

CPI

14 March 2022

Inflation remains a concern

CPI inflation rose to 6.1% against market consensus of 6%. Our estimate was also on the higher side of 6.3%. Food inflation inched up at the retail level, driven by vegetables, cereals and meat and fish. Even core inflation remained sticky. Notably, inflation surpassed its Jan'22 level which was supposed to be the peak as said in the RBI's policy statement. Going forward, we expect CPI to be ~5.5-6% in FY23. Upside risks persist with regard to elevated commodity prices and its laggard pass through.

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CPI rose to its highest since Jun'21: CPI inflation accelerated further to 6.1% in Feb'22 from 6% in Jan'22 led by a pickup in food inflation (5.9% in Feb'22 versus 5.4% in Jan'22). Notably, food inflation was at its highest since Nov'20. 5 out of 12 food items noted considerable increase in inflation namely cereals (4% in Feb'22 versus 3.5% in Jan'22), meat and fish (7.4% versus 5.5%), vegetables (6.1% versus 5.1%) and spices (6.1% versus 4.7%). Even for items such as oil and fats (16.4%), pulses (3%) and sugar (5.4%), stickiness in inflation is observed. However, in the WPI basket food prices showed slight moderation to 8.2% in Feb'22 from 10.3% in Jan'22. This was on account of moderation in fruits and vegetables (19.7% in Feb'22 versus 27.6% in Jan'22) and protein based items (8.1% versus 9.8%). However for cereals and spices, the trend was increasing as observed in the CPI data. Going forward, we expect slight moderation in both CPI and WPI food as favourable base will come into play. Vegetable prices in Mar'22 are already on a downtrend which would also provide slight comfort.

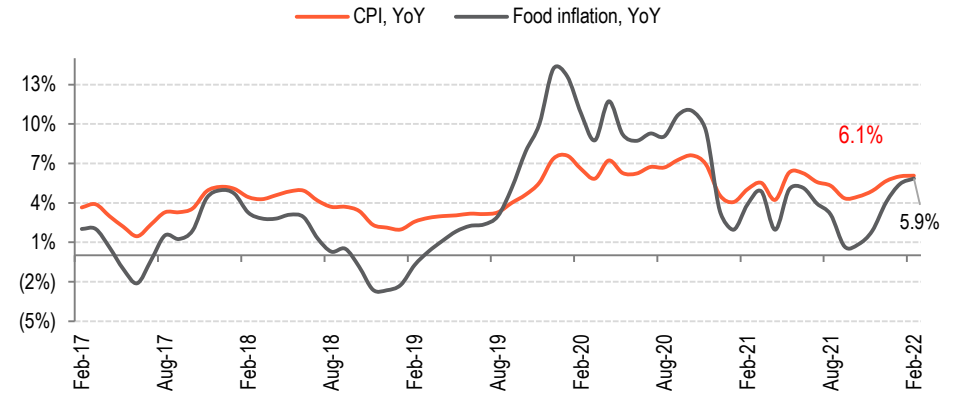
Core inflation sticky: CPI excluding food and fuel was sticky at 6% in Feb'22. Clothing and footwear (8.9% in Feb'22 versus 8.8% in Jan'22), housing (3.6% versus 3.5%), household goods and services (7.2% versus 7.1%), education (3.6% versus 3.3%) and personal care and effects (5.4% versus 3.5%). Notably, the sharp jump in personal care and effects has been due to increase in gold prices on an average by 6.2% in Feb'22 against 1.3% in Jan'22. However, transport and communication inflation remained unchanged as retail fuel prices was maintained at the same level. However, with oil prices hovering at US\$ +110/bbl mark, it will be soon translated into the retail prices as well. We expect moderation in core to start from Q2FY23, only when base effect comes into play.

