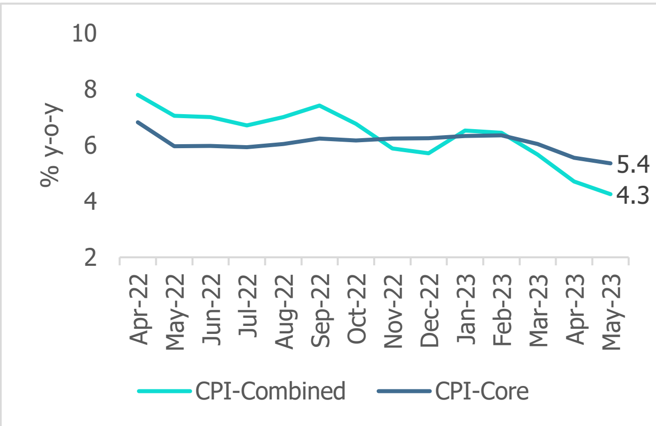
CPI Inflation at 25-month Low of 4.3% in May

June 12, 2023 | Economics

Retail inflation continued on the downward trajectory in May, easing to a 25-month low of 4.3%. Moderating for the fourth consecutive month, the CPI inflation has inched closer to the RBI's target of 4% supporting the RBI's policy decision to stay put in June for the second time in a row. While lower inflation has come as a relief, it was largely on account of a supportive base. In the past three months, a favourable base has pulled the inflation numbers down. Core inflation, which is reflective of the non-volatile component of CPI, continued to rule above the headline inflation in May. At 5.4%, it was marginally lower compared with the last month's level (5.6%).

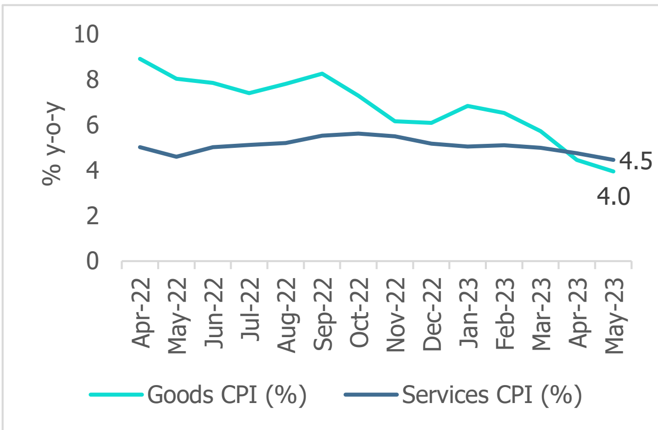
At the disaggregated level, both goods and services inflation declined to 4.0% and 4.5%, respectively. However, an interesting point to note is that moderation in goods inflation has been sharper compared to services inflation. An improvement in supply-side bottlenecks since H2 of FY23 has helped in price correction for goods as reflected in the downtrend for goods inflation. However, with discretionary demand in services sector still holding up well, the moderation in services inflation has been comparatively slow.

CPI Inflation: Core Above the Headline



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

Services CPI Surpasses Goods CPI



Source: MOSPI; CareEdge

Food inflation eased to 3.3% from 4.2% a month ago, with its share in overall inflation falling to 35.5%. Within the food basket, a divergent trend was visible with edible oils, vegetables and meat and fish continuing in deflation whereas, cereals, milk and pulses inflation remained at an elevated level.

Despite a dip in May, cereals inflation was high at 12.7% as rice and wheat (non-PDS) inflation, which are major contributors to cereal inflation, continued in double digits. With the arrival of Rabi wheat produce in the market coupled with open market sales, wheat retail prices have gone down in the last three months and are expected to ease further. However, rising rice prices remain a cause of concern given the uncertainty regarding monsoon and Kharif sowing.

High cereal inflation also weighs on milk prices by making cattle feed expensive. In May, there was no respite in milk inflation either as it trended high at 8.9%. Given the supply-demand mismatch, milk prices are expected to remain high as we enter the peak demand season. An unfavourable monsoon can further worsen the issue by impacting the production of cereals which are used as ingredients in cattle feed.

Pulses inflation also firmed up to 6.6% in May from 5.3% a month ago on tight supply. To cool down prices, the government has intervened by imposing stock limits on two widely consumed pulses, tur and urad till October 2023. While this a welcome step, the future trajectory of pulses inflation will depend largely on how the monsoon fares. Firming of price pressures was also seen in categories such as spices and sugar due to rising demand and limited availability.

Among non-food components, clothing and footwear inflation and fuel and light inflation moderated in May. Moderation in the fuel and light category was on account of lower kerosene prices and moderation in LPG inflation. Since April, oil companies have reduced commercial LPG prices by nearly Rs 346/cylinder. However, a spike in electricity inflation limited the downside in the overall fuel and light category.

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

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Total
Weight	**45.86**	**2.38**	**6.53**	**10.07**	**6.84**	**28.32**	**100.00**
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
Mar-23	5.1	3.0	8.2	5.0	8.8	5.8	5.7
Apr-23	4.2	3.5	7.5	4.9	5.5	4.9	4.7
May-23	3.3	3.6	6.6	4.8	4.6	4.8	4.3

Source: MOSPI

Way Forward

Gaining comfort from the recent releases of favourable data on agricultural production, prediction of normal monsoon and lower wholesale prices, the RBI has revised its FY24 inflation projection downwards by 10 bps to 5.1%. This is in line with our expectations. While we could see a marginal uptick in inflation print in the next few months as support from favourable base wanes, it is broadly expected to remain range bound averaging at 4.7% and 5.0% in Q1 FY24 and Q2 FY24, respectively (CareEdge projections). The second half could see a marginal uptick in inflation prints. The supply-side measures taken by the government to contain prices of essential food items such as wheat and pulses augur well for food inflation. However, uncertainties on the weather front and volatile crude oil prices pose an upside risk to our projections.

On the policy front, an expectation of lower inflation has prompted the RBI to pause for the second consecutive time. However, in a commitment to move toward its 4% target, the Central Bank has kept its tone hawkish by leaving the stance unchanged. With growth expected to hold up well, we expect a status quo on the policy rate in 2023.

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Shambhavi Priya	Associate Economist	shambhavi.priya@careedge.in	+91 - 22 - 6754 3493
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

Connect:

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I Noida I Pune

About Us:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.

Celebrating 30 Years