

## Economics

15 October 2010 | 6 pages

# India Macro Flash

## September Inflation Up 8.62% - Base Effect Moderation Faces Emerging Risks

- **Inflation numbers to head lower but there are risks** — Headline inflation rose 8.62% in September in line with expectations (Citi: 8.6%; Consensus: 8.5%) v/s 8.5% in the previous month. On a MoM seasonally adjusted basis, inflation was up 0.7% v/s 0.01% in the previous month. Similar to past trends, July inflation was revised up to 10.3% from 9.8% reported earlier. Going forward, while we expect the base effect to result in a moderation in the numbers to 6% by year end, two concerns worth highlighting are (1) Continued stickiness in Primary Articles possibly due to the growing dominance of structural factors (*rising incomes, changing dietary patterns and stagnant yields*) (2) Possible rise in Fuel index on the back of a QE2 driven commodity price rally.
- **Components of Inflation** — The headline 8.62% number in Sept was driven by:
  1. **Primary articles** which inched up to 17.5% from 15.8% levels last month. This was due to both food (mainly fruits and milk) and non-food articles which rose 15.7% and 18.2% respectively.
  2. **Fuel index** which moderated to 11.1% from 12.5% last month. A detailed break-up is still not available, but as mentioned, this component could be at risk in the coming months.
  3. **Manufactured products** slowed marginally to 4.6% from 4.8% last month with food products decelerating sharply to 2.8% while non-food manufactured product inflation remained unchanged at 4.9%YoY. (see page 2 for details)
- **Monetary Policy Implications: Rate Hikes Yes, But Timing is Debatable** — Given trends in growth (3mma industrial production at 8.8%), credit and inflation, we maintain our view of the RBI hiking once or possibly twice by fiscal year end. This would take the repo/reverse rate to 6.50/5.50 from 6.00/5.00 currently. However, global developments i.e imminent QE2 coupled with recent measures by central banks the world over on tempering capital flows could prompt a wait and watch stance in the upcoming Nov 2 policy.

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**Figure 1. Inflation Snapshot (% YoY, %MoM)**

	Jun-10	Jul-10	Aug-10	Sep-10
Primary Art	20.1	18.9	15.8	17.5
%MoM	2.0	0.9	-0.3	1.5
Manf Prods	5.6	5.4	4.8	4.6
%MoM	-0.2	-0.2	0.2	0.3
Fuel Index	13.9	13.3	12.5	11.1
%MoM	0.3	3.2	0.1	-0.3
<b>WPI</b>	<b>10.3</b>	<b>10.3</b>	<b>8.5</b>	<b>8.6</b>

Source: Office of the Economic Advisor

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## Key Highlights\*

**PRIMARY ARTICLES** edged up to 17.5%YoY in Sept vs. 15.8% the previous month. On a MoM basis prices were up 1.5%. This was on the back of:

**Food Articles**, which were up 15.7%YoY in Sept due to higher prices of fish, fruits and vegetables and spices

**Minerals** were up 28.5% in Sept from 23.8% last month

**Non Food Articles** rose by 18.2%YoY (vs. 16% last month) due to higher prices of fibres, cotton and silk.

Figure 2. Primary Articles – Breakdown by Component (% YoY)

	Wts	Monthly							Apr-Sept	
		Mar10	Apr-10	May10	Jun10	Jul10	Aug10	Sept10	FY11	FY10
<b>1. Food Articles</b>	<b>14.3</b>	<b>20.6</b>	<b>20.5</b>	<b>21.4</b>	<b>21.0</b>	<b>18.1</b>	<b>14.6</b>	<b>15.7</b>	<b>18.5</b>	<b>11.7</b>
Cereals	3.4	10.5	8.0	7.1	7.4	8.1	8.9	6.2	7.6	11.8
Rice	1.8	8.1	8.3	8.3	8.2	9.0	8.5	4.6	7.8	14.1
Wheat	1.1	14.7	8.5	6.4	6.6	7.6	10.3	8.7	8.0	7.5
Pulses	0.7	25.0	24.1	24.5	23.0	15.0	9.2	5.1	16.8	15.8
Fruits and Vegetables	3.8	16.3	14.3	15.8	18.9	13.0	1.7	NA	NA	9.1
Milk	3.2	24.9	27.9	28.4	26.2	25.9	26.5	24.0	26.5	13.5
Tea	0.1	-17.4	-23.3	-33.9	-34.1	-29.0	-11.5	NA	NA	37.0
<b>2. Non-Food Articles</b>	<b>4.3</b>	<b>20.4</b>	<b>18.1</b>	<b>14.8</b>	<b>15.8</b>	<b>15.5</b>	<b>16.0</b>	<b>18.2</b>	<b>16.4</b>	<b>0.5</b>
Fibres	0.9	20.5	17.1	15.8	18.1	15.5	15.2	27.6	18.2	-4.2
Oil seeds	1.8	6.7	6.5	2.3	2.1	3.1	4.4	5.2	4.0	0.3
Sugarcane	0.6	53.3	53.3	53.3	53.3	53.3	53.3	NA	NA	0.0
<b>3. Minerals</b>	<b>1.5</b>	<b>37.9</b>	<b>34.6</b>	<b>25.3</b>	<b>22.1</b>	<b>31.6</b>	<b>23.8</b>	<b>28.5</b>	<b>27.6</b>	<b>-3.5</b>
<b>Primary Articles (1+2+3)</b>	<b>20.1</b>	<b>22.2</b>	<b>21.4</b>	<b>20.4</b>	<b>20.1</b>	<b>18.9</b>	<b>15.8</b>	<b>17.5</b>	<b>19.0</b>	<b>7.6</b>

