

CPI Inflation Hits 4-month Low of 4.9% in October

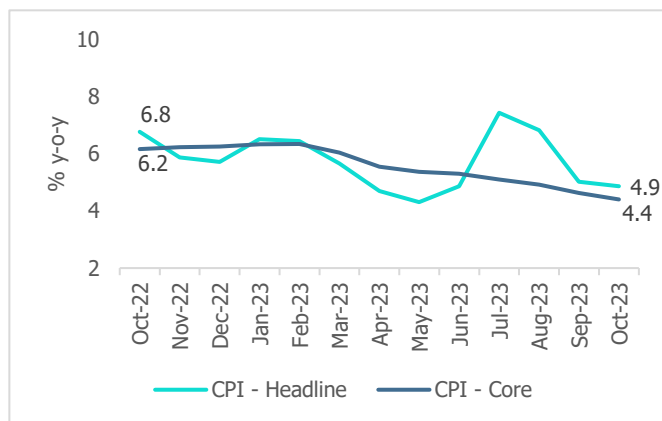
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CPI inflation eased to a 4-month low of 4.9% in October helped by deflation in the fuel and light category and a supportive base while the food inflation remained largely unchanged. After peaking in July 2023 (at 7.4%), inflation prints have softened within the RBI’s target range in the last two months. This was primarily because there has been a significant correction in the vegetable prices, owing to seasonal factors. Further, the government’s measures such as reduction in domestic LPG prices have helped cool the headline inflation number despite stickiness in some components such as cereals, pulses, milk and spices.

Core inflation, which represents the non-volatile component of CPI inflation, continued to ease (4.4% in October) with a broad-based moderation across categories. In the last 12 months, core inflation has softened by nearly 176 basis points with a significant easing in clothing and footwear and few other components in the services category. Overall, the fall in inflationary pressure has been broad-based with the share of items in the CPI basket with inflation above 6% falling from 49% in March 2023 to 28% in October.

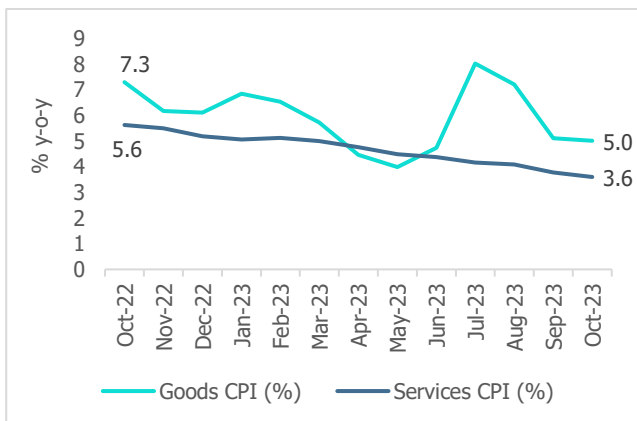
Speaking of the goods and services classification, inflationary pressures have moderated in both categories. While services inflation has been gradually declining, the trajectory of goods inflation has been rather volatile due to significant fluctuations in prices of certain food items.

CPI Inflation: Headline vs. Core



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

CPI Inflation: Goods vs. Services



Source: MOSPI, CareEdge

Food and beverages inflation was largely unchanged printing at 6.2% in October compared with 6.3% a month earlier. In fact, sequentially, inflationary pressures gained steam breaking the streak of deflationary trend in the previous two months. This is because vegetables (especially tomatoes) prices have now largely stabilised. However, other major constituents of food basket viz., cereals, pulses and spices continue to witness sticky double-digit inflation.

The recently released first advance estimate of Kharif foodgrains production showed a dip across categories compared with the last years’ final estimate. The fall was sharpest for oilseeds (17.7%) followed by pulses (6.6%) and cereals (4.5%). Though these estimates are subject to revision (usually higher as suggested by trend), upside risk to the food inflation outlook persists if the production remains close to the current estimates.

The fuel and light category continued in deflation for the second consecutive month (minus 0.4% in October) helped by reduction in domestic LPG prices. Other non-food and non-fuel categories such as clothing and footwear, housing and miscellaneous items witnessed moderation in inflation which helped in bringing core inflation down.

In the past 12 months, housing inflation has broadly remained within the 4-5% range, however, it eased to a 17-month low of 3.8% in October. This was largely due to a supportive base as price pressures within the category strengthened sequentially.

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
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	3.9	5.6	4.5	3.7	5.0	7.4
Aug-23	9.2	4.1	5.2	4.4	4.3	4.9	6.8
Sep-23	6.3	3.9	4.6	4.0	-0.1	4.8	5.0
Oct-23	6.2	3.9	4.3	3.8	-0.4	4.4	4.9

Source: MOSPI

Way Forward

The declining trend in the headline as well as core inflation is comforting. However, it remains to be seen if it sustains, given the weak prospects for the Kharif harvest and the expected hit to Rabi sowing amid lower reservoir levels in major agricultural states. The first advance estimate of Kharif crop production paints a grim picture for cereals and pulses output – categories witnessing sticky double-digit inflation. This poses an upside risk to the overall inflation outlook.

We expect CPI inflation to remain range-bound around 5.3-5.4% in the next two quarters. For the full fiscal year, we have revised our projection lower to 5.4% from 5.6% earlier, owing to the significant correction in vegetable prices in recent months and lower-than-expected inflation in September. However, with risks tilted to the upside, the RBI is expected to remain vigilant and maintain its hawkish policy tone in the upcoming policy meeting. Any monetary policy change can be expected only in the second quarter of FY25 when CPI inflation moves closer to the RBI's 4% medium-term inflation target.

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