



# Inflation Watch: Broad-based easing across categories pushed CPI inflation below 5% in March

15 April, 2024





# Key takeaways

- Headline inflation moderated to a 10-month low of 4.9% in March from 5.1% in February, which was in line with market expectations (Bloomberg estimate: 4.9%). The moderation was broad-based across categories, including food inflation that had increased in February. The deflation in fuel category steepened, aided by recent cuts in prices of petrol, diesel and LPG subsidy. Core inflation further eased to 3.2%, a fresh low in the current series, from 3.4% in February.
- The month-on-month momentum in headline inflation was flat, while base effect was favorable and will remain so till July.
- For Q4-FY24, headline inflation averaged to 5.0%, while for the entire year FY24, inflation was in line with RBI forecast of 5.4%. This is lower than long-term average (FY13-23) of 5.9% and FY23 print at 6.7%. In FY24, inflation continued to moderate across categories since Q1, except for food prices that were volatile, largely due to deficient and unevenly distributed monsoon.
- Going forward, monitoring food inflation will remain crucial to enable aligning of headline inflation with the RBI's target of 4%. While the prediction of above normal monsoon during the year bodes well for food price outlook, forecast of heat wave days during April-June could play a spoilsport for horticulture output.
- The recent increase in global commodity prices, particularly crude oil, could spill over to domestic wholesale prices, though the impact on consumer prices will likely be lagged.
- RBI's latest survey on consumer confidence for the current period continued to show improvement, reaching the highest level since mid-2019. Some of the rural consumption indicators are turning positive and could further receive a fillip if the monsoon outturn is favorable. Higher consumption could provide an upside risk to core inflation in FY25 that has been moderating since mid-2023.

- The latest inflation print is unlikely to have an impact on RBI's MPC upcoming meeting, as it was in line with expectations, and the committee will also have access to an additional month of data before it meets in June.
- The central bank is unlikely to change its stance or tweak policy rates and wait until Q2-FY24, when it has more clarity on the monsoon, global commodity prices, and likely pivots in monetary policy cycle of major central banks.

FY24 headline inflation in line with RBI forecast							
%YY	Wt.	Q1	Q2	Q3	Q4	FY24	LTA (FY13-23)
Headline CPI	100.0	4.6	6.4	5.4	5.0	5.4 ↓	5.9
Food, bev.	45.9	4.1	8.7	7.7	7.7	7.0 ↑	6.0
Intoxicants	2.4	3.6	3.9	3.8	3.2	3.6 ↓	7.1
Clothing	6.5	6.7	5.1	3.9	3.2	4.7 ↓	6.4
Housing	10.1	4.8	4.3	3.7	2.9	3.9 ↓	5.6
Fuel, light	6.8	4.7	2.6	-0.7	-1.5	1.3 ↓	6.2
Miscellaneous	28.3	5.0	4.9	4.3	3.7	4.5 ↓	5.5
Core inflation	47.3	5.1	4.7	4.1	3.4	4.3 ↓	5.7



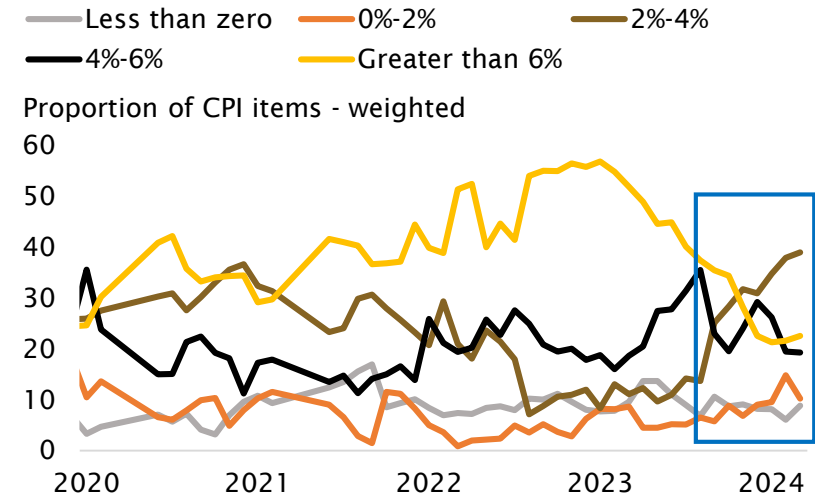
# Internal CPI inflation data remains favorable

