

**CPI INFLATION RISES TO 5.49% DRIVEN BY FOOD, RURAL INFLATION REMAINS ELEVATED**

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India's retail inflation increased to 9-month high of 5.5% in September 2024 (from 3.65% in August'24), a tad higher than consensus estimates (5.10%-**SBI-5.27%**) owing to rather steep rise in food prices. Food and beverages inflation increased to 8.36% in Sept, from 5.30% in Aug (and 6.30% in Sep'23). Within food, vegetable prices increased significantly and contributed 2.34% to overall inflation.

On sequential basis, the CPI was up 0.62%, while the CPI food index increased by 1.04% , with Urban India seeing a sharper m-o-m uptick of 1.16% in food prices. Incidentally, Core CPI also increased to 9-month high of 3.55% in Sep'24, though lower when compared to 4.5% in Sep'23. With moderate fuel prices, inflation is currently being driven by food price dynamics. Looking ahead, evolving food prices will determine domestic inflation, though we understand an average print in the range of 4.5-4.6% for FY'25 (with an upside bias) looks more plausible, despite the outlier reading of today.

**If inflation continues to surprise on the upside, with growth slightly doubling down on downside (Q2 growth could side with 7%), RBI could adopt a neutral stance temporarily. Accordingly, we believe the first cut could be based on growth, and need not be inflation based, because inflation number may remain somewhat sketchy in coming months.**

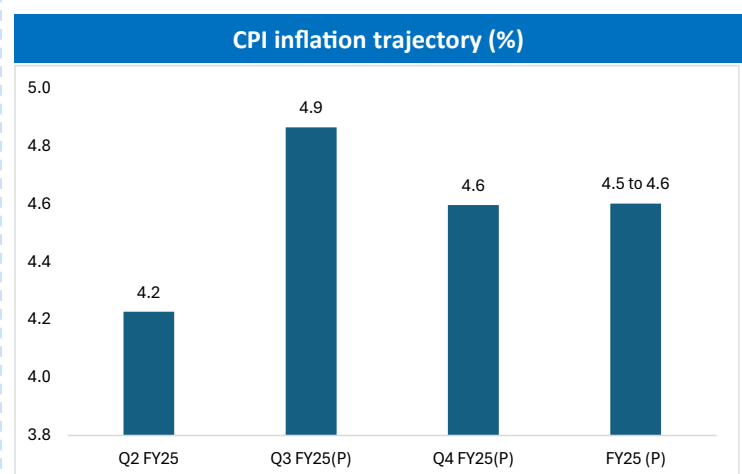
We find the elevated Rural inflation, continuing to be higher than the Urban inflation, as also the sharpening of gap between rural and urban inflation trends (7<sup>th</sup> month in a row) resulting in rural household prices higher than urban counterparts has driven the overall inflation, a direct fallout of rural basket of food items weight (54.2%) being much higher than the urban weight (36.3%). Also the divergence among states, with elevated print in big states like UP(6.74%)/Bihar(7.50%) has fanned the reading as 8 states recorded inflation higher than national average (5.49%), a trend that we are witnessing for some time now. The overall trajectory of the inflation was decided by sharp rise in inflation of vegetables, with the vegetable sub-component registering a y-o-y growth of 35.99%, as spike in prices of tomatoes, onion and garlic exerted significant momentum to the respective bucket. The rise in prices of these vegetables was on account of weather-related disruptions and seasonal factors.

Apart from the food and beverages inflation (particularly increase in price of vegetables), other components which contributed to higher inflation in rural areas are household goods and services and personal care and effects (particularly gold). Also, The share of imported inflation in the overall inflation has risen, with imported inflation registering a growth of 2% in September which is highest reading in last 13 months, with Gold prices, oils and fats and chemical products being major contributors to such imported inflation.

WPI inflation increased to 1.84% in Sep'24 compared to 1.31% in Aug'24 mainly because of food articles, particularly onion and tomato. Other components as other manufacturing, manufacture of motor vehicles, trailers & semi-trailers, manufacture of machinery & equipment, too witnessed increase in prices. The gap between CPI and WPI increased further in Sep'24 to 3.65% as CPI is increasing at faster rate than WPI. The gap is expected to decline in Q4 FY25 as WPI is likely to increase.

