

February 14, 2023

Reversal in food inflation drives headline print higher

CPI inflation (January 2022)

6.52% YoY

Key readings

- CPI inflation for January 2023 came in higher at 6.5% against market expectation of around 6.1% and vs. 5.7% in December 2022
- Fall in food inflation in the last three months got reversed. Food inflation, after falling to 4.2% in December from 8.6% in September, rose in January to 5.9%
- Within CFPI, while vegetables inflation continues to fall, three items viz. cereals (16% vs. 13.8%), meat and fish (6% vs. 5.1%) and eggs (8.8% vs. 6.9%) saw a sharp MoM rise. Wheat prices continued to rise while other two items saw seasonal (winter consumption) rise. Inflation in spices remained high
- 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 the last three months, cereals inflation continues to move upwards
- The outlook for food inflation looks brighter, going ahead, on the back of Rabi sowing along with release of wheat stock by the government recently to cool off prices. The impact of the same is visible in CPI with a sharp reduction in PDS price of rice and wheat. With the government looking at intervening in open market operations to cool-off prices, we believe cereal inflation should head lower next year. The backdrop for oils and fats is also favourable given global prices are now lower by 25% from their peak and have been stable over the last four months
- In other food items, milk inflation was higher at 8.8%. With the recent hike in prices, inflation in milk and products items is likely to remain elevated in the near term
- Core inflation was almost flat at 6.11% vs. 6.07%. Almost all items were flat with transport & communications being lower while personal care (gold) was higher negating each other. Healthcare inflation was also marginally higher at 6.4% YoY (6.2% last month). Housing also saw an uptick at 4.6% YoY (4.5% last month) same as pan, tobacco and intoxicants at 3.1% YoY (2.5% last month)
- Within core inflation, momentum is easing in clothing and footwear at 9.1% YoY (vs. 9.6% last month), household goods and services at 7.3% YoY (7.4% last month), recreation and amusement at 5.1% YoY (5.2% last month) along with transport and communication at 4.5% YoY (4.9% last month)
- RBI said that it will weigh all incoming data and forecasts to determine appropriate action and policy stance, going forward. In this backdrop, next month's inflation data print becomes an important variable to track due to RBI's comment on data driven action on further rate action

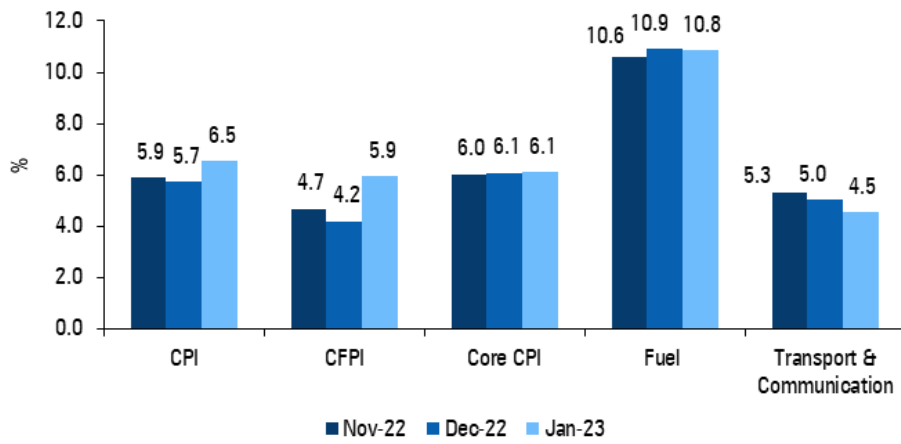
CPI inflation, after coming lower than market expectations in the last two months, has come in higher in January 2023. Rise in prices of cereals, meat & fish and eggs have overshadowed a continuous fall in vegetable prices

With RBI's approach to be more data dependent, next month's inflation print will be keenly watched as further higher inflation may increase expectation of one more rate hike

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Exhibit 1: Reversal in food inflation drives headline print higher. Core inflation remain sticky



After falling for two months, headline CPI inflation rose again on the back of reversal in food inflation (CFPI). Core CPI continued to hover around 6% range. Transport and communication (largely petrol) at 4.5% is well below other major components

Source: Mospi



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