

In Focus: Headline, core inflation trim sharply

Headline inflation falls back below 6% as price indices ease across most categories

12th April, 2023

March 2023 retail inflation eased sharply to 5.66%, from 6.44% in February 2023 on Y-o-Y basis owing to a positive base effect and slight easing of input costs. Sequentially though, headline inflation increased 0.23% M-o-M while core inflation eased by 0.27%. In closing months of 2022, inflation briefly edged into the tolerance band, after which it stayed above the upper tolerance of 6% in both January and February 2023.

The March decline in both headline and core numbers aligns well with RBI's hawkish hold last week, which surprised the markets. We expect that a sustained slowdown in inflation in next two months, as pointed by a sequential slowdown, can build a strong case for extending the pause in the June MPC meeting.

In March 2023, Y-o-Y inflation moderated across all categories except Housing. However, there were no price gains for Housing on a M-o-M basis; in fact, all components eased sequentially apart from Food and Beverages. Consumer Food Price Index (CFPI) moderated on Y-o-Y and M-o-M basis, printing at 4.79% in March 2023, down from 5.95% in February 2023 and 7.68% in March 2022.

- Divergent signals emerge under Food and Beverages, which contributes to almost half of the CPI. Cereals prices halted their sequential increase of last few months annual print came lower at 15.27%; and Milk/Milk products also moderated to 9.31%. Oil and fats, along with vegetables continued their deflationary trend. Meanwhile, sub-categories like Pulses, Fruits and Eggs showed an annual increase to 4.33%, 7.55% and 4.41% respectively.
- Additionally, all Miscellaneous items (personal care, education, recreation, household goods, transport and communication) declined Y-o-Y and M-o-M; with only annual inflation in health equipment inching up marginally to 6.59%. Overall, these developments bode well for the domestic inflation scenario.
- Core Inflation (excludes Fuel and Light, Food and Beverages) that stayed sticky all this while, printed at 5.95% – a 17 month low as inflation across all its components viz. Clothing and Footwear, Miscellaneous items came down and Housing stayed constant since February.

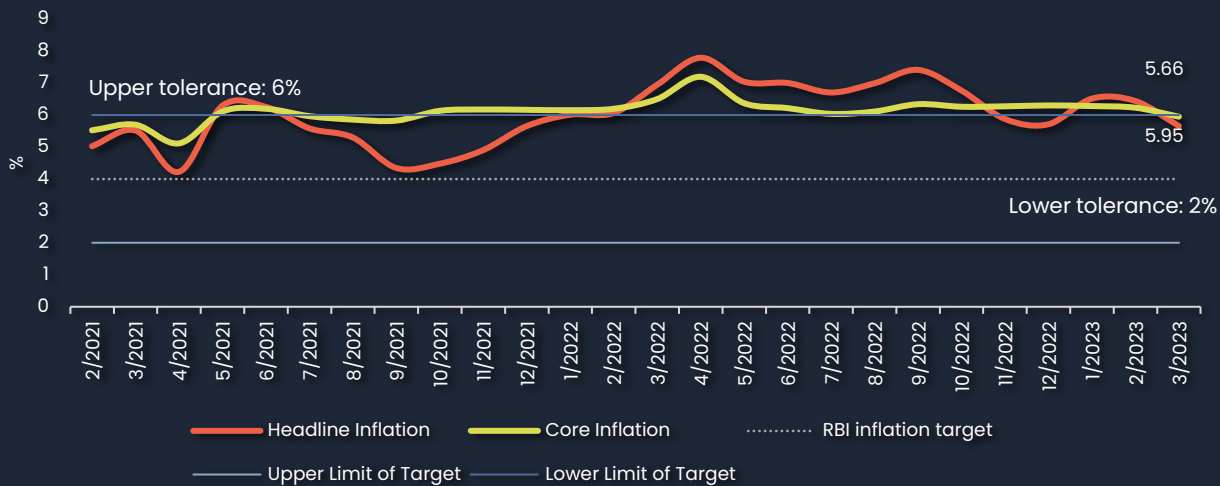
Moving ahead, the inflation outlook will be contingent on various factors – both global and domestic. Crude oil and commodity prices registered downtick in last few months, but the future trajectory can be uncertain. Recent unexpected oil production cut by OPEC+ increased crude prices, bringing them back to ~\$85/bbl. Lingering geopolitical hostilities and rebounding domestic demands from countries can still potentially push up the commodity prices. Domestically, extreme weather conditions and deficient monsoon, and a passthrough of input cost pressures to output prices as demand strengthens could also pose upside risk to inflation.