## Broad-based easing of inflation across groups in March

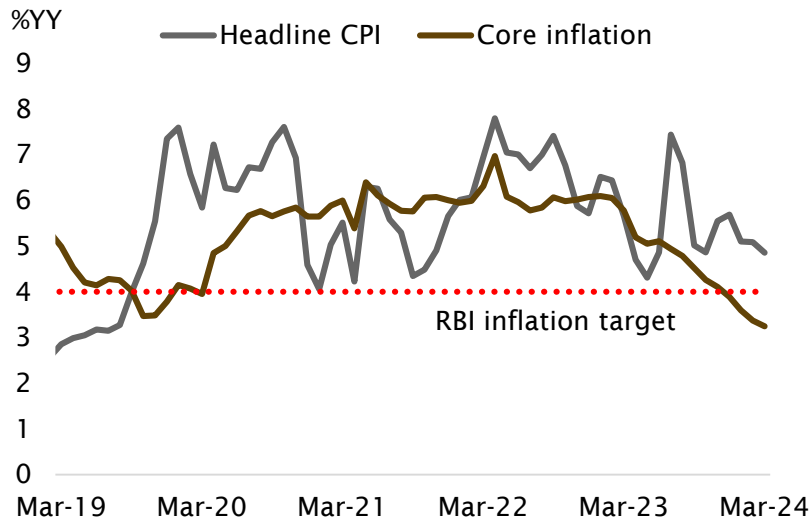
India headline CPI and main sub-indices				
%YY	Weight	Jan-24	Feb-24	Mar-24
Headline CPI	100.0	5.10	5.09	4.85
Food	45.9	7.58	7.76	7.68
Intoxicants, etc.	2.4	3.28	3.12	3.06
Clothing	6.5	3.37	3.14	2.97
Housing	10.1	3.20	2.88	2.77
Fuel and light	6.8	-0.60	-0.77	-3.24
Miscellaneous	28.3	3.82	3.63	3.50

Note: Color code is based on %3m3m, SAAR data

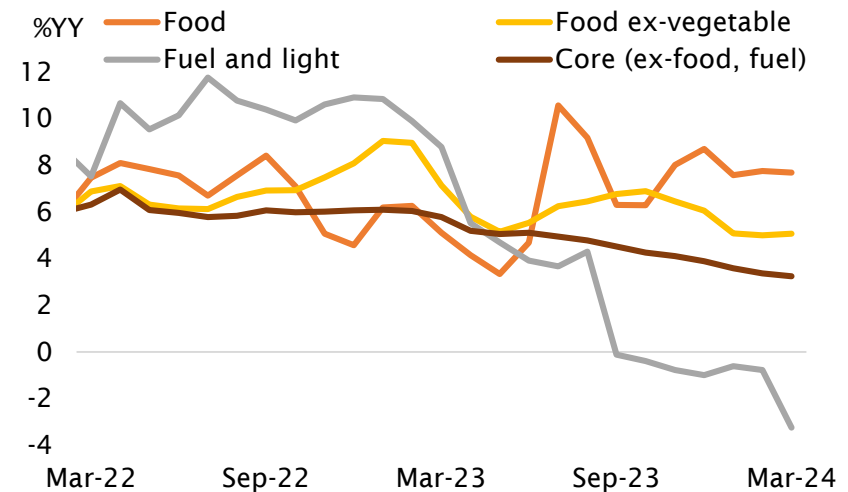
## More CPI items with below-6% inflation



