

## In Focus: CPI eases to 6.44%, still elevated

*Food and Beverages continues to flash red, cereal prices accelerate*

13<sup>th</sup> March, 2023

February 2023 retail inflation eased to 6.44%, from 6.52% in January 2023 on Y-o-Y basis – staying above the MPC mandate for second consecutive month. In November and December 2022 retail inflation came within MPC's upper tolerance band of 6%, after breaching that for three straight quarters.

- Among Food and Beverages, which is about 47% of CPI – sub-categories like Cereals and Milk/Milk products registered an inflation uptick, printing at 17% and 10% Y-o-Y respectively for February. Meanwhile, Spices inflation moderated, but remains highly elevated at above 20%. Vegetable prices continued to decline for 4<sup>th</sup> consecutive month, registering deflation rate of 11.6% in February.
- Recently, to bring down wheat inflation, which had jumped to highest in January 2023, the government had provided additional 3 million tons of wheat to bulk consumers, as part of efforts to lower prices.
- Fuel and Light – that contributes to about 7% of the CPI – eased to 9.9% Y-o-Y compared to 10.8% in January. Majorly, this was on the account of slowdown in LPG prices and non-PDS kerosene, that declined to 16% Y-o-Y and 33.95% respectively in February (January: 16.17% and 36% respectively). Meanwhile, diesel prices saw an uptick to 3.1% Y-o-Y (January: 2.9%)
- Core Inflation (ex. food and fuel), remained sticky above 6% for 17<sup>th</sup> straight month, despite slight reduction to 6.23% Y-o-Y in February, vis-à-vis 6.30% in January.
  - The moderation in core comes from easing of items such as Clothing, even though Housing registered an uptick to 4.8% in February (January: 4.6%).
  - Inflation remained higher for household and medical goods (7.3% and 6.5% respectively), while transport that contributes about 8.5% registered a decline to 4.4% in February (January: 4.5%).
  - Going ahead, rising prices of household goods and healthcare will continue to weigh on the core inflation.

Risks are tilted upwards for inflation as higher food prices will continue to weigh on the headline number, keeping it above 6%. A higher core inflation will be driven by household and medical categories.

### • Domestic risks:

- **Weather surprises:** IMD's seasonal forecast for the period from March-May shows warmer climate. Additionally, US' NOAA has predicted El Nino (55-60% probability) in June to December, which can cause a monsoon deficit. Both have impacted agricultural output and can entail food inflation. That said, historically, in cases of greater than 45% El Nino probability only three of four times have seen El Nino actually panning out.

### • Global Risks:

- **US Fed Policy:** High inflation briefly hinted increase in quantum of rate hike by Fed again by about 50-bps last week. But stress in US banking sector of late might push the case for a 25-bps hike for the Fed.
- **Global commodity prices:** Crude oil prices will remain uncertain on demand prospects as well as from risks of supply disruptions due to geopolitical tensions.

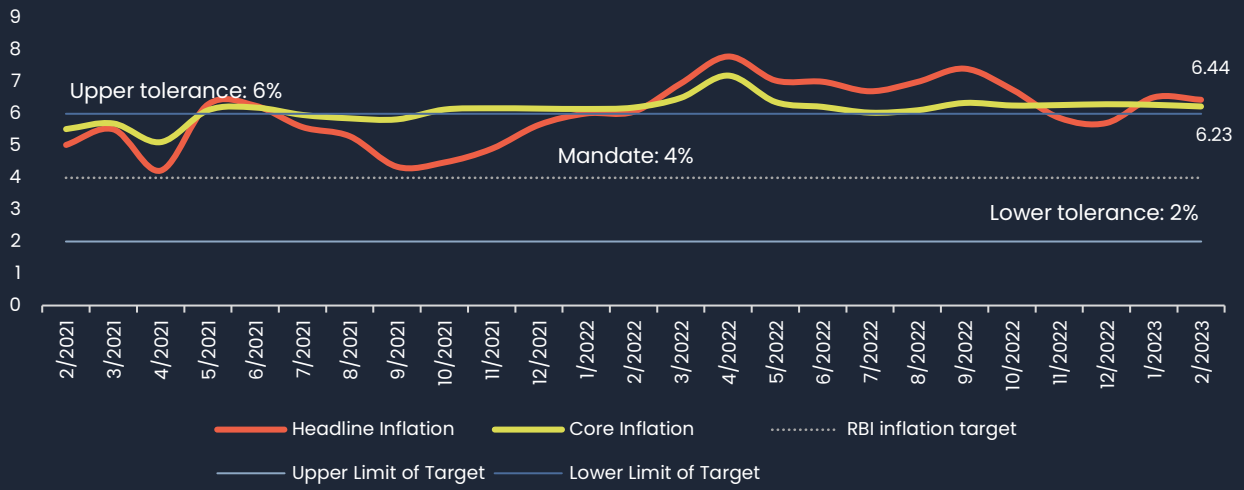
**We expect MPC to raise policy repo rate by 20 bps in its April meeting.**

