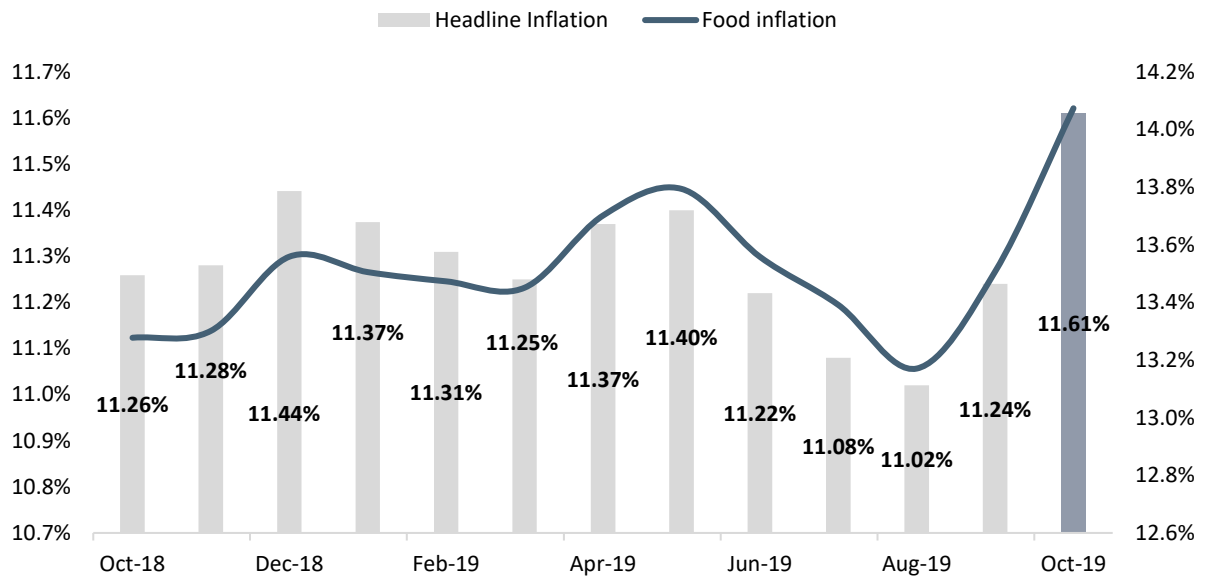


Economic Report | **Inflation*****Consumer prices: Again, Border closure sends headline inflation skywards***

- As anticipated, inflation for the month of October came in higher to 11.61% YoY, +37bps increase from prior month (September: 11.24% YoY) and 5bps shy of our estimate of 11.56%. This marks the second consecutive increase in inflation since the border closure which led to elevated food prices despite the main harvest season which started in October. We believe the impact of the border closure outweighed the influx of harvest for the month. Specifically, food inflation jumped by 57bps to 14.07% with Farm produce (+87bps to 14.77% YoY) leading the pack. Stripping out volatile food prices, core inflation came in 6bps lower to 8.88% YoY owing to subdued energy prices.
- Month-on-month numbers showed similar trend, with headline inflation expanding by 3bps to 1.07% MoM (4bps shy of our estimate: 1.03% MoM) anchored mainly on food inflation. Again, increased food prices owing to the above stated reason drove food inflation 2bps higher to 1.32% MoM, with farm produce expanding by 22bps to 1.44% MoM during the month under review. Core inflation on the other hand, declined 14bps to 0.74% MoM due to curtailed energy prices.
- While the threat to higher core inflation remain minimal due to continued stability in energy prices, we expect the pressure on food prices to remain. Though we retain our view of a promising harvest this season, passthrough from the border closure would remain evident on food prices. On that note, we expect consumer prices to maintain its upward trajectory with headline inflation for the month of November at 11.81% YoY and month-on-month inflation of 0.98%. Against this backdrop, average inflation for 2019 should print at 11.40% YoY (FY 18: 12.2% YoY).

Figure 1: One-year trend in Inflation rate vs Food Inflation



Source: NBS, ARM Research