

December 15, 2020

Food prices drive inflation lower...

CPI Inflation (November)

6.93% YoY

Key readings

- CPI Inflation fell sharply lower to 6.93% in November 2020 compared to 7.61% in October. The reading in November was lowest in the last three months indicating the headline print has peaked in October and is now trending down
- The decline in inflation was largely driven by food inflation. Food inflation was down to 8.76% in November against 10.09% in October. Almost all components except oil & fats and non-alcoholic beverages saw a decline in growth in inflation
- Food inflation seems to have peaked out and is likely to trend lower due to a decline in retail prices of vegetables and a favourable base effect. Vegetable prices inflation declined to 15.63% in November compared to 22.08% in October
- Core inflation was largely flat at 5.80% in November compared to 5.75% in October. Core inflation remained flat with divergent trends seen across different components. Going forward, rise in crude prices, elevated input cost pressures, reflecting in wholesale prices could eventually impact output prices and would need to be monitored
- Overall, the reading was better than market expectations. However, sticky core inflation would remain a point of concern. Minutes to be released later this week will be looked at closely to understand MPC members' views on broad based inflationary concerns, excess liquidity and supporting growth

Looking deeper...

- **Food inflation: May surprise on downside, going ahead.** Food inflation has been a major culprit in the last few month's higher inflation print. It increased from 7.4% in May 2020 to 10.09% in October 2020, a rise of 270 bps. Within food inflation, vegetables, oil & fats, protein items like meat, fish and egg along with non-alcoholic beverages were driving it upwards. This month's decline in almost all components is likely to continue given fall in prices in winter for the former and robust crop production in the latter
- Miscellaneous services inflation moved slightly down to 6.94% YoY vs. 6.88% YoY. The key drivers for the increase were education services, personal care and effects and transport services led by increase in crude prices
- The key variable to watch, going forward, other than food inflation would be movement in rise in crude prices, elevated input cost pressures, reflecting in whole sale prices could eventually impact output prices and would need to be monitored

While inflation print for November 2020 came in below expectation, we still expect the MPC to hold rates in the next policy meeting. The RBI on its part is likely to continue to keep unconventional measures and keep financial conditions easy.

Headline inflation fell sharply in November, reversing the rising trend of last few months. Food inflation fell sharply as almost all food items saw a decline in growth

Overall, the trend seems down now as both headline and food inflation seem to have peaked out

While RBI may keep policy rates on hold, the accommodative stance is likely to continue as focus remains on supporting growth

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