

CPI

13 December 2021

CPI accelerates further

CPI inflation rose to 4.9% in Nov'21 from 4.5% in Oct'21 led by food inflation (1.9% versus 0.8% in Oct'21). On the other hand, core inflation eased by 10bps to 6.1% due to lower oil prices. Going forward we expect core inflation to remain sticky due to pent-up demand. We expect CPI inflation at 5.5% in FY22. While RBI remained dovish in Oct'21 meet, it is likely to be watchful of the rising inflation. We thus expect RBI to raise a reverse repo rate in Q4FY22, followed by a hike in repo rate in Q1FY23.

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CPI inches up again: CPI inflation accelerated further to 4.9% in Nov'21 from 4.5% in Oct'21 led by a pickup in food inflation (1.9% in Nov'21 versus 0.8% in Oct'21). This was led by slower pace of decline in prices of vegetables (-13.6% in Nov'21 compared with -19.4% in Oct'21) as well as higher prices of fruits (6% in Nov'21 versus 4.9% in Oct'21). Prices of cereals also rose to a 12-month high at 1.5% versus 0.4% in Oct'21. On the other hand, prices of other items such as oils and fats (29.7% in Nov'21 versus 33.6% in Oct'21), pulses (3.2% in Nov'21 versus 5.4% in Oct'21), meat and fish (5.5% in Nov'21 versus 7.1% in Oct'21), and non-alcoholic beverages (9.7% in Nov'21 versus 11.4% IN Oct'21) moderated.

Core inflation softens a bit: CPI excluding food and fuel edged down by 10bps to 6.1% in Nov'21 (6.2% in Oct'21). This was led by 88bps drop in transport and communication index to 10% (from 10.9% in Oct'21). Even health (24bps drop to 7.3% versus 7.6% in Oct'21) and education index (27bps drop to 3.1% from 3.3%) moderated. Other components of core such as housing (+12bps to 3.7% versus 3.5%), household goods and services (+25bps to 6.4% versus 6.2%), personal care and effects (+76bps to 3.2% from 2.5%) and recreation and amusement (+74bps to 7.6% from 6.9%), showed considerable inflationary pressure. Going forward, with pent up demand taking shape, we expect core to remain sticky till Mar'22.

CPI Inflation estimated at 5.5%: There are both upside and downside risks to inflation outlook. Improved Rabi sowing, softening of vegetable prices off late (-3.6% in Dec'21), arrival of winter crops and correction in crude prices are the key downside risks to inflation. However, upside risks remain from global supply chain bottlenecks and pent up demand. We expect headline CPI to be at 5.5% in FY22.

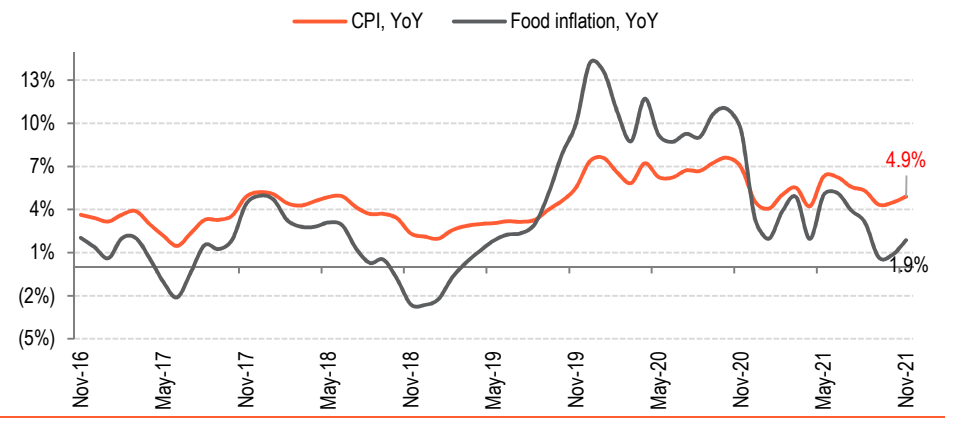
RBI to start normalisation of rates in Q4: The current juncture calls for normalisation response from RBI. Growth is gaining momentum with improvement in high frequency indicators (electricity demand, google mobility index) and fading concerns of Omicron strain. Thus inflationary risks are not going to dissipate and the trajectory would be above MPC's 4% target even in FY23. Thus, we expect RBI to raise reverse repo, before starting the rate hike cycle from Q1FY23 onwards.

