

April 13, 2023

Inflation eases across items, base effect dominates

CPI inflation (March 2023)

5.66% YoY

Key readings

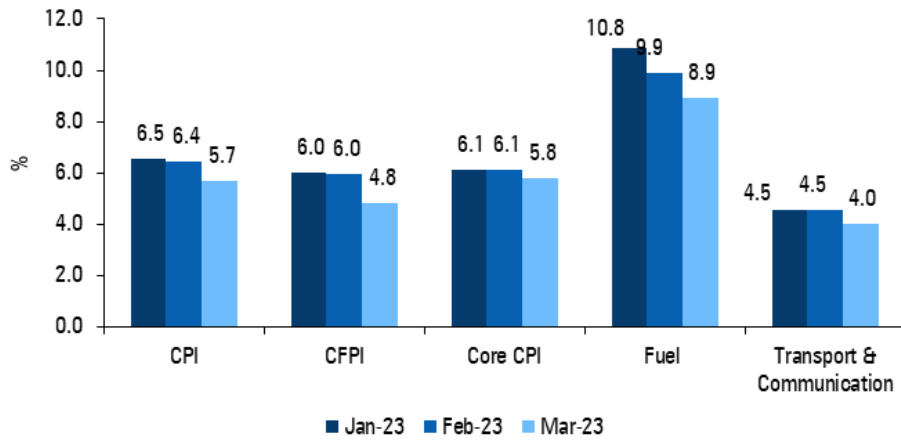
- CPI inflation for March 2023 came in lower and largely as per market expectations at 5.66% vs. 6.44% in February 2023
- Food inflation declined almost 120 bps from 5.95% to 4.79%. Within CFPI, cereals seem to have topped out last month. March saw the first sequential decline in 18 months. Base effect is expected to be favourable, going forward as well. Oil & fats and spices also peaked out with a strong favourable base. However, vegetable prices seem to have bottomed out. While they continue to decline, they saw the first MoM rise in four months
- The decline across food & non-food items was dominated by the favourable base effect. Last year, there was almost 1% rise from February 2022 to March 2022. The high base effect last year was dominated by food prices, which had jumped by 1.3% MoM in March 2022. Accordingly, we have seen food & beverages inflation softening to 5.1% YoY from 6.3% last month. Notably, food inflation increased from 5.9% YoY in February 2022 to 7.5% YoY in March 2022
- Apart from base effect, the decline was primarily driven by wheat within cereals item (-0.4% MoM). Apart from cereals, oils and fats index also fell 2.6% MoM. Same was the case with eggs and sugar. Some moderation in momentum was also seen in spices at 18.2% YoY (vs. 20.2% last month). Price rise in milk also softened a tad at 9.3% YoY (vs. 9.6% last month). Same was the case with prepared meals and non-alcoholic beverages. Meat and fish index contracted on a YoY basis during the month
- Spices inflation, which was running high for many months seems to have topped out. Going forward, the base is also turning favourable. Even meat & fish and egg prices softened to 3.4% YoY (vs. 6.0% last month) and 4.3% YoY (vs. 8.8% last month), respectively. Pulses also became less costly at 4.1% YoY (vs. 4.3% last month). Food inflation should soften given expected increase in foodgrain production and procurement during the current harvesting season. However, the bigger concern right now for food prices is outlook on monsoon given El-Niño conditions are developing over the Pacific Ocean
- Core inflation, after being sticky at 6% level since long, there was a decline of 30 bps from 6.1% to 5.8%. Base effect dominated the decline. While MoM inflation was at 0.25%, the momentum is declining as MoM rise since January 2022 averaged around 0.5%. All major items like clothing & footwear, fuel & light, transport & communication, personal care and effects witnessed a moderation in inflation print
- The base effect for the next few month is favourable. Last year, April, May, June 2022 CPI print was at 7.8%, 7.04%, 7.01%, respectively. With 7.8% as base, next month's CPI could be closer to 5%, which will give RBI enough comfort to maintain status quo (next policy meeting is on June 8. Hence, the April print will be the last available CPI print).

CPI inflation has declined sharply on expected lines. With a favourable base, the next few months print is likely far more comfortable for the RBI to maintain status quo on benchmark rates

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Exhibit 1: Secular decline across major items with sharper decline in food inflation



Food inflation has declined by 120 bps in March from 6.0% to 4.8%. Major core items like fuel and transport & communication are also on a declining trend

Source: Mospi



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