

## **CPI Update: September 2023**

**The core inflation came in lower at 4.57% on a YoY basis with continued disinflation seen in alternate measures.**

**The Headline CPI index corrects 1.1% on MoM basis which was driven by 1.8% MoM fall in overall food (with vegetables correcting by 15.8%) and 3.9% MoM fall in fuel (LPG price cut)**

- Headline CPI inflation corrected to 5.02% YoY in Sep from the peak of 7.44% YoY seen in July. Ex. vegetables the print was also lower at 5.1%YoY from 5.5% in August.
- Headline inflation was down by 181 bps on a MoM correction of 113 bps in Sep'23 and favourable base of 57 bps.
- Food was lower at 1.8% MoM as correction in prices of vegetables (15.8%), fruits (1.1%) and oils (0.43%) more than offset increases in other sub-groups including pulses (4.1%), spices (1.8%), cereals (1.2%), eggs (2.3%), meat & fish (1.7%).
- Tomatoes contributed a negative 15 bps to headline CPI inflation compared to +135bps in July and +101bps in August.
- Fuel moved into dis-inflation of 0.1%YoY (Aug: 4.31% YoY) on a sharp cut in LPG cylinder price by the Centre
- Core inflation was lower at 4.57% on an elevated base in Transportation (sharply higher fuel prices in the wake of the Ukraine war), supported by low inflation in Recreation.

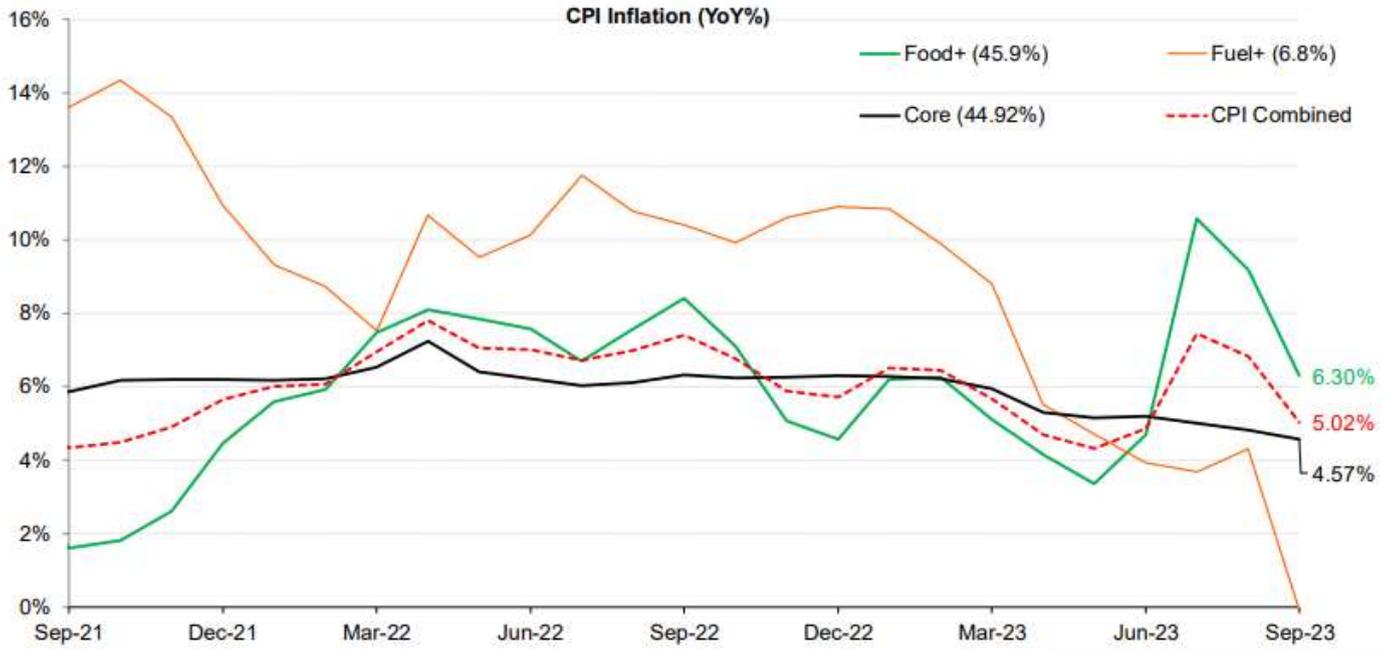
**Though the Headline inflation was sharply lower from the peak in July, it is expected to remain elevated (above 5%) for the rest of the fiscal year.**

- CPI ex. vegetables trajectory looks manageable for now, though risks to forward inflation trajectory from spill-over of food prices remain.
- Does inflation finally begin to tend towards 4% in FY25? Developments need to be watched carefully - with lower core internals promising so far.
- This has implications for how long rates would be held given the MPC's emphasis on the inflation target and its importance to financial stability.

**Core inflation (ex food, fuel and pan) was lower at 4.57% YoY (Aug: 4.83%)**

- Within core, all sub-segments witnessed a fall in inflation except Personal care where inflation was a tad bit higher. On YoY basis, inflation remained low in Transport+ (2.28%YoY) and Recreation (3.4%YoY).
- On a MoM basis, limited increase was seen in major sub-segments within core including in Personal Care+ and was driven by minor fall in gold and silver prices. Housing index fell 0.11% MoM as house rent component corrected more than suggested by seasonal trends.
- Exclusion-based measures of core continued to trend lower. Weighted median CPI also moved lower to 4.7% YoY from 5.2% in August.
- Inflation in items of core CPI basket witnessing >6% inflation fell further to 19% from 21% in August and from peak of 68% in Apr'22.

**Chart 1: Sep'23 headline CPI falls to 5.02% YoY (Aug: 6.83%) on correction in vegetable prices and cut in LPG prices**



Source: Axis Bank Business and Economic Research Team

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