

# The richest 20% facing more inflation than the poorest 20%

**CRISIL impact note** | Inflation vagaries

November 2021

Inflation based on the Consumer Price Index (CPI) rose to 4.5% on-year in October compared with 4.3% in September. In October 2020, CPI inflation was 7.6%. This high-base effect has kept headline inflation benign.

The effect was most prominent in food inflation, which printed at 0.8% (on-year) for October versus 0.7% in September and 11% for October 2020. Items where inflation fell were vegetables (-19.4% in October versus -22.4% in September), pulses (5.4% vs 8.7%), and eggs, meat and fish (6.3% vs 7.9%).

Fuel inflation, however, continued to scorch, rising to 14.3% on-year versus 13.6% in September.

Consumers have been bearing the brunt of surging global crude oil prices with excise duty on petrol and diesel unchanged in October, while prices of liquefied petroleum gas were hiked. Brent crude prices jumped up 12.1% on-month to \$83.7 per barrel on average this October, a 7-year high. The impact of the recent excise duty cuts on petroleum products in India, though, is expected to show up in the November inflation data.

Core inflation<sup>1</sup> remained sticky at 5.9% on-year, same as September. Key items that contributed to the rise were transport and communication (10.9% vs 9.5%), clothing and footwear (7.5% vs 7.2%), household goods and services (6.2% vs 5.9%), and personal care and effects (2.5% vs 1.9%). This is indicative of producers passing on rising input costs to consumers amid surging cost pressures.

Urban inflation rose to 5% in October on-year vs 4.6% in September. However, rural inflation stayed stable at 4.1%, same as September.

## Inflation by income strata

The burden of inflation varies across different income groups, as the share of spending on food, fuel and core categories differs across classes. The National Sample Survey Organisation's (NSSO) 2011-12 consumer expenditure survey data<sup>2</sup> shows, the poorest 20% of population spend majority of their income on food, while the richest 20% do so on 'core' items.

Using the NSSO survey data, we estimated the average expenditure patterns across three broad income groups (bottom 20%, middle 60%, and upper 20% of population) and map them with the current inflation trends<sup>3</sup>.

We present the results separately for rural and urban areas, to explain how the latest inflation data is felt differently by different groups (and place of residence).

- The highest inflation was faced by the upper 20% income group in urban areas — 5% on-year in October compared with 4.6% in September. This was driven by fuel and core inflation, which cumulatively occupy 65% weight in their commodity basket
- The lowest inflation was faced by the bottom 20% rural areas — 3.9% on-year in October compared with 4% in September, driven by lower food inflation
- The richest 20% are facing more inflation than the poorest 20% because of rising core inflation and falling food inflation. The gap widened in rural areas in October relative to September as inflation for the bottom 20% fell more. However, the gap reduced in urban areas as inflation rose for bottom 20% in addition for the top 20%.

## CPI inflation across different income classes\* (on-year, in %)

Income segment	October 2021	
	Rural	Urban
Top 20%	4.4	5.0
Middle 60%	4.0	4.9
Bottom 20%	3.9	4.9

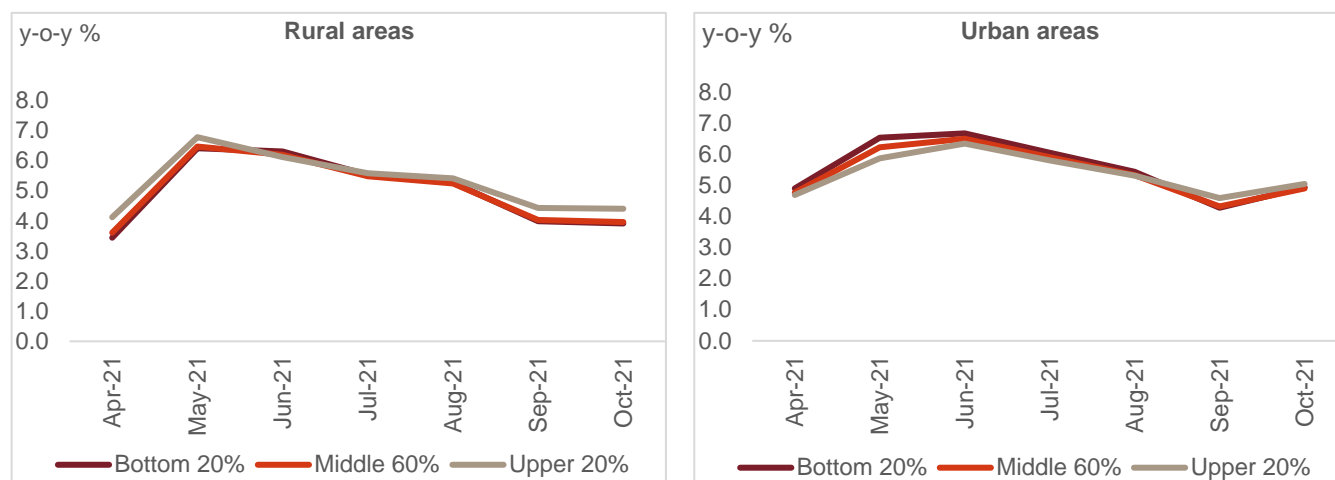
\* with share of commodity groups in expenditure basket of respective income class as weights  
Source: NSSO, National Statistics Office (NSO), CEIC, CRISIL

<sup>1</sup> Inflation excluding food and beverages, and fuel and light

<sup>2</sup> Latest available data for detailed information on monthly per capita expenditure across income segments

<sup>3</sup> For detailed methodology and findings, refer to CRISIL Quickeconomics: Same inflation, different burdens by income; October 29, 2021 (<https://www.crisil.com/en/home/our-analysis/views-and-commentaries/2021/10/same-inflation-different-burdens-by-income.html>)

## Inflation trends across income segments this fiscal



Source: NSO, CEIC, CRISIL

## Outlook

We expect the CPI inflation to average 5.5% on-year this fiscal compared with 6.2% last fiscal.

Easing food inflation and high base effect are expected to bring down headline inflation on-year.

Agricultural growth this fiscal is expected to remain healthy at 3-3.5%, given a normal monsoon, expected record kharif production, and adequate reservoir levels that bodes well for rabi production. That said, the impact of delayed rains on vegetable inflation is likely to continue for the rest of the year, till new crop arrives.

Non-food inflation is expected to continue facing pressures from surging global commodity prices. Nevertheless, the impact of the recent excise duty cuts on petroleum products should manifest in softening fuel inflation in November. It will also filter through as second-round effects to other parts of CPI over the next few months.

Lastly, elevated input costs, in general, will continue to reflect on core inflation, as producers pass them on partially to end-consumers.

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