Source: Office of the Economic Advisor

Figure 3. FUEL INDEX – Breakdown by Component

	Wts	Monthly							Apr- Sept	
		Mar10	Apr-10	May10	Jun10	Jul10	Aug10	Sept10	FY11	FY10
<b>1. Coal</b>	<b>2.1</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>	<b>NA</b>	<b>NA</b>	<b>0.0</b>
<b>2. Mineral Oils</b>	<b>9.4</b>	<b>18.6</b>	<b>18.4</b>	<b>18.1</b>	<b>17.1</b>	<b>15.9</b>	<b>16.0</b>	<b>NA</b>	<b>NA</b>	<b>-11.7</b>
<b>Controlled Fuels:</b>										
LPG	0.9	0.4	3.8	3.8	6.7	15.3	15.3	15.3	10.0	-4.1
High Speed Diesel	4.7	15.0	15.8	15.8	17.3	14.6	14.6	14.6	15.5	-5.8
<b>Mkt Determined Fuels:</b>										
Petrol	1.1	16.8	18.0	17.9	19.7	15.3	15.3	15.3	16.9	-12.9
<b>3. Electricity</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>8.6</b>	<b>8.6</b>	<b>8.6</b>	<b>5.0</b>	<b>NA</b>	<b>NA</b>	<b>-0.3</b>
<b>Fuel Index (1+2+3)</b>	<b>14.9</b>	<b>13.8</b>	<b>13.6</b>	<b>14.4</b>	<b>13.9</b>	<b>13.3</b>	<b>12.5</b>	<b>11.1</b>	<b>13.1</b>	<b>-7.9</b>

Source: Office of the Economic Advisor

**MANUFACTURED PRODUCTS:** slowed to 4.6%YoY in Sept, from 4.8% last month but up 0.3% MoM

**Manufactured Food Products** significantly moderated to 2.8%YoY vs. 3.9% last month possibly due to lower prices of salt, oilcakes

**Aggregated Manf NON FOOD** remained unchanged at 4.9%YoY. While beverages, wood, basic metals, and non-metallic minerals posted a slowdown, this was offset by an increase in rubber, textiles paper, machinery and transport eqpt prices.