## Sub-4% core inflation for fourth straight month in March



## Food ex-vegetables below 6% since January 2024





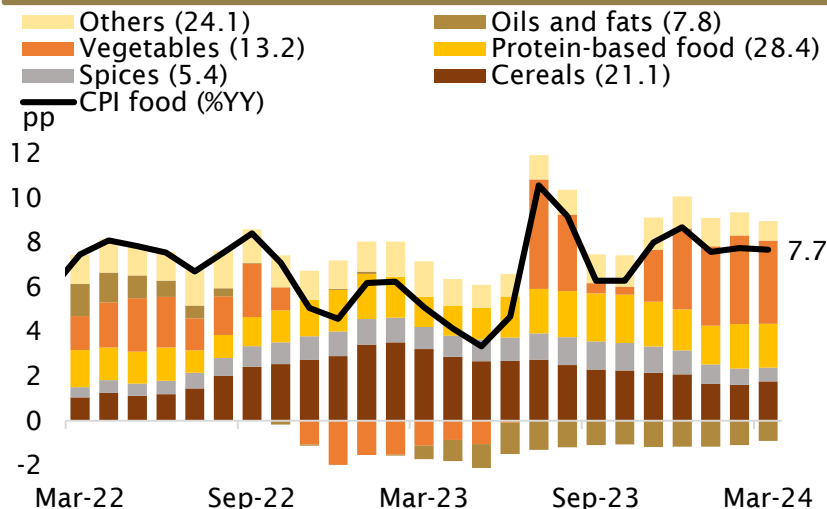
# FY24 food ex-vegetables inflation in line with long-term average

- In March, food inflation moderated to 7.7% from 7.8% in February amid an easing in categories of vegetables, sugar and protein-based food that had driven food inflation higher in February.
- In fact, ex-vegetable, food inflation in FY24 was a tad lower than the long-term average. However, for the year, inflation averaged to double digits also in case of spices, pulses and cereals.
- While inflation in cereals had been moderating since August, it increased again in March. Inflation in sugar eased after increasing for 11 consecutive months, taking the annual average to slightly above 5%.
- Inflation in pulses remains elevated in double digits but has been moderating for three straight months now, so that the source of inflation in protein-based items has recently shifted to eggs, meat and fish.
- The food diffusion index has remained in contraction for eight consecutive months now, which bodes well for food price outlook.

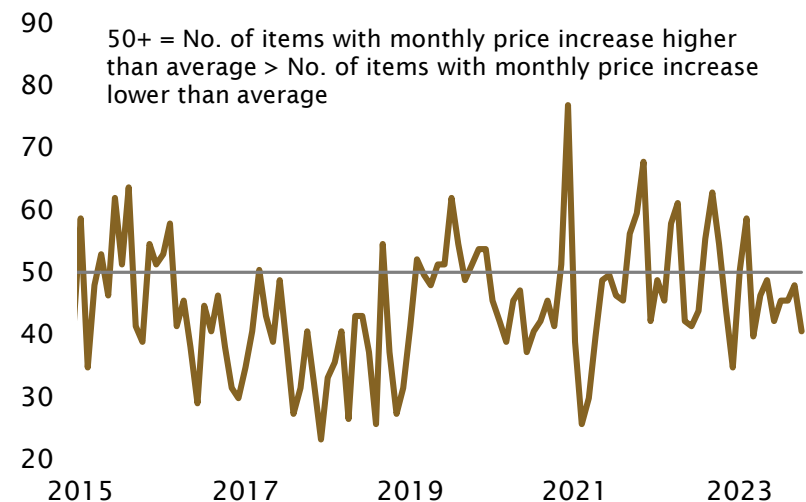
Food inflation (%YY)	FY24	FY13-23
Spices (5.4)	19.0	6.5
Vegetables (13.2)	15.5	7.1
Pulses (5.2)	15.1	6.5
Cereals (21.1)	10.8	5.3
Milk (14.4)	6.5	5.8
Egg (0.9)	6.5	6.3
Fruits (6.3)	5.5	5.4
Sugar (3.0)	5.1	2.8
Prepared meals (12.1)	4.9	6.8
Non-alcoholic bev. (2.7)	3.5	5.5
Meat, fish (7.9)	2.4	7.9
Oils, fats (7.8)	-14.8	7.5
Food, bev. ex-veg. (86.8)	5.9	6.0
CPI food, beverages	7.0	6.0

(figures in parentheses are weights in CPI food, bev.)

Contribution to food inflation - select items



Food diffusion index