Fuel inflation a respite: Fuel and light index eased to 8.7% in Feb'22 from 9.3% in Jan'22, in the CPI basket. This was on account of moderation in LPG prices (19.1% from 25.8%). However, the increase in Kerosene-PDS prices were seen translated into the index which rose by 57.7% from 44.8%. In Mar'22 as well, Kerosene-PDS has risen by 18.5% on MoM basis. So the pressure on this index is likely to continue. On the wholesale level, fuel and power inflation has moderated to 31.5% in Feb'22 from 32.3% in Jan'22. This was on account of moderation in petrol and petroleum coke inflation. Similar trend was visible in LPG (26.3% from 51.7%) and kerosene (72.3% from 63.1%) prices.

Inflation overshoot RBI's prediction: RBI governor in its Feb'22 policy said that inflation would peak in Jan'22 and thereafter would come within the target range. However, in Feb'22 as well, inflation overshoot the level seen in Jan'22. With geopolitical uncertainty and commodity prices still remaining fairly elevated, we believe inflation to be above 5.5-6% in FY23, which is higher than RBI's projection of 4.5%. Global food prices are also on an upswing. Thus the pass through to wholesale and retail inflation is yet to be fully materialised. RBI should take into account of these factors in its upcoming policy, when globally central banks are reiterating their concerns of inflation overheating.

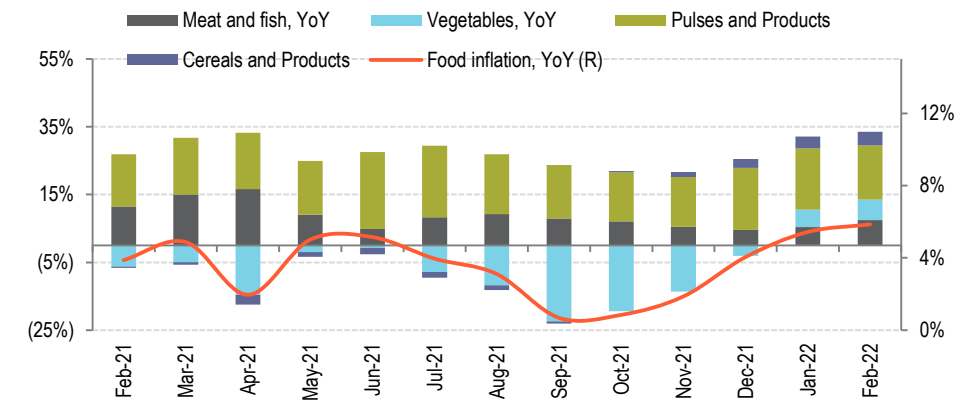


Fig 1 – CPI rises to 6.1% in Feb'22, led by food



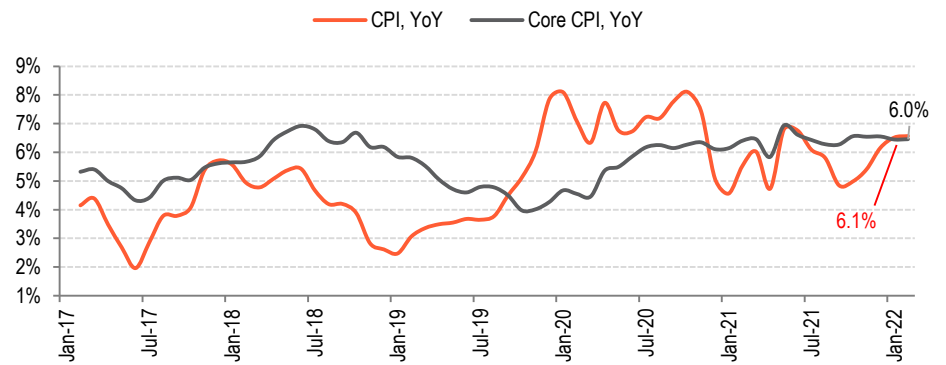
Source: CEIC, Bank of Baroda Research

Fig 2 – Food inflation was led by vegetables



Source: CEIC, Bank of Baroda Research

Fig 3 – Core CPI sticky at 6%



Source: CEIC, Bank of Baroda Research

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