Key highlights

- CPI inflation rose to 4.9% in Nov'21 from 4.5% Oct'21.
- Food inflation accelerates to 1.9% in Nov'21 from 0.8% in Oct'21.
- Core inflation eased marginally lower to 6.1% compared with 6.2% in Oct'21.

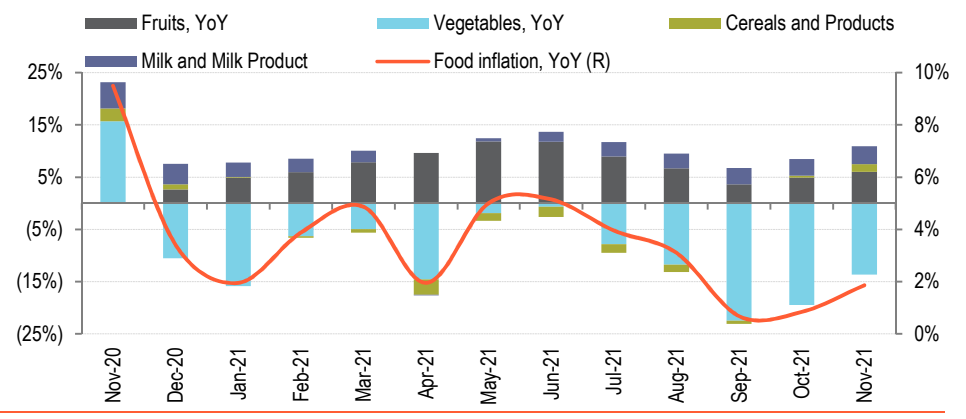


Fig 1 – CPI rises to 4.9% in Nov'21, led by food



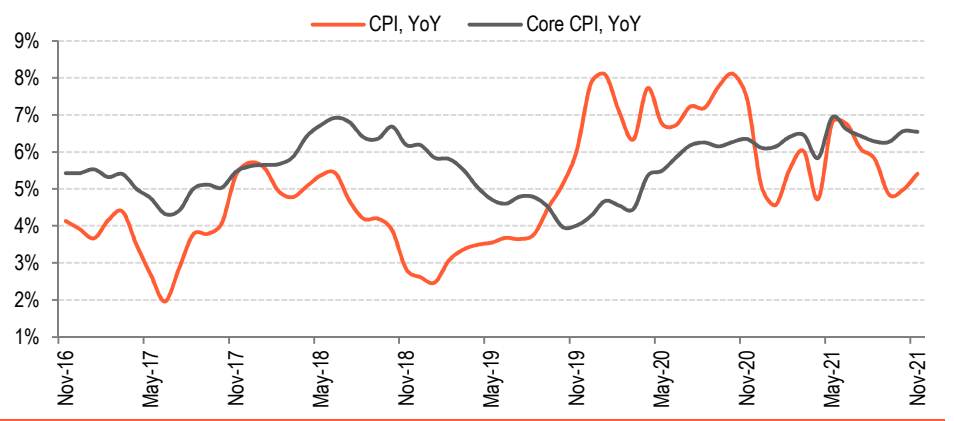
Source: CEIC, Bank of Baroda Research

Fig 2 – ...Led by vegetables, fruits and cereals



Source: CEIC, Bank of Baroda Research

Fig 3 – Core CPI edged marginally lower in Nov'21



Source: CEIC, Bank of Baroda Research

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