**CPI INFLATION INCREASED TO 5.49%**

- ◆ India's retail inflation increased to 9-month high of 5.5% in September 2024, from 3.65% in August, owing to rise in food prices. Food and beverages inflation increased to 8.36% in Sept, from 5.30% in Aug and 6.30% in Sep'23. Within food, vegetable prices increased significantly and contributed 2.34% to overall inflation.
- ◆ On sequential basis, the CPI was up 0.62%, while the CPI food index increased by 1.04% , with urban India seeing a sharper m-o-m uptick of 1.16% in food prices.
- ◆ Core CPI is also increased to 9-month high of 3.55% in September 2024 compared to 4.5% in September 2023.
- ◆ With moderate fuel prices, inflation is currently being driven by food price dynamics. Looking ahead evolving food prices will determine domestic inflation. CPI inflation is expected to come above 5.0% in Oct'24 as well. For the whole FY25, CPI inflation is likely to average to 4.5%-4.6%, with an upward bias.



Source: SBI Research

**CPI FOOD INFLATION**

- ◆ The overall trajectory of the inflation was decided by sharp rise in inflation of vegetables. The vegetable sub-component registered a y-o-y growth of 35.99%. Within vegetables the item wise trends show that prices of tomatoes, onion and garlic have exerted significant momentum to the inflation in vegetable category resulting in higher overall food inflation.
- ◆ The rise in prices of these vegetables was on account of weather-related disruptions and seasonal factors.

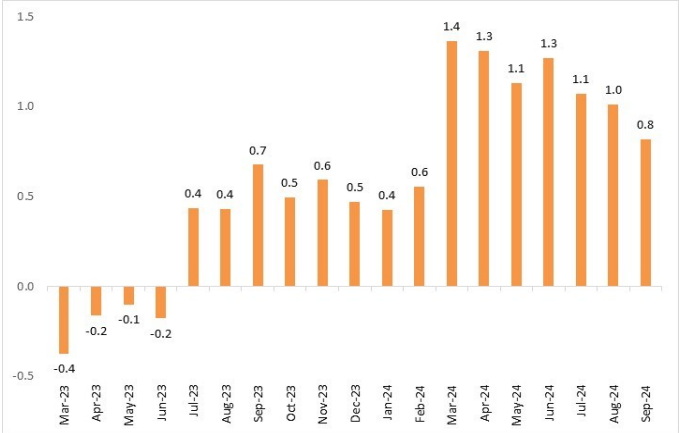
**CPI STATE-WISE INFLATION: RURAL INFLATION REMAINS HIGHER THAN URBAN INFLATION**

- ◆ Though the overall CPI inflation in India has declined from 7.4% in July 2023 and remained around 5% till now, but the Rural inflation continued to remain higher than the Urban inflation.
- ◆ The gap between urban and rural consumers' inflation trends was sharp for the 7th consecutive month, with rural households prices are paying almost 1% higher than the urban India. This is mainly due to the higher food prices and the rural basket of food items weight (54.2%) is higher than the urban weights (36.3%).
- ◆ While rural inflation continues to remain higher than urban inflation, urban inflation increased more in Sep'24 by 1.91% to 5.05% yoy from 3.14% yoy in Aug'24.
- ◆ Apart from the food and beverages inflation (particularly increase in price of vegetables), other components which contributed to higher inflation in rural areas is household goods and services and personal care and effects (particularly gold). In urban areas apart from the above 2 components of miscellaneous, education and health inflation too increased.
- ◆ If we look the State-wise Inflation, there are many bigger States, whose inflation is continued to above 5.5%. Among the States, Bihar clocked the highest inflation rate of 7.50% in Sep, followed by Chhattisgarh at 7.36% and UP at 6.74%.
- ◆ Except 6-state, all other 16-state's rural inflation is higher than the urban inflation in Sep 2024. The trend is continuing from earlier months.
- ◆ Among the 22 States, there are 8-States whose inflation is above India's inflation of 5.49% in Sep and only 8-States whose inflation is below 5%.

**IMPORTED INFLATION**

- ◆ The share of imported inflation in the overall inflation has also risen. The imported inflation has registered a growth of 2% in September which is highest reading in last 13 months. Gold prices, oils and fats and chemical products are major contributors to imported inflation.

