# July CPI Inflation Jumps to 7.4% on Food Prices, Past RBI's Target Range

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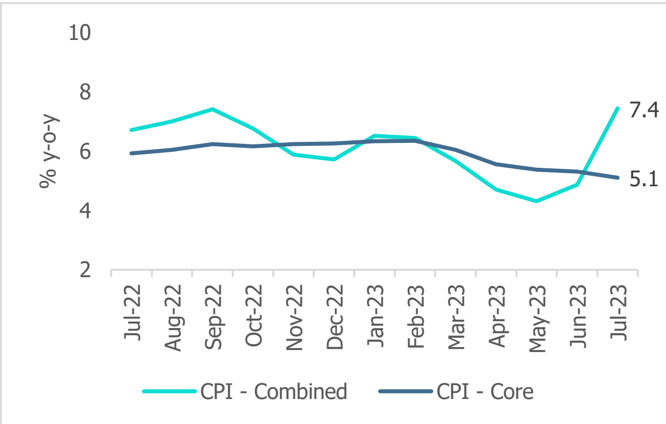
Retail inflation has sustained its upward trajectory for the second consecutive month, surging to 7.4% in July from 4.9% in the previous month. Consequently, the Consumer Price Index (CPI) inflation has breached the Reserve Bank of India's (RBI) target range for the first time since February 2023. This marks the highest reading observed since the peak in April 2022 at 7.8%. The notable surge in vegetable prices and elevated inflation in other food categories such as cereals, pulses, spices, and milk have driven this increase. Notably, the contribution of food and beverages to the overall inflation has risen significantly to 65%, surpassing their weight in the CPI basket. Specifically, vegetables alone have contributed nearly 30% to the headline inflation figure, despite having only a 6% weight in the CPI basket. Encouragingly, the core inflation has moderated to 5.1% in July, down from 5.3% in June, thereby falling below the headline inflation rate for the first time in four months.

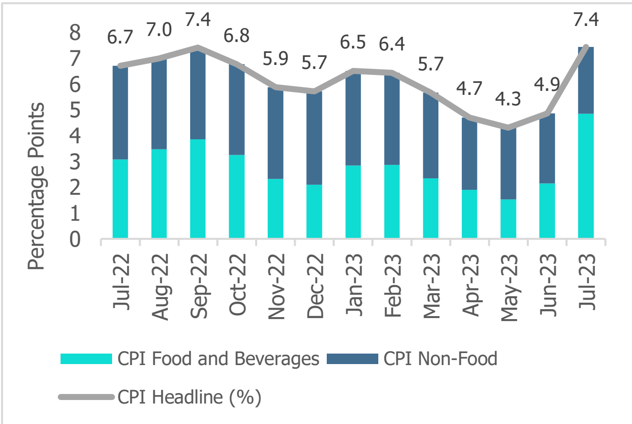
Concurrently, the data on wholesale inflation released earlier today showed the continuation of the deflationary trend. The wholesale price index contracted 1.4% in July. The divergent trend between the two inflation measures is primarily because of the compositional differences. WPI inflation is largely influenced by global commodity prices which have been on the declining trend. Furthermore, in comparison to the CPI basket, the WPI basket gives nearly one-third of weightage to food items. Consequently, any fluctuation in food prices has a greater impact on the CPI inflation.

**CPI Inflation: Core Below the Headline**




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

**Contribution to Headline CPI**




Source: MOSPI, CareEdge

Food and beverages inflation (CPI) surged to 10.6% in July, the highest in about 3.5 years. Within the group, inflation in sub-groups such as cereals (13%), milk (8.3%), pulses (13.3%) and spices (21.6%) continued at elevated levels. However, the main culprit for the upswing in food inflation was a significant increase in vegetable prices during the month due to a combination of factors including high temperatures, erratic rains and virus outbreaks. Additionally, flooding in certain areas due to heavy rains also resulted in transportation and logistical challenges adding to the price pressures. Vegetables witnessed a 37% (y-o-y) inflation in July from a marginal deflation during the previous month.

Most prominently, prices of essentials such as tomatoes, onions, potatoes, green chillies, ginger and garlic etc. have spiralled upwards. The government has taken a series of measures to rein in vegetable prices including allowing imports of tomatoes from Nepal, sale of tomatoes at subsidised price and release of onions from buffer stocks. However, the effectiveness of these interventions in bridging the demand-supply gap is yet to be seen.

For cereals inflation, the ban on exports of non-basmati rice announced in July along with the open market sale of wheat and rice from the Central pool could provide some relief. Encouragingly, the kharif sowing for paddy so far (as on 11 August 2023) has been 5% higher compared to last year. Another major concern is surrounding pulses which witnessed double-digit inflation of 13.3% in July. Despite the government's efforts to increase domestic availability of tur daal (a widely consumed pulse) through the imposition of stock limits, and offloading from the buffer stock, the prices continue to trend higher. So far, the sowing data does not look good (8% lower for pulses) and with monsoon expected to weaken in Aug-Sept, the concerns are elevated.

Inflationary pressures in other categories such as milk and spices are equally concerning as the demand for these is going to strengthen with the upcoming festive season. Though edible oils are in a deflationary zone, the recent uptick in global edible oil prices caused by production concerns in major producers and supply disruptions from the Black Sea region pose an upside threat to food inflation. Among the non-food components, there was a broad-based moderation (or no change) in inflation across categories which helped in lowering core inflation.

**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** |
| 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 | 4.7 | 4.9 | 4.3 |
| Jun-23 | 4.7 | 3.7 | 6.1 | 4.6 | 3.9 | 5.2 | 4.9 |
| Jul-23 | 10.6 | 3.8 | 5.6 | 4.5 | 3.7 | 5.0 | 7.4 |

Source: MOSPI

**Way Forward**

Even though the rise in vegetable prices is transient, the sustained price pressures in categories like cereals, pulses, spices, and milk can keep food inflation elevated in the near term. Higher food prices for longer could impact households' purchasing power and dent consumer sentiment. This could have a bearing on the growth prospects, especially amid external headwinds and uncertainty regarding rural recovery. The RBI is aware of these challenges and will closely monitor these evolving trends to decide on its future policy course.

However, given the supply-driven nature of these inflationary pressures, RBI has limited space to act. Hence, the government's timely supply-side interventions are essential to close the supply-demand gap before the upcoming festive season.

Though the moderation in core inflation is reassuring, the possibility of elevated headline numbers in the upcoming months has pushed the expectation of a rate cut by the RBI to the next fiscal.

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