Figure 4. MANUFACTURED PRODUCTS– Breakdown by Component

	Wts	Monthly							Apr-Sept	
		Mar10	Apr-10	May10	Jun10	Jul10	Aug10	Sept10	FY11	FY10
<b>1. Food Products</b>	<b>10.0</b>	<b>15.1</b>	<b>9.1</b>	<b>7.1</b>	<b>6.1</b>	<b>6.2</b>	<b>3.9</b>	<b>2.8</b>	<b>5.9</b>	<b>9.9</b>
<b>NON- FOOD Manuf Products</b>		<b>3.4</b>	<b>6.0</b>	<b>5.8</b>	<b>5.5</b>	<b>5.3</b>	<b>4.9</b>	<b>4.9</b>	<b>5.4</b>	<b>-1.7</b>
<b>2. Beverage &amp; Tobacco</b>	<b>1.8</b>	<b>8.1</b>	<b>7.8</b>	<b>7.5</b>	<b>7.4</b>	<b>7.1</b>	<b>6.3</b>	<b>5.9</b>	<b>7.0</b>	<b>5.5</b>
<b>3. Textiles</b>	<b>7.3</b>	<b>9.1</b>	<b>11.3</b>	<b>11.3</b>	<b>10.2</b>	<b>9.8</b>	<b>9.6</b>	<b>9.7</b>	<b>10.3</b>	<b>1.2</b>
<b>4. Wood &amp; Wood Products</b>	<b>0.6</b>	<b>6.6</b>	<b>7.4</b>	<b>5.7</b>	<b>4.8</b>	<b>5.3</b>	<b>5.4</b>	<b>3.2</b>	<b>5.3</b>	<b>10.8</b>
<b>5. Paper &amp; Paper Products</b>	<b>2.0</b>	<b>2.5</b>	<b>5.1</b>	<b>3.7</b>	<b>3.4</b>	<b>3.5</b>	<b>2.0</b>	<b>3.4</b>	<b>3.5</b>	<b>2.2</b>
<b>6. Leather/Leather Prod</b>	<b>0.8</b>	<b>2.5</b>	<b>-0.8</b>	<b>0.0</b>	<b>-1.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.4</b>	<b>6.3</b>
<b>7. Rubber, Plastic Products</b>	<b>3.0</b>	<b>3.7</b>	<b>4.9</b>	<b>4.7</b>	<b>5.2</b>	<b>5.0</b>	<b>5.0</b>	<b>5.3</b>	<b>5.0</b>	<b>-0.2</b>
<b>8. Chemicals &amp; Chem Prod</b>	<b>12.0</b>	<b>3.7</b>	<b>5.5</b>	<b>5.2</b>	<b>5.2</b>	<b>4.4</b>	<b>4.1</b>	<b>4.3</b>	<b>4.8</b>	<b>-1.7</b>
<b>9. Non-Met. Mineral Prods</b>	<b>2.6</b>	<b>3.2</b>	<b>3.1</b>	<b>3.9</b>	<b>2.1</b>	<b>3.1</b>	<b>2.6</b>	<b>2.2</b>	<b>2.8</b>	<b>8.4</b>
<b>10. Basic Metals, Alloys</b>	<b>10.7</b>	<b>1.4</b>	<b>9.3</b>	<b>8.7</b>	<b>8.5</b>	<b>7.6</b>	<b>7.0</b>	<b>6.0</b>	<b>7.8</b>	<b>-12.3</b>
<b>11. Machinery Machine Tools</b>	<b>8.9</b>	<b>1.5</b>	<b>2.2</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>2.0</b>	<b>2.9</b>	<b>2.3</b>	<b>0.6</b>
<b>12. Transport Eqpmnt &amp; Parts</b>	<b>5.2</b>	<b>1.2</b>	<b>2.7</b>	<b>2.9</b>	<b>2.9</b>	<b>3.8</b>	<b>3.9</b>	<b>4.2</b>	<b>3.4</b>	<b>4.0</b>
<b>Manufactured Products</b>	<b>65.0</b>	<b>5.2</b>	<b>6.4</b>	<b>6.0</b>	<b>5.6</b>	<b>5.4</b>	<b>4.8</b>	<b>4.6</b>	<b>5.5</b>	<b>0.0</b>

Source: Office of the Economic Advisor

\* Detailed press release not yet available, as a result the break-up of the July data remains un-revised

# Charting Trends in Inflation

Figure 6. Trends in Headline WPI (% YoY)

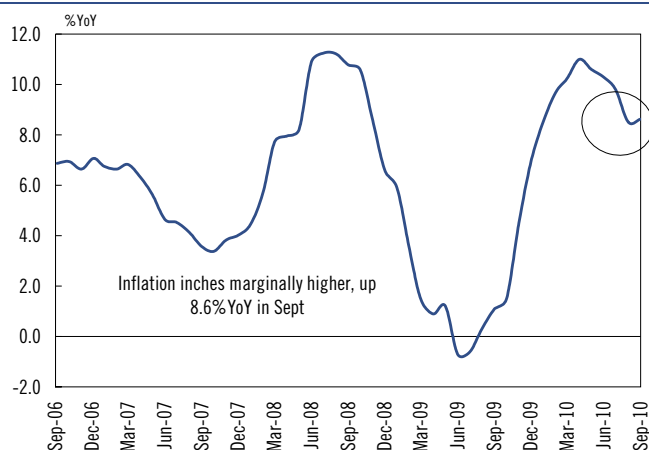


Figure 7. Trends in Primary Articles (% YoY)

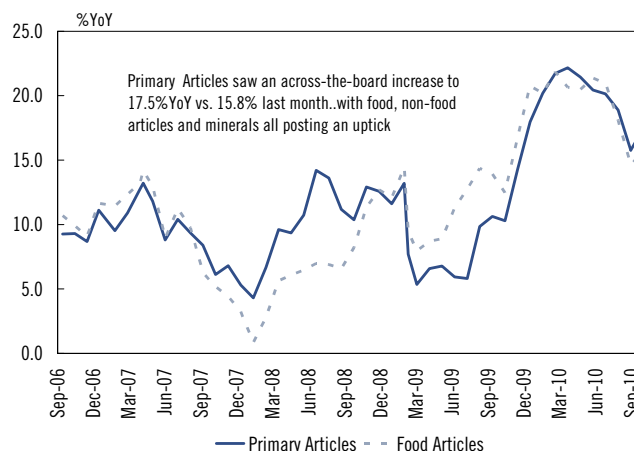


Figure 8. Trends in Manufactured Products (%YoY)

