

February CPI Remains Broadly Unchanged

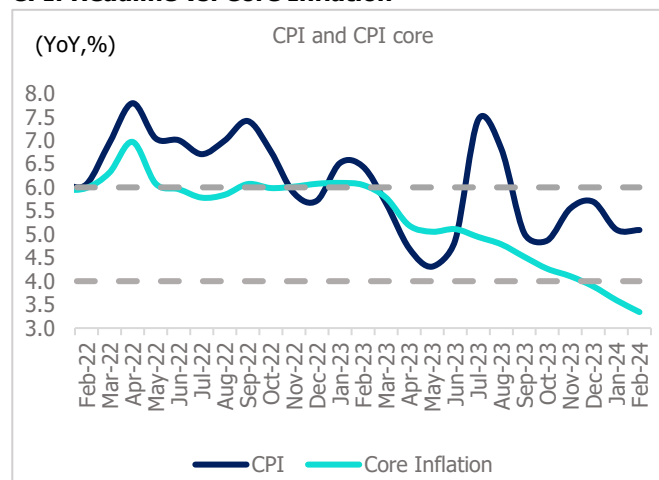
March 12, 2024 | Economics

In February, headline inflation held steady at 5.1%, marking the sixth consecutive month within the RBI's target band. Rural inflation remained stable at 5.3% during the same period, while urban inflation eased to 4.8% in February, compared to January's 4.9%. While there was a broad-based moderation across all major categories (except food), the inflation was kept elevated by higher food prices. The persisting deflation in the fuel and light category also played a role in supporting inflationary figures. The recent move to further cut LPG prices is anticipated to keep this segment in the deflationary zone in the coming months. Core inflation remained subdued and moderated even further, consistently staying below the 4% threshold for three consecutive months.

Food Inflation Remains a Source of Concern

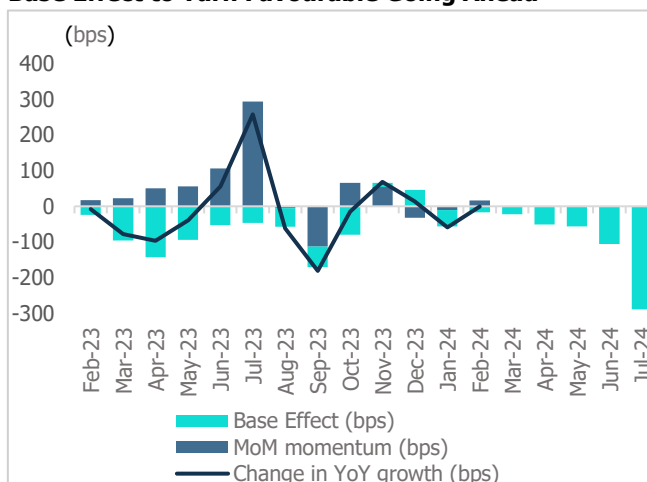
Reversing last month's trend, food inflation has increased marginally to 7.8% in February from 7.6% in January. Continued double-digit trends in vegetables (30.3%), spices (13.5%) and pulses (18.9%) remain a source of concern. The ongoing high inflation in specific non-perishable food categories, including pulses and spices, poses a risk of potentially broadening price pressures and de-anchoring inflationary expectations. Higher prices of non-perishables warrant close monitoring due to their inherent stickiness. Nonetheless, the ongoing contraction in the oil and fat category provided relief, mitigating the overall impact on food inflation.

CPI: Headline vs. Core Inflation



Source: MOSPI, CareEdge

Base Effect to Turn Favourable Going Ahead



Source: MOSPI, CareEdge

The outlook for food inflation has improved over the past couple of months, attributed to a marginally increased overall acreage in rabi sowing compared to the previous year. Government initiatives on the supply side, such as the Open Market Sale Scheme (OMSS) and export restrictions, will further aid in cooling food prices. It is noteworthy, however, that reservoir levels, particularly in eastern and southern India, persist at lower levels. Consequently, the forthcoming monsoon in FY25 holds significant importance for the trajectory of food inflation. Encouragingly, reports from the World Meteorological Organization (WMO) indicating a waning in El Nino conditions bode well for overall agricultural production. Going ahead, the arrival of the early harvest in the market over the next few months will also help in moderating prices.

Core Inflation Eases Further, Deflation in Fuel and Light Continues

Core inflation has eased further from 3.9% in December to 3.6% in January and 3.34% now, thereby staying below the 4% threshold for three consecutive months. The fall in core inflation was aided by a broad-based moderation in all major categories – housing, clothing and miscellaneous. A muted consumption demand and a moderation in global commodity prices have continued to impact core inflation prints.

The fuel and light category continued in deflation for the fourth consecutive month with a contraction of 0.6% in January. Recent series of reductions in LPG prices have contributed to this trend. The decision to further cut Rs 100 per cylinder in LPG prices last week will prolong deflation in this category.

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

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Headline Inflation
Weight	45.86	2.38	6.53	10.07	6.84	28.32	100
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
Dec-23	8.7	3.6	3.6	3.6	-1.0	4.1	5.7
Jan-24	7.6	3.3	3.4	3.2	-0.6	3.8	5.1
Feb-24	7.8	3.1	3.1	2.9	-0.8	3.6	5.1

Source: MOSPI

Way Forward

While core inflation continues to moderate, elevated levels of food inflation continue to remain a source of apprehension. The government's supply side measures coupled with good progress of rabi sowing have improved the outlook on food inflation. Amid lower reservoir levels, a normal monsoon will be critical for food inflation to moderate going ahead. Looking ahead, a favourable base effect is expected to persist until July 2024, helping absorb potential upward risks to price pressures to a certain extent. For FY24, we expect inflation to average 5.4%, with Q4FY24 at 5.1%. We expect inflation to average 4.8% in FY25. Given that the RBI Governor has been highlighting the objective of getting CPI inflation to 4% on a durable basis, the policy rates are likely to be kept on hold in the upcoming policy meeting, with no change in stance. Amid strong economic momentum, we see RBI commencing a shallow rate-cutting cycle from H2 FY25.

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