

Inflation Remains Steady in April

May 13, 2024 | Economics

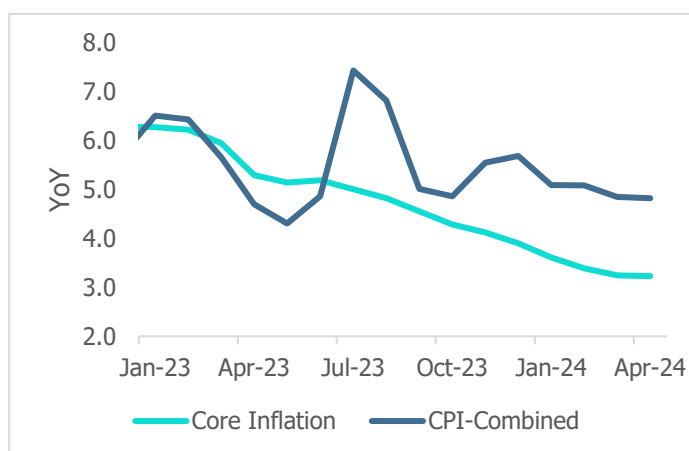
Headline and Core Inflation Remains Largely Unchanged

CPI inflation came in 4.83% YoY in April in line with our expectations, has largely remained steady, moderating marginally from 4.85% last month. The core inflation persisted at a benign rate of 3.2%, largely maintaining the same level as the previous month. Core inflation has consistently stayed below the 4% threshold for five consecutive months.

Reversing last month's trend, food inflation inched up to 7.9% as inflation in meat and fish category inched up and the ongoing deflation in the oil and fat category fell to single digits after 12 months. The high inflation in specific food categories, including vegetables and pulses, poses a risk of potentially broadening price pressures and de-anchoring inflationary expectations. Having said that, the outlook for food inflation has brightened due to anticipations of a normal monsoon, which is expected to bolster agricultural production. However, the temporal and spatial distribution of monsoon would be critical factors to monitor. Government initiatives on the supply side, such as the Open Market Sale Scheme (OMSS) and export restrictions, will further aid in keeping food prices under check. A normal monsoon holds the key for the upcoming Kharif season as reservoir levels remain low compared to 10y average in certain regions of the country. The arrival of the rabi harvest in the market is also expected to contribute to the cooling of food inflation.

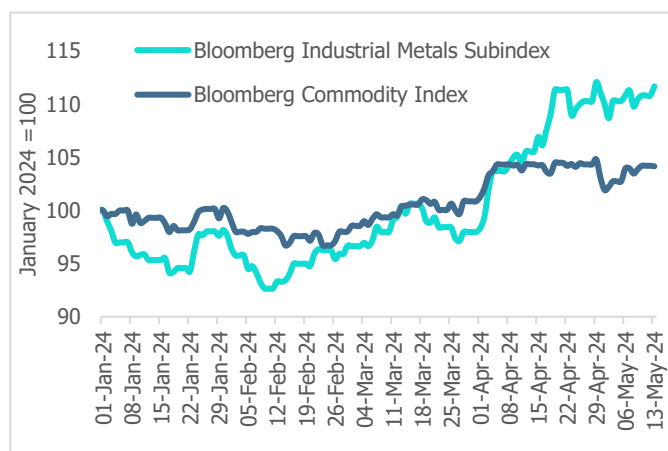
The persisting deflation in the fuel and light category deepened further to 4.2% in April from 3.4% in March due to the recent move to decrease LPG prices further by Rs 100. The reduction in LPG prices is anticipated to keep this segment in the deflationary zone in the coming months. Among non-food and non-fuel categories items such as clothing and footwear, household goods/services, housing, healthcare, education, transport and communications witnessed a moderation in inflation. However, inflation in personal care items and miscellaneous goods inched up, thereby keeping core inflation largely at the same level as last month.

CPI: Headline vs. Core Inflation



Source: MOSPI, CareEdge; Note: Core index is calculated excluding food, fuel and light

Recent Uptick in Commodity Prices



Source: Reuters, Bloomberg, CareEdge

Apart from elevated food inflation, incremental risk to inflation stems from the uptick in global commodity prices, especially industrial metals. Industrial metal prices are up ~20% in the past three months. This warrants closer attention as the rise in input prices can be passed on to the consumption basket. External risks emerging from ongoing geopolitical tensions also need to be monitored, given the risk they can pose to supply chains.

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

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Headline Inflation
Weight	45.86	2.38	6.53	10.07	6.84	28.32	100
May-23	3.3	3.6	6.6	4.8	4.7	4.9	4.3
Jun-23	4.7	3.7	6.1	4.6	3.9	5.2	4.9
Jul-23	10.6	3.9	5.6	4.5	3.7	5.0	7.4
Aug-23	9.2	4.1	5.2	4.4	4.3	4.9	6.8
Sep-23	6.3	3.9	4.6	4.0	-0.1	4.8	5.0
Oct-23	6.3	3.9	4.3	3.8	-0.4	4.5	4.9
Nov-23	8.0	3.8	3.9	3.6	-0.8	4.4	5.6
Dec-23	8.7	3.6	3.6	3.6	-1.0	4.1	5.7
Jan-24	7.6	3.3	3.4	3.2	-0.6	3.8	5.1
Feb-24	7.8	3.1	3.1	2.9	-0.8	3.6	5.1
Mar-24	7.7	3.1	3.0	2.7	-3.4	3.5	4.9
Apr-24	7.9	3.0	2.9	2.7	-4.2	3.5	4.8

Source: MOSPI

Way Forward

Looking ahead, continued government interventions on the supply side and recent reductions in LPG and fuel prices are poised to mitigate any potential upward price pressures. Having said that, it's important to monitor the external risks to the inflationary outlook stemming from higher commodity prices and geopolitical uncertainties. For FY25, we expect inflation to average 4.8%, with Q1FY25 at 4.9%. While core inflation has slipped below 4% target, high food inflation remains a concern. Going forward, if the food inflation moderates, we expect RBI to cut policy interest rate by a shallow 50 bps, in two tranches in the second half of the fiscal year.

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