CPI Inflation Picks Up to 5.6% on Food and Unfavourable Base

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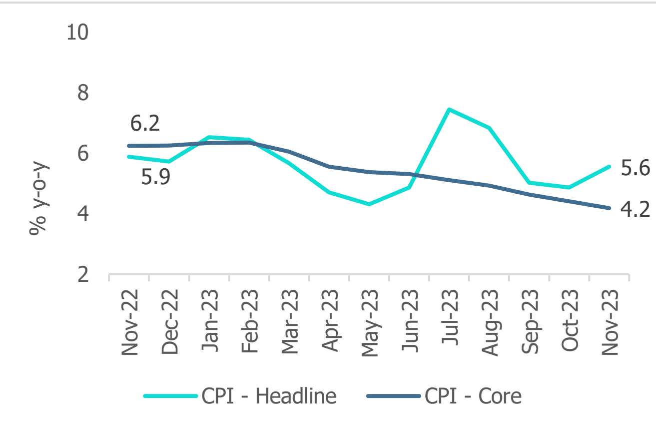
CPI inflation rose to a 3-month high of 5.6% in November, reversing the downtrend seen during the previous three months. This was mainly because of the spike in certain vegetable prices as well as sticky inflation in non-perishable food items such as cereals, pulses and spices. Additionally, support from a favourable base was absent last month. The upside was contained, to some extent, with the continued deflation in fuel and light category and moderation in core inflation.

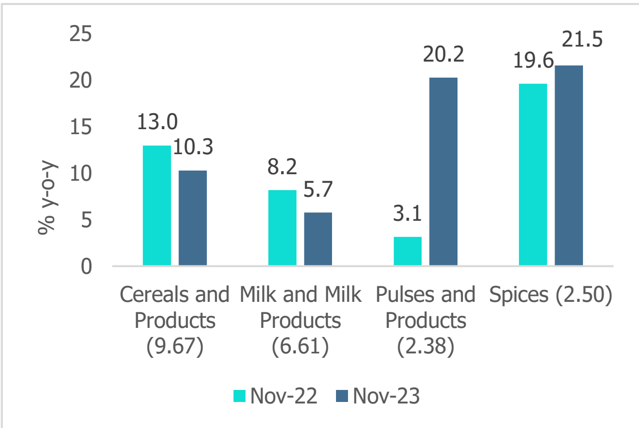
While the trajectory of headline inflation has been uncertain, core inflation has been consistently trending downwards since the beginning of this fiscal. A combination of factors including the impact of RBI's monetary tightening on aggregate demand as well as improved supply conditions have supported this trend. In November, core inflation eased marginally to 4.2% from 4.4% a month ago with a moderation across discretionary spending components like clothing and footwear, housing, recreation and household goods and services.

CPI: Headline vs. Core Inflation



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

CPI Food: Persistent Inflation in Certain Categories



Source: MOSPI, CareEdge; Note: Figures in brackets represent weight in the CPI basket

Cereals, Pulses to Keep Food Inflation Elevated

Food and beverages inflation increased sharply to 8% from 6.3% in October. There was a sharp sequential uptick in the prices of key vegetables such as onions and tomatoes in November on tight supply and festive demand boost. Onion inflation has accelerated to 86.5% in November from a mere 1.7% in June 2023. In this light, the government has banned exports of onions till March 2024 (w.e.f 08 December 2023) to enhance domestic availability. This along with arrival of late Kharif crop (mid-December until late February) could materialise in correction in onion prices in the coming months. Tomato prices are also expected to stabilise during December-March as indicated by the seasonal trends.

Cereal inflation has remained in double-digits for over a year now (10.3% in November) despite government's efforts to rein in prices of essential commodities such as wheat and rice through Open Market Sale Scheme, imposing stock limits and export curbs. Rice inflation is expected to remain elevated due to the expected fall in Kharif output. While wheat acreage in the ongoing Rabi season has improved significantly compared to a month ago, it is still nearly 1% lower than a year-ago period. With the arrival of new-season wheat crops expected only next year April onwards, the wheat prices could also remain firm in the near future.

Another food category witnessing stickiness is pulses. Pulses inflation has surged more than six-fold in the last one year (from 3.1% in November 2022 to 20.2% in November 2023). This is despite a significant increase in pulses imports this year. Import of pulses has grown more than 100% during April-October period on an annual basis. The projection of lower Kharif output of pulses in 2023-24 along with lagged Rabi sowing of pulses (nearly 8% lower as on 08 December 2023) further worsens the outlook.

The fuel and light category continued in deflation for the third consecutive month (minus 0.8% in November). Other non-food and non-fuel categories such as clothing and footwear, housing and miscellaneous items witnessed moderation in inflation which helped bring core inflation down.

The consistent fall in median inflation expectations for the current and three-months' ahead periods is encouraging. However, for the one year ahead period median inflation expectation increased by 20 bps to 10.1% in November. It was the first uptick in the last seven months as a large proportion of households expect higher inflation in food and housing segments.

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**
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	6.3	3.9	4.3	3.8	-0.4	4.5	4.9
Nov-23	8.0	3.8	3.9	3.6	-0.8	4.4	5.6

Source: MOSPI

Way Forward

The consistent fall in core inflation in line with easing commodity prices and subsiding demand-side pressures is a positive. However, persistently elevated inflation in certain food categories such as cereals, and pulses pose a risk of potential generalisation of price pressures. Given the lingering uncertainty around Kharif production and Rabi sowing prospects, high food prices cannot be shrugged off as entirely transient and could further feed into the inflationary expectations. Hence, supply-side interventions by the government become crucial at this juncture to ensure sufficient buffer stock of essential food items.

An unfavourable base is further expected to push CPI inflation higher around 5.8-6% in December. However, with arrival of fresh crops in the market during January-March, the headline inflation could ease to 5.1% by the fiscal year end. For the full fiscal year, we expect inflation to average at 5.4% with risks tilted to the upside.

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