

CPI Inflation Rises Sharply in June

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Headline Inflation Rises Sharply in June while Core Inflation Remains Steady

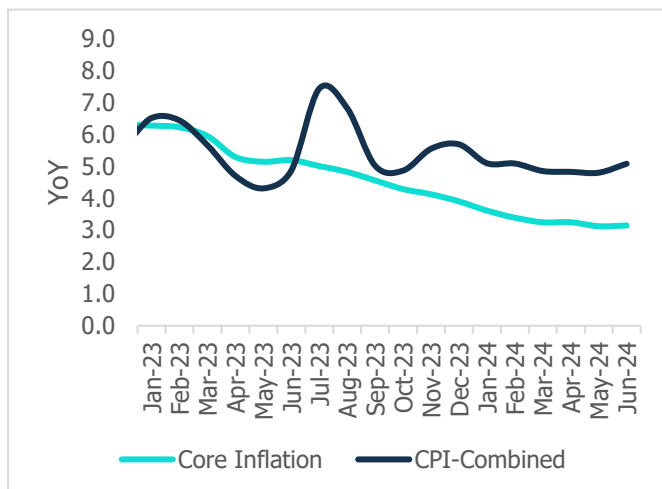
The CPI inflation rose sharply to 5.1% in June from 4.8% in May, higher than market expectations. The inflation in food basket inched up, led by higher inflation in specific food categories, including vegetables, pulses and cereals. Prices of staple vegetables rose sharply. This can be attributed to both supply-side and demand-side factors. Last year's reduced output, the impact of heatwaves in May-June on the shelf life of vegetables, and heightened demand due to the festive season last month have all contributed to the sequential uptick in their prices. The sustained inflationary trend in some non-perishable food categories, such as cereals, pulses and spices, raises concerns about the potential broadening of price pressures due to their inherent stickiness.

Encouragingly, inflation within the spices category witnessed a steep moderation over the past couple of months. Inflation in spices had remained in double digits throughout FY24. However, the fuel and light category remained in deflation and cushioned the overall inflation.

Core inflation held steady at 3.1% and remained largely benign. Core inflation has consistently stayed below the 4% threshold for seven consecutive months. All major categories within the core basket have seen moderation except housing and personal care items.

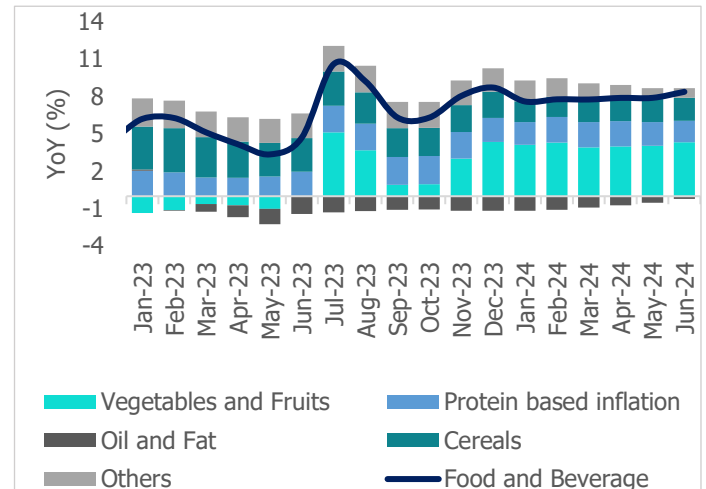
High inflation in specific food categories, including vegetables and pulses, poses a risk of potentially broadening price pressures and destabilizing inflationary expectations. Even though food inflation continues to remain a cause of concern, its outlook has brightened due to anticipation of a normal monsoon. However, the temporal and spatial distribution of monsoon and the progress of the Kharif sowing would be critical factors to monitor. A good monsoon is crucial for controlling food inflation and ensuring a successful Kharif harvest, especially given the current low reservoir levels.

CPI: Headline vs. Core Inflation



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

Contributions to Food Inflation



Source: MOSPI, CareEdge. Protein Basket includes Egg, Meat & sh, Milk & Milk Products and Pulses

The persisting deflation in the fuel and light category continued due to the recent move to cut LPG cylinder prices. The reduction in LPG prices is anticipated to keep this segment in the deflationary zone in the coming months. The fall in core inflation in May was broad based with only personal care items and housing showing an uptick in inflation prints.

Globally, commodity prices, which had been rising through the first half of 2024, have eased over the past month. However, external risks emerging from ongoing geopolitical tensions need to be monitored, given the risk they can pose to supply chains and commodity prices.

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
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
Mar-24	7.7	3.1	3.0	2.7	-3.4	3.5	4.9
Apr-24	7.9	3.0	2.9	2.7	-4.0	3.5	4.8
May-24	7.9	3.0	2.7	2.6	-3.7	3.4	4.8
Jun-24	8.4	3.1	2.7	2.7	-3.7	3.4	5.1

Source: MOSPI

Way Forward

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. We expect food inflation to moderate going ahead as the base effect plays out and new harvests arrive in the market. Expectations of a normal monsoon improve the outlook of food inflation. However, it will be crucial to monitor its distribution and the Kharif sowing. Additionally, it's also important to monitor the external risks to the inflationary outlook stemming from geopolitical uncertainties.

Lower core inflation underscores the fact that recent uptick in the growth momentum has largely been disinflationary. For FY25, we expect inflation to average 4.8%. If food inflation moderates, we expect the RBI to cut the policy interest rate by a shallow 50 bps in two tranches in the second half of the fiscal year.

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