For now, RBI is working with the assumption of annual average crude oil price for Indian basket of \$85/bbl and a normal monsoon – projecting CPI inflation to moderate to 5.2% for 2023-24.

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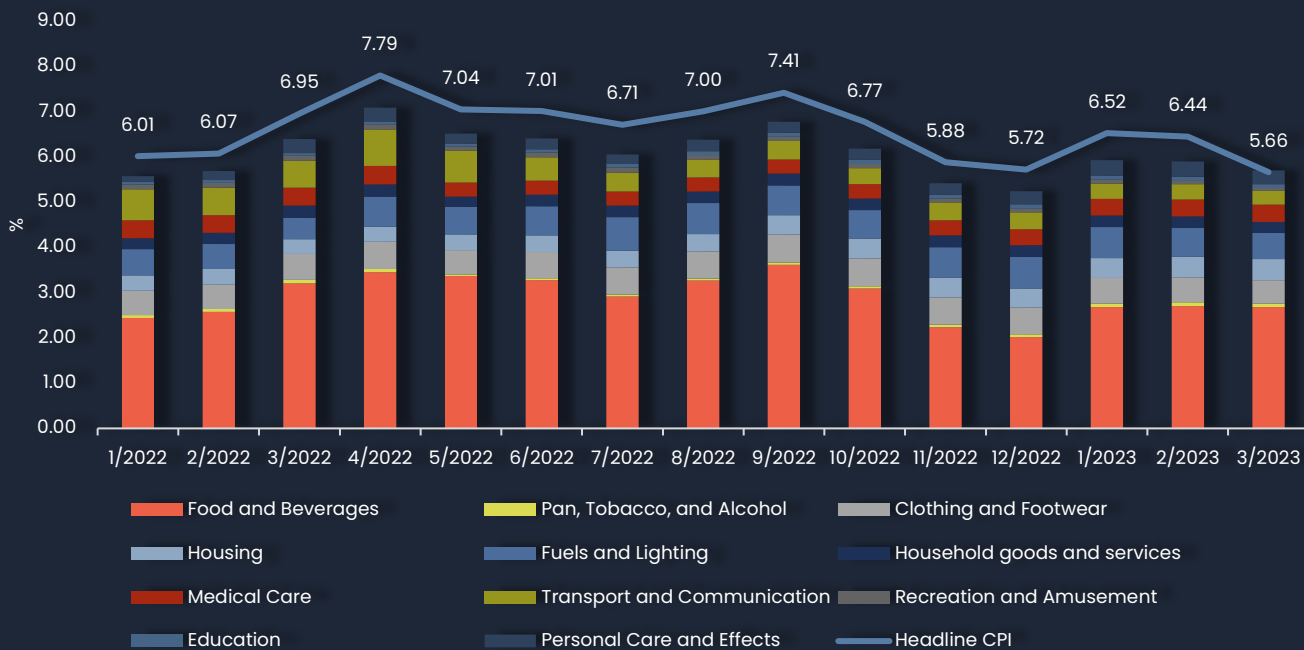
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Inflation: Headline and Core



	Food and Beverages	Pan Tobacco and Intoxicants	Clothing and Footwear	Fuel and Light	Housing	Miscellaneous
7.47	2.98	9.40	7.52	3.38	7.02	
8.10	2.70	9.85	10.67	3.47	8.03	
7.84	1.15	8.85	9.54	3.65	6.82	
7.56	1.83	9.52	10.14	3.93	6.28	
6.71	1.78	9.85	11.76	3.90	5.91	
7.57	1.67	9.91	10.78	4.06	5.95	
8.41	1.98	10.17	10.39	4.57	6.06	
7.10	1.87	10.16	9.93	4.65	5.90	
5.07	2.07	9.83	10.62	4.63	6.01	
4.58	2.55	9.58	10.91	4.47	6.17	
6.19	3.12	9.08	10.84	4.62	6.21	
6.26	3.22	8.79	9.90	4.83	6.12	
5.11	2.99	8.18	8.91	4.96	5.77	

Percentage Point Contribution to CPI Y-o-Y



Source: CEIC, Calculations

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