

December 13, 2022

Lower vegetables drive food inflation, headline CPI lower...

CPI inflation (November 2022)

5.88% YoY

Key readings

- CPI inflation for November came in lower at 5.88% vs. market expectation of 6.4% and 6.8% in October
- Like last month, the fall in inflation was led by food inflation with CFPI at 4.7% vs. 7.01%. Within food, vegetable inflation was the major driver with inflation at (-)8.1% vs. 7.8%. Other items that helped lower inflation were fruits (-2% MoM fall and favourable base), oil & fats (negative inflation continued for a second month on expected lines due to a fall in prices and favourable base)
- However, cereals (unfavourable base and continuous MoM rise), sharp MoM rise in eggs (6%), meat and fish (unfavourable base) and milk and products) put upward pressure on food inflation
- Cereals inflation with almost 10% weight has been a key driver of inflation in the last few months apart from vegetables. While vegetable inflation has declined in November for the first time since December 2021, cereals inflation should moderate from here on. Sowing acreage under Rabi crop currently is up 15% compared to last year. With global prices also trending lower, prices should move down, going forward
- Core inflation was almost flat at 6.02% vs. 5.95%. Fuel & light and transport & communications came in higher mainly due to base effect. On a YoY basis, health and household goods and services saw a minor acceleration at 7.7% YoY (vs. 7.6% last month) and 5.8% YoY (vs. 5.7% last month), respectively. Personal care and effects also remained elevated at 7.0% YoY (same as last month) due to higher gold prices (up 5.0% YoY). On the other hand, deceleration was seen in recreation and amusement at 5.4% YoY (vs. 6.1% last month) and clothing and footwear at 9.8% YoY (vs. 10.2% last month). Housing inflation remained stable at 4.6% YoY. Same was the case with education, which remained firm at 5.8% YoY (same as last month)
- Overall core inflation has been very sticky around 6.0% levels in the last two years
- Overall, over the next few quarters, core inflation is likely to be higher than the headline CPI print as most lead indicators suggest the moderation in food inflation will continue
- RBI had projected Q3FY23 CPI at 6.6%. With October and November average at 6.3% and December print likely around similar level, Q3 average is likely below their projection. While the RBI sounded hawkish in its recent policy and touched upon core inflation as well, the current CPI data print has opened up space to maintain status quo on the repo rate provided global variables, particularly the US Fed rate hike, remains benign

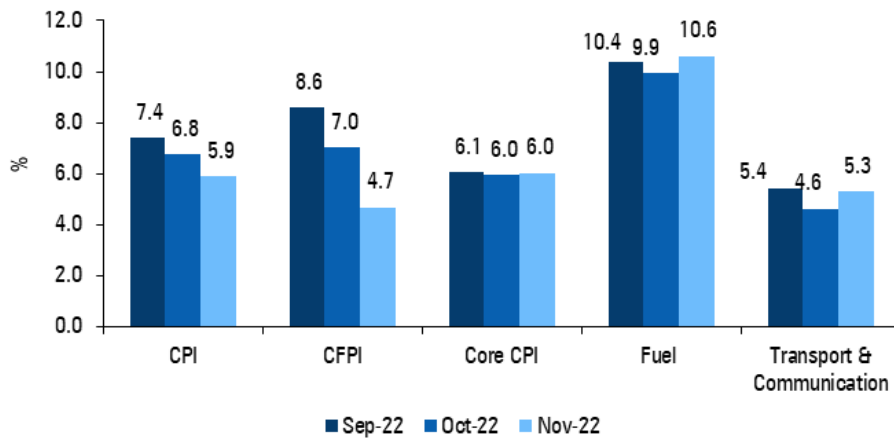
CPI inflation fell to 5.88% in November from 6.8% in October on the back of sharp de-growth in vegetables print. Going forward, cereals inflation, which is still rising should moderate and help keep food inflation lower. Core inflation is likely to remain stubborn in the near term

CPI average for Q3FY23 is likely at 6.3% against RBI's projection of 6.6%. The current print has opened up the space to maintain status quo on repo rate in the next policy meeting

Research Analyst

Sachin Jain
sachin.ja@icicisecurities.com

Exhibit 1: Sharp fall in food inflation drives headline lower despite marginal uptick in fuel and transport inflation print



Food inflation declined sharply in November on the back of a decline in vegetables, which both MoM and YoY de-grew 8%. The base effect in transport and communication and fuel led to marginal uptick in inflation

Source: Mospi



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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