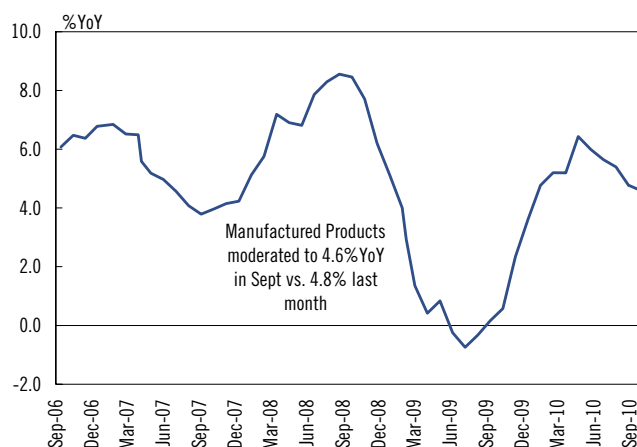


Figure 9. Trends in Manufactured Food and Non-Food Products (%YoY)

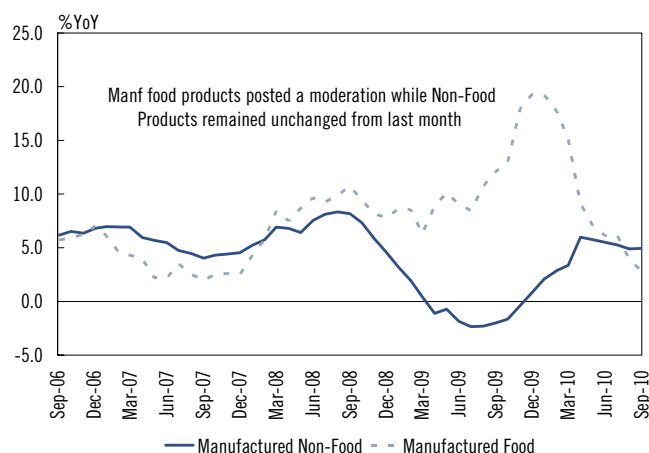


Figure 10. Trends in the Fuel Index (%YoY)

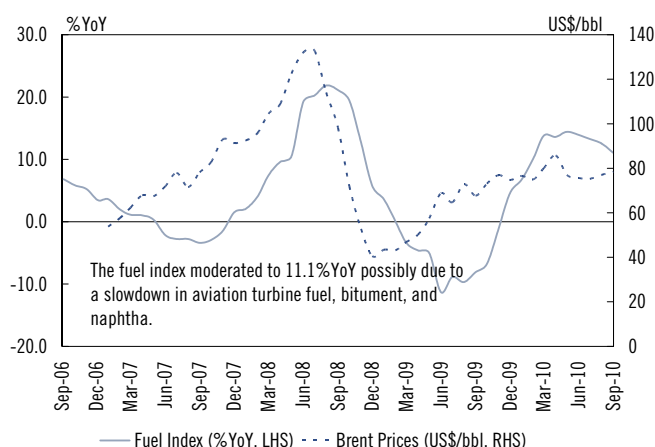
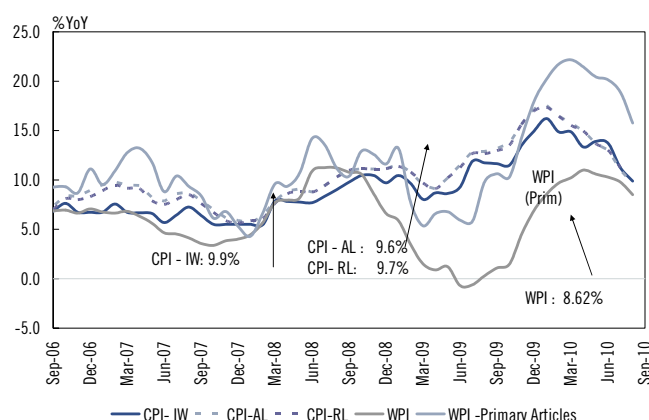


Figure 11. Trends in Inflation - Various Indices (%YoY)



Source for all charts: Office of the Economic Advisor, Bloomberg

## Appendix A-1

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