Tomato prices shift inflation higher in India

An increase in seasonal food (tomato) prices has pushed headline inflation higher again, but it remains well within the Reserve Bank of India's target range and is no threat to higher rates

4.81% Headline inflation

Up from 4.25%

Higher than expected

Tomatoes to blame

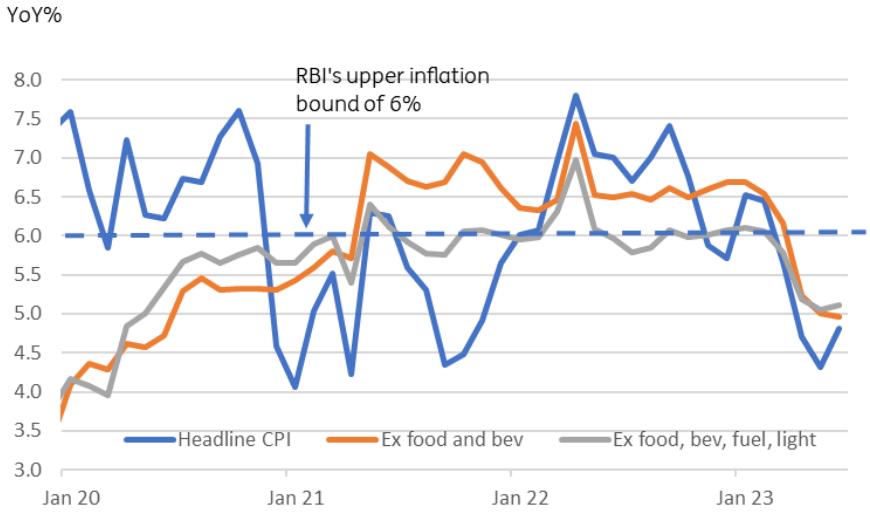
It seems a bit harsh to blame the humble tomato for India's inflation rise in June, but according to daily price data from India's Department of Consumer Affairs, the price per kg of tomatoes increased around 127% in June from May, and that was enough to result in an overall 2.18% month-on-month increase in food prices, and lift the overall CPI index by 1.01% MoM, pushing up the headline inflation rate to 4.81% YoY from 4.25%.

Such seasonal food spikes are not uncommon in India. If not tomatoes, then onion prices often surge when exports exceed production at certain times of the year and result in shortages. And what we know from past experience is that these price surges tend to correct themselves within a few months.

It also does not appear that there are many other worrying signs in this CPI release, except for a 1.1% increase in education, where prices normally rise in July but seem to have been brought forward a month this year. This, too, will pass and most likely drop out of the index next month.

To emphasise this point, core measures of inflation remained fairly close to May rates, and well within the RBI's target range.

Indian headline and core inflation



Source: CEIC, ING

Nothing to worry about

Of course, seasonal anomalies, especially relating to climate change are getting more frequent and so there tend to be more positive price shocks like these than usual these days. But for the moment, there doesn't appear to be anything too alarming going on here, with the shortage of food highly concentrated in one crop. As such, this has no real bearing on the outlook for the RBI's monetary policy.

Even at 4.81%, the gap between the RBI's policy rates of 6.5% and inflation is large, and the case for some easing before the end of the year is strong. For sure, this month, such thoughts will largely disappear, but we expect the RBI's room to manoeuvre to increase later in the year, when a weaker US dollar may make the prospects of a rate cut look less risky than they do while the currency is strong.

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