

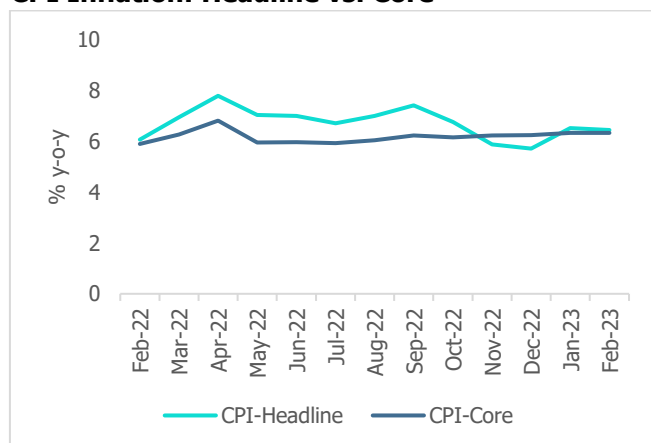
# CPI Inflation Cools Marginally in Feb, Stays Over 6% for 2<sup>nd</sup> Straight Month

March 13, 2023 | Economics

CPI inflation cooled only marginally in February to 6.4%, remaining above the RBI's upper threshold for a second straight month. The headline inflation print was higher than CareEdge's expectation (6%). Food inflation continued to be the main driver with its contribution to overall inflation rising to 45%. Despite the government's effort to provide additional supplies of wheat in the open market to cool prices, cereals inflation continued in double digits. Additionally, the strengthening of price pressures in non-food categories such as housing, household goods and services and health kept core inflation elevated at 6.3%. The persistence of core inflation above 6% is concerning and reinforces the expectation of another round of a 25-bps rate hike in the upcoming monetary policy meeting.

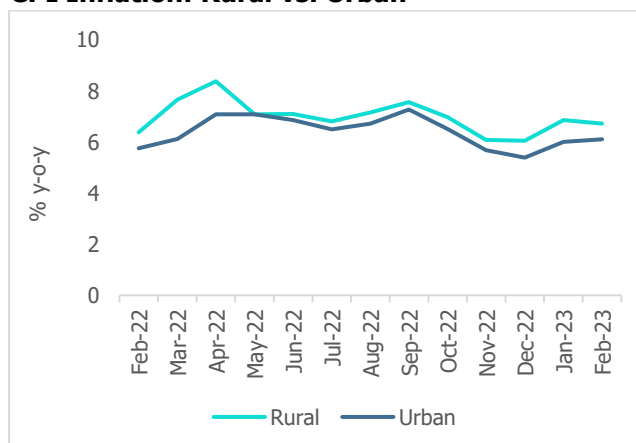
For rural consumers, inflation fell marginally to 6.7%. Despite the moderation, rural CPI has remained above 6% for the 14th month in a row. For urban consumers, inflation inched upwards to 6.1% from 6% in January owing to higher food and housing inflation.

**CPI Inflation: Headline vs. Core**



Source: MOSPI and CareEdge

**CPI Inflation: Rural vs. Urban**



## Cereals and Milk Keep Food Inflation Elevated

Food and beverage inflation increased to 6.3% from 6.2% in the previous month due to a pick-up in inflation for cereals, milk, fruits and packaged food items. Cereals witnessed the sixth consecutive month of double-digit inflation (16.7% in February) due to high wheat and rice prices. However, there was moderation in sequential momentum for wheat prices to an eight-month low. This could be reflective of the supply-side measures taken by the government to cool wheat prices. Milk inflation rose to 9.6%, more than double of a year ago level (3.9% in February 2022).

The upside in food inflation was limited by deflation in vegetables and edible oils and moderation in inflation for meat items and pulses. The prices of tomatoes and onions have been on a continuous decline due to a healthy winter harvest. In February, the retail prices of tomatoes and onions declined (on an annual basis) by 19% and 30%, respectively. Additionally, potato prices also declined by 7% (y-o-y) in February.

The prediction of record wheat and pulses output as per the second advance estimate of foodgrain production is comforting. However, the likelihood of a heatwave in March ahead of the Rabi harvest adds to the concerns surrounding food inflation. Further, risks on the food inflation front remain elevated owing to the threat of the El

Nino effect on the Kharif crops. The El Nino-induced rain deficits or droughts could directly impact some essential crops such as paddy, maize, pulses and oilseeds. It could also have an indirect impact on the prices of dairy and meat items due to a shortage of feed and fodder crops. So far, there has been little success on account of food inflation despite export curbs for certain essential items and releases of wheat from the FCI stocks in the open market. Hence, the outlook for food inflation mostly hinges on favourable weather conditions going ahead.

Fuel and light inflation moderated to 9.9% from 10.8% during the previous month owing to moderation in inflation for the kerosene, LPG and firewood category. The oil marketing companies have hiked the prices of domestic as well as commercial LPG cylinders by Rs 50 and Rs 350.5, respectively (effective March 01, 2023). As a consequence, consumers, especially in rural regions, could feel the heat of higher cooking gas prices.

Clothing and footwear inflation inched lower to 8.8%, whereas housing witnessed an uptick to 4.8%. Under the miscellaneous category, sub-groups such as household goods and services (7.4%) and health (6.5%) witnessed a marginal increase in inflation. A slight moderation was visible for recreation (4.8%) and personal care effects (9.4%).

#### Component-Wise Retail Inflation (% y-o-y)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Total
<b>Weight</b>	<b>45.86</b>	<b>2.38</b>	<b>6.53</b>	<b>10.07</b>	<b>6.84</b>	<b>28.32</b>	<b>100.00</b>
Feb-22	5.9	2.4	8.9	3.6	8.7	6.6	6.1
Mar-22	7.5	3.0	9.4	3.4	7.5	7.0	7.0
Apr-22	8.1	2.7	9.9	3.5	10.7	8.0	7.8
May-22	7.8	1.1	8.9	3.7	9.5	6.8	7.0
Jun-22	7.6	1.8	9.5	3.9	10.1	6.3	7.0
Jul-22	6.7	1.8	9.9	3.9	11.8	5.9	6.7
Aug-22	7.6	1.7	9.9	4.1	10.8	6.0	7.0
Sep-22	8.4	2.0	10.2	4.6	10.4	6.1	7.4
Oct-22	7.1	1.9	10.2	4.6	9.9	5.9	6.8
Nov-22	5.1	2.1	9.8	4.6	10.6	6.0	5.9
Dec-22	4.6	2.5	9.6	4.5	10.9	6.2	5.7
Jan-23	6.2	3.1	9.1	4.6	10.8	6.2	6.5
Feb-23	6.3	3.2	8.8	4.8	9.9	6.1	6.4

Source: MOSPI

#### Way Forward

Going ahead, food inflation is expected to ease with a healthy Rabi harvest which will help to cool down prices of certain essential food items such as wheat and pulses. However, we need to be cautious of the threat of weather-related uncertainties. As far as core inflation is concerned, it is found to be sticky. Hence, it will take time before we see the moderation in core inflation in response to the monetary tightening so far and fizzling out of pent-up demand.

With domestic core inflation still high and the possibility of continued (though at a moderate pace) rate hike by the Fed amid elevated inflation, there is an increased possibility of another 25-bps rate hike by RBI in the April meeting. For the next fiscal, we expect average CPI inflation at 5.1% due to a combination of factors including support from a high base, the assumption of a normal monsoon, no major rebound in global commodity prices and some moderation in domestic growth.

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