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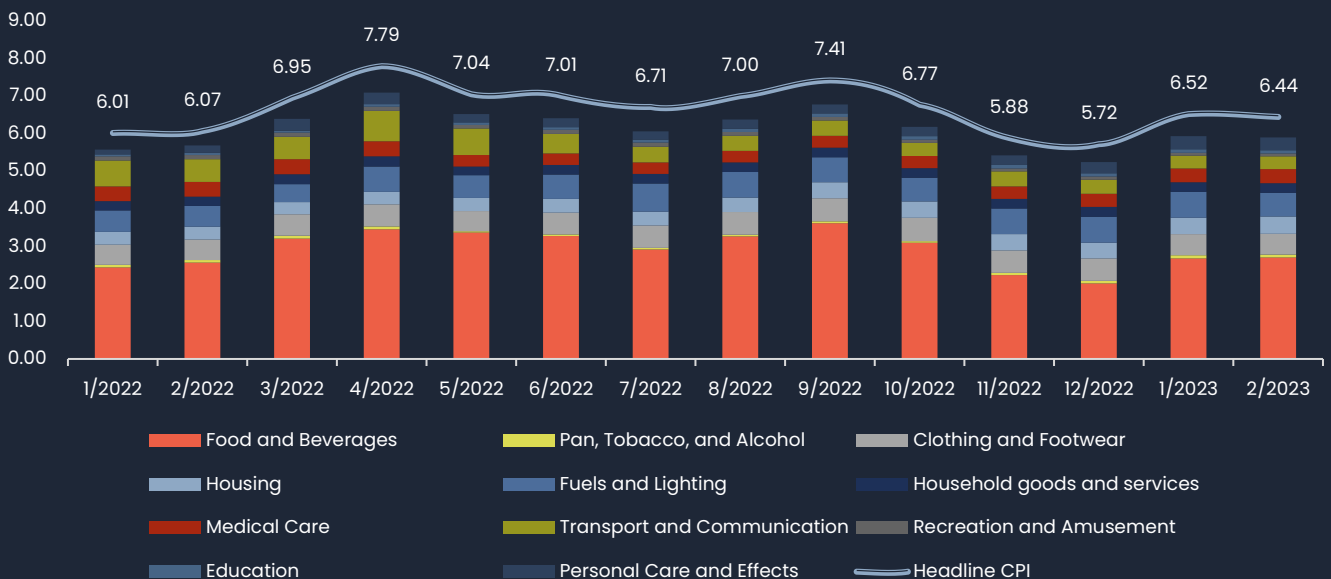
### Inflation: Headline and Core



### CPI: Components

	Food and Beverages	Clothing and Footwear	Fuel and Light	Housing	Miscellaneous
2/2022	5.93	8.86	8.73	3.57	6.58
3/2022	7.47	9.40	7.52	3.38	7.02
4/2022	8.10	9.85	10.67	3.47	8.03
5/2022	7.84	8.85	9.54	3.65	6.82
6/2022	7.56	9.52	10.14	3.93	6.28
7/2022	6.71	9.85	11.76	3.90	5.91
8/2022	7.57	9.91	10.78	4.06	5.95
9/2022	8.41	10.17	10.39	4.57	6.06
10/2022	7.10	10.16	9.93	4.65	5.90
11/2022	5.07	9.83	10.62	4.63	6.01
12/2022	4.58	9.58	10.91	4.47	6.17
1/2023	6.19	9.08	10.84	4.62	6.21
2/2023	6.26	8.79	9.90	4.83	6.12

### Percentage Point contribution to CPI YoY



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