

Inflation likely to subside

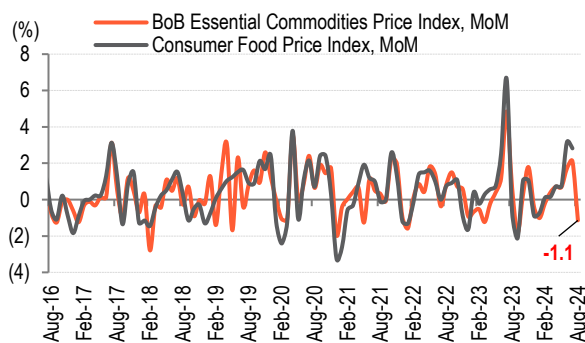
BoB Essential Commodity Index (BoB ECI) shows a significant moderation in underlying price pressure. On a YoY basis, the index has moderated to 3.1% from 5% in Jul'24. Even on a sequential basis, BoB ECI has declined by 1.1%, after increasing by 2.1% in Jul'24. This is led by a correction in prices of vegetables, especially tomato. Prices of other essential commodities also moderated sequentially. Based on this, we expect CPI inflation to print at 4% in Aug'24. Going ahead, while a normal monsoon bodes well for the inflation outlook, unseasonal and excess rainfall in part of the country remains a key risk. We expect inflation to evolve broadly in line with RBI expectations, implying the possibility of rate cut only in Dec'24.

To know more about the methodology for calculation of the index, please refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

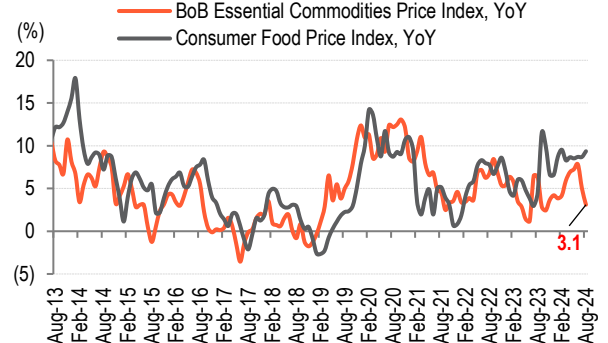
On a MoM basis, BoB ECI index has shown a significant deceleration. After increasing by a sharp 2.1% in Jul'24, the index has fallen by 1.1% in Aug'24, marking its first sequential decline in this fiscal year. Furthermore, the decline is broad based with almost all components of the index witnessing a softening momentum in Aug'24. The moderation is more pronounced in case of vegetables, with prices of potato, onion and tomato witnessing a significant correction. In fact, after increasing by a steep 57.3% in Jul'24, tomato prices declined by 23.3% in Aug'24. Even onion and potato prices increased at a much softer pace of 3.2% (21.4% in Jul'24) and 1.6% (16.2% in Jul'24) respectively in Aug'24. Apart from these, prices of rice and pulses also declined, contributing to the moderation in the index. Within edible oils, some uptick was witnessed in prices of sunflower and mustard oil, even as prices in other categories declined.

Figure 1: On MoM basis, BoB ECI has declined by 1.1%



Source: CMIE, Bank of Baroda Research

Figure 2: Even on a YoY basis, there is a moderation in BoB ECI



Source: CMIE, Bank of Baroda Research

In YoY terms, BoB ECI witnessed considerable moderation in Aug'24 suggesting an easing of underlying price pressures. On a YoY basis, BoB ECI has increased at a softer pace of 3.1% in Aug'24, from 5% in Jul'24. This also marks the softest pace of expansion in the index since Oct'23.

Table 1 below gives a breakup of movement in prices of each of the commodities in the index on a YoY basis. Despite a moderation on a sequential basis, prices of potato and onion still remains elevated. However, this should correct as new crops enter the market. Prices of pulses such as tur and gram is also continuing to exhibit double digit growth but are likely to ease supported by higher imports and improvement in sowing in the current season, which would correct the supply-demand mismatch seen last year.

Table 1. Prices in Jul'24 has the effect of favourable base

| Price of major essential commodities (% YOY) | Wts in CPI | Aug'23 | Jul'24 | Aug'24 | Apr-Aug'23 | Apr-Aug'24 |
|--|------------|--------|--------|--------|------------|------------|
| Milk | | | | | | |
| Milk | 6.4 | 10.7 | 2.8 | 2.1 | 10.8 | 2.8 |
| Cereals | | | | | | |
| Rice | 4.4 | 11 | 9.1 | 5.1 | 9.8 | 10.9 |
| Atta (Wheat) | 2.6 | 0.3 | 2.9 | 1.7 | 3.3 | 3.7 |
| Vegetables | | | | | | |
| Potato | 1.0 | -11.3 | 55.1 | 53.1 | -10.7 | 46.9 |
| Onion | 0.6 | 17.6 | 64.9 | 50.3 | -0.4 | 51.6 |
| Tomato | 0.6 | 195.9 | -40.0 | -50.0 | 55.5 | 3.5 |
| Edible Oils | | | | | | |
| Mustard oil (Packed) | 1.3 | -18.6 | -2.0 | -0.8 | -19.2 | -5.3 |
| Soya oil (Packed) | 0.7 | -17.6 | -6.1 | -7.5 | -18.9 | -8.2 |
| Sunflower oil (Packed) | 0.7 | -28.2 | -8.4 | -6.6 | -26.4 | -11.0 |
| Groundnut oil (Packed) | 0.3 | 1.9 | -1.6 | -3.8 | 1.6 | -1.2 |
| Vanaspati (Packed) | 0.1 | -15.6 | -2.9 | -4.5 | -18.0 | -4.2 |
| Pulses | | | | | | |
| Tur/Arhar dal | 0.8 | 27.3 | 24.6 | 19.8 | 22.0 | 26.3 |
| Urad dal | 0.3 | 7.6 | 11.9 | 8.9 | 6.2 | 12.9 |
| Moong dal | 0.3 | 9.2 | 7.1 | 4.5 | 7.0 | 7.8 |
| Masoor dal | 0.3 | -5.0 | 1.5 | -2.0 | -4.3 | 0.7 |
| Gram dal | 0.1 | 4.4 | 18.9 | 17.1 | 1.2 | 16.6 |
| Others | | | | | | |
| Sugar | 1.1 | 3.1 | 4.2 | 3.7 | 2.6 | 4.7 |
| Tea loose | 1.0 | -1.5 | -0.2 | -3.3 | -2.7 | 0.1 |
| Salt pack | 0.2 | 10.9 | 2.3 | -0.4 | 12.0 | 1.9 |
| Gur | 0.1 | 5.1 | 6.8 | 5.6 | 3.6 | 7.2 |

Source: CMIE, Bank of Baroda Research

So where is CPI print headed?

Based on this, we expect CPI inflation at 4% in Aug'24. The moderation is led by moderation in both vegetable prices as well as a favorable base. Underlying price pressures are easing, barring a few exceptions. Furthermore, monsoon has evolved broadly in line with IMD's projections. This has contributed to improvement in Kharif sowing. Sowing of key crops such as pulses and rice has witnessed a significant recovery from the last year levels. This should help in easing perceived supply shortages in the country. Reservoir storage has also improved which improves the prospects of rabi sowing. Risks however remain from adverse weather conditions in the form of unseasonal rainfall or excess rainfall, can derail this. Overall, we expect inflation to evolve broadly in line with the RBI's trajectory. This suggests that the room for a rate cut is likely to open only in Dec'24.

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