted to the upside.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

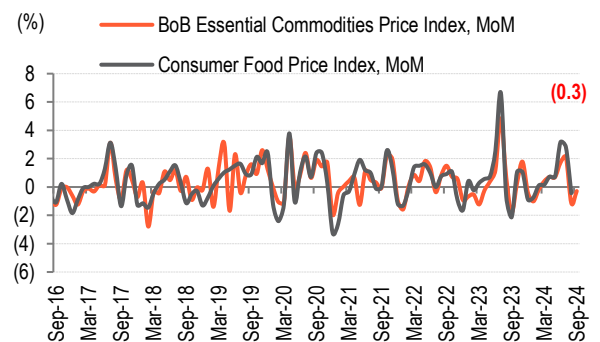
- Sequentially, BoB ECI is exhibiting upside surprise. The pace of disinflation has reduced to -0.3% in Sep'24 from -1.1% in Aug'24. Out of 20 essential commodities tracked in the index, 15 of them have exhibited increase in retail prices. Among them, sharpest increase was visible in case of vegetables such as Tomato (-9.1% in Sep'24 compared to -23.3% in Aug'24) and Onion (13.3% compared to 3.2%). Retail prices of major components of edible oils such as mustard, sunflower and soya oil have also increased considerably. Higher international prices of edible oils are getting reflected in the domestic basket. Price pressure was broad based and even visible in case of cereals, salt, tea and few components of pulses such as Gram, Urad and Moong. However, a lot of increase in prices is attributable to seasonal phenomenon. On a seasonally adjusted basis, the fall in BoB ECI is sharper at -0.6% in Sep'24.
- On YoY basis, BoB ECI rose by 4.7% in Sep'24. The YoY picture broadly mirrors the sequential one, with major increase concentrated in Tomato (16.6%) and Onion (53%). For onion, the increase is significant as it comes in the wake of an elevated base.
- BoB ECI in Oct'24 (first 4 days) further inched up by another 1.4% on sequential basis and on YoY basis, it is at 5.9%, with the increase in tomato prices even sharper than seen in Sep'24.

Figure 1: On YoY basis, BoB ECI rose by 4.7% in Sep'24 from 3.1% in Aug'24



Source: CMIE, Bank of Baroda Research

Figure 2: On MoM basis, the pace of decline is lower at -0.3% from -1.1% in Aug'24



Source: CMIE, Bank of Baroda Research

Table 1. Stickiness observed in prices of major vegetables

Price of major essential commodities (% YOY)	Wts in CPI	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Milk	6.4	4.8	4.5	3.9	3.5	3	2.6	2.8	2.1	0.9
Rice	4.4	14.4	14.2	14.2	13.8	13.5	12.8	9.1	5.1	2.6
Atta (Wheat)	2.6	-3.2	-3.5	3.4	4.7	4.7	4.6	2.9	1.7	1.4
Mustard oil (Packed)	1.3	-18.7	-17.3	-14.6	-11.5	-9	-3.3	-2	-0.8	3.8
Sugar	1.1	6.5	6.5	6.5	5.7	5.2	4.9	4.2	3.7	2.8
Tea loose	1	1.2	2	1.8	1.3	1.8	0.7	-0.2	-3.3	-4.1
Potato	1	-1.7	5.3	22	38.9	41.7	45.8	55.1	53.1	49.4
Tur/Arhar dal	0.8	35.1	33.7	31.7	29.7	30.2	27	24.6	19.8	12.0
Soya oil (Packed)	0.7	-18.5	-16.8	-14.5	-11.3	-9.2	-6.8	-6.1	-7.5	-3.1
Sunflower oil (Packed)	0.7	-24.6	-22.6	-20	-16.6	-13.7	-9.5	-8.4	-6.6	-2.5
Onion	0.6	41.3	28.9	40.1	41.4	43.4	57.9	64.9	50.3	53.0
Tomato	0.6	31.8	38.2	36.2	40.4	38.7	28.3	-40	-50.0	16.6
Urad dal	0.3	14.5	15.5	15.7	15	14.7	13.8	11.9	8.9	6.1
Moong dal	0.3	12.4	11.7	11.6	9.9	9	8.7	7.1	4.5	1.6
Masoor dal	0.3	-0.4	0.4	0.6	0.5	1	2.5	1.5	-2.0	-4.3
Groundnut oil (Packed)	0.3	1.4	1	0.7	0.3	-0.4	-0.8	-1.6	-3.8	-4.4
Salt pack	0.2	4.7	3.7	3.7	2.7	2.3	2.7	2.3	-0.4	-1.3
Gram dal	0.1	14.5	14.5	15.3	14.5	14.9	17.6	18.9	17.1	15.0
Vanaspati (Packed)	0.1	-9.7	-8.6	-7.3	-5.1	-4.5	-3.7	-2.9	-4.5	-2.5
Gur	0.1	8.7	9.1	8.5	8.5	7.9	7.2	6.8	5.6	3.6

Source: CMIE, Bank of Baroda Research, Note: Commodities where price change is more than 6% on YoY basis, have been marked in red

So where is CPI print headed?

High frequency price data in both Sep'24 and Oct'24 reflect buildup in price pressure. However, a lot is attributable to seasonal phenomenon. Vegetable prices generally have the trend of correction in H2 with arrival of fresh crops. However, in the past few years, seasonality coupled with supply side disruption has led to price shocks especially in tomato and onion getting entrenched. The key upside risks to prices persist for these perishable items with late withdrawal of monsoon. For Tomato, the Jul-November harvest has been impacted on account of excess rain. In fact, the arrival in mandis have almost more than halved in Sep'24 due to excess rainfall. For Onion, fresh harvest will enter the market from Oct onwards, where some correction in prices is likely to be seen. Further, for all TOP items (tomato, onion and Potato), the gap between wholesale and retail prices are higher than normal long-term average, which reflect some pass through of prices to retail is yet to happen. Thus, prices for these items are likely to be elevated unless supply side disruption is corrected.

Thus, balancing and counterbalancing all these factors and considering an unfavourable base, our headline estimate of CPI stands at 5.1% in Sep'24, with risks tilted to the upside.

Table 2. Rainfall picture of major vegetable producing States

Major “TOP” producing States	Rainfall situation	Major share of “TOP”
Andhra Pradesh	Excess	Tomato
Bihar	Normal	Potato, Tomato
Gujarat	Excess	Tomato
Karnataka	Normal	Tomato
Madhya Pradesh	Normal	Tomato
Maharashtra	Excess	Onion, Tomato
Odisha	Normal	Tomato
Rajasthan	Excess	Onion
Uttar Pradesh	Normal	Potato
West Bengal	Normal	Potato

Source: <https://agriwelfare.gov.in/>, IMD, Bank of Baroda Research, Note: Rainfall cumulative till Sep’24 for one to one mapping wrt prices of vegetables

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