**Rural Inflation Continued to be Higher than Urban Inflation (Rural –Urban inflation, % yoy)**

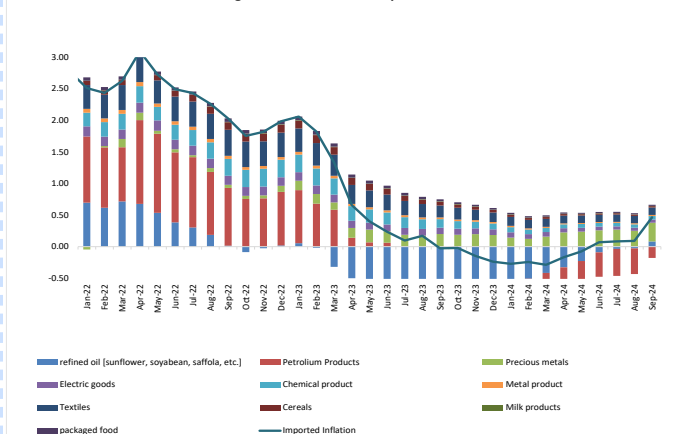


Source: SBI Research

**Rural Inflation is Higher than Urban Inflation: Sep'2024**

States	Rural	Urban	Combined	Rural minus Urban
Andhra Pradesh	4.87	4.58	4.75	0.29
Assam	4.94	4.53	4.85	0.41
Bihar	7.60	7.05	7.50	0.55
Chhattisgarh	7.96	6.31	7.36	1.65
Delhi	3.79	3.67	3.67	0.12
Gujarat	5.60	6.42	6.05	-0.82
Haryana	6.72	5.61	6.20	1.11
Himachal Pradesh	4.67	4.36	4.59	0.31
Jharkhand	4.68	5.83	5.15	-1.15
Karnataka	5.39	4.52	4.92	0.87
Kerala	5.92	4.81	5.52	1.11
Madhya Pradesh	6.59	5.01	5.94	1.58
Maharashtra	4.67	5.22	5.04	-0.55
Odisha	7.03	5.23	6.56	1.80
Punjab	4.92	5.69	5.25	-0.77
Rajasthan	5.41	5.16	5.31	0.25
Tamil Nadu	5.49	4.94	5.19	0.55
Telangana	4.48	4.36	4.40	0.12
Uttar Pradesh	7.55	5.28	6.74	2.27
Uttarakhand	4.25	5.33	4.67	-1.08
West Bengal	4.15	4.39	4.27	-0.24
J & K	5.74	3.72	5.02	2.02
<b>All India</b>	<b>5.87</b>	<b>5.05</b>	<b>5.49</b>	<b>0.82</b>

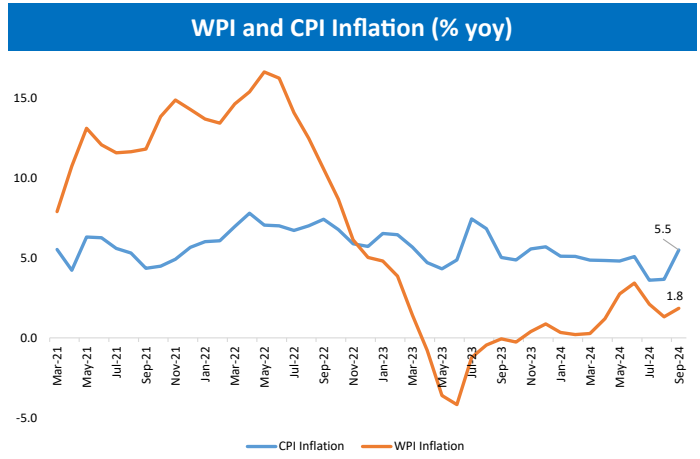
**Weighted Contribution in Imported Inflation**



**WPI INFLATION**

- ◆ WPI inflation increased to 1.84% in Sep'24 compared to 1.31% in Aug'24 mainly because of food articles, particularly onion and tomato. Other components as other manufacturing, manufacture of motor vehicles, trailers & semi-trailers, manufacture of machinery & equipment, too witnessed increase in prices.
- ◆ The gap between CPI and WPI increased further in Sep'24 to 3.65% as CPI is increasing at faster rate than WPI. The gap is expected to decline in Q4 FY25 as WPI is likely to increase.

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