

## CPI

14 February 2022

**CPI touches 6%**

**CPI inflation rose to 6% in Jan'22 from 5.7% in Dec'21, led by food inflation (5.4% versus 4%). However, core inflation eased by 10bps to 6% due dip in prices under transport and communication, health and personal care items. Going forward, we expect core inflation to remain sticky due revival in domestic demand, and build of input price pressures as seen in WPI. We also expect inflation to overshoot RBI's estimates in FY22 and FY23. Despite this, we expect RBI to remain on hold for now, to support growth.**

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**CPI hardens:** CPI inflation accelerated further to 6% in Jan'22 from 5.7% in Dec'21 led by a pickup in food inflation (5.4% in Jan'22 versus 4% in Dec'21). This was mainly led by rebound in prices of vegetables (5.2% versus -3%). Vegetable prices also rose on wholesale basis with vegetable inflation (WPI) at 38.5% in Jan'22 versus 31.6% in Dec'21. Apart from this, in the CPI basket, prices of meat and fish (5.5% versus 4.6%), cereals (3.4% versus 2.6%), eggs (2.2% versus 1.5%), milk (4.1% versus 3.8%) and spices (4.7% versus 4%) also increased. Amongst these, similar trend was also seen in wholesale prices for cereals, pulses, eggs, meat and fish and milk. On the other hand, in line with the trend seen in WPI, prices of fruits moderated in the CPI basket as well (2.3% versus 3.5%). Prices of oils and fats too eased (18.7% versus 24.3%).

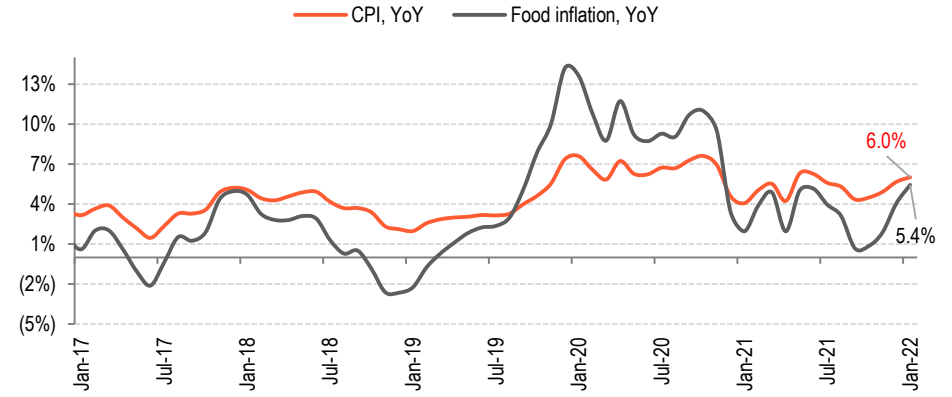
**Core inflation eases:** CPI excluding food and fuel, edged down by 10bps to 6% in Jan'22 (6.1% in Dec'21). This was led by 37bps drop in transport and communication index to 9.4% (from 9.7% in Dec'21), followed by health (24bps drop to 6.9% versus 7.1%) and recreation and amusement index (31bps drop to 7% from 7.4%). Even personal care and effect index (21bps drop to 3.5% from 3.7%) and housing (9bps drop to 3.5% versus 3.6%) moderated. Other components of core such as, clothing and footwear (+54bps to 8.8% versus 8.3%) and household goods and services (7.1% versus 6.8%) showed considerable inflationary pressure. Even in the WPI basket, wearing apparel is seeing upward pressure (3.7% increase in Jan'22 versus 3.4% in Dec'21). However, contrary dip in prices of health in CPI, prices of pharma products are seeing upward movement in the wholesale basket (4.3% versus 4.1%). Going forward, with revival in demand taking shape, we expect core to remain sticky till Mar'22.

**Fuel inflation a respite:** Fuel and light index eased to 9.3% in Jan'22 from 11% in Dec'21. On the wholesale level, fuel and power inflation has remained unchanged from last month at 32.3% in Jan'22. In the CPI basket, moderation was led by dip in prices of Kerosene (by PDS) to (-) 5.9% in Jan'22 from (-) 1.8% in Dec'21. Coal prices (-0.1% versus 1.3%) and other fuel items (-0.4% versus 0.8%) also fell. Coal prices have remained unchanged on the wholesale level (3.1% in Jan'22), while Kerosene prices have seen a similar easing (63% in Jan'22 versus 100% in Dec'21). On the other hand, at the retail level, electricity prices (0.1% versus 0%) and diesel excluding conveyance (1.1% versus -1.6%) picked up. In the WPI basket too, electricity prices have seen sharp pick up (15.7% in Jan'22 versus -0.2% in Dec'21).

**Inflation to overshoot RBI estimates:** RBI in its latest monetary policy statement kept the inflation estimate for FY22 unchanged at 5.3%, with Q4FY22 print estimated at 5.7%, despite significant changes witnessed in the international oil market. While during the Dec'21 policy crude was trading at US\$ 70/bbl, it is currently hovering around US\$ 95/bbl. Geo-political tension and revival in global demand, both have contributed to the upward movement of prices. We believe, the full pass through of input cost inflation is yet to be seen. We also expect transport and communication inflation to increase post State elections. Thus we estimate CPI to come in at 5.5% in FY22. Even in FY23, we expect CPI to range between 5-5.5%, higher than RBI's estimate of 4.5%.

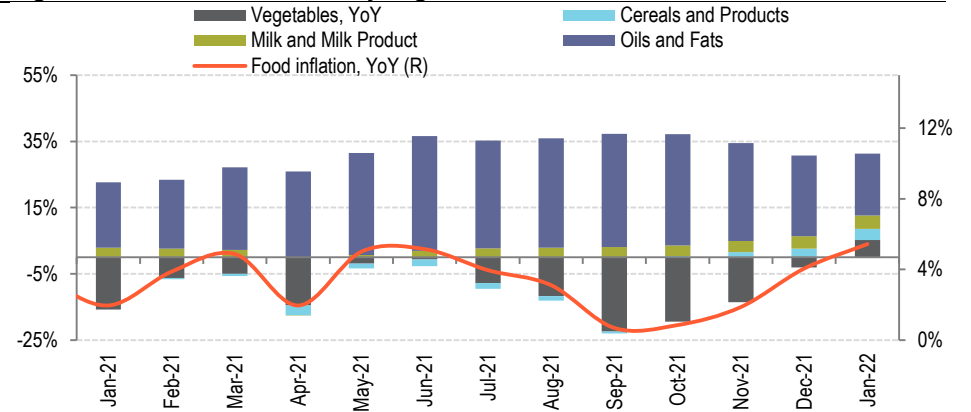


**Fig 1 – CPI rises to 6% in Jan'22, led by food**



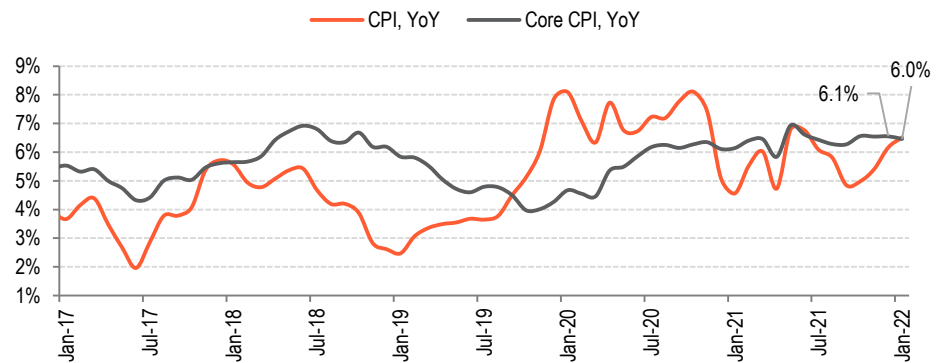
Source: CEIC, Bank of Baroda Research

**Fig 2 – Food inflation was led by vegetables**



Source: CEIC, Bank of Baroda Research

**Fig 3 – Core CPI edged marginally lower in Jan'22**



Source: CEIC, Bank of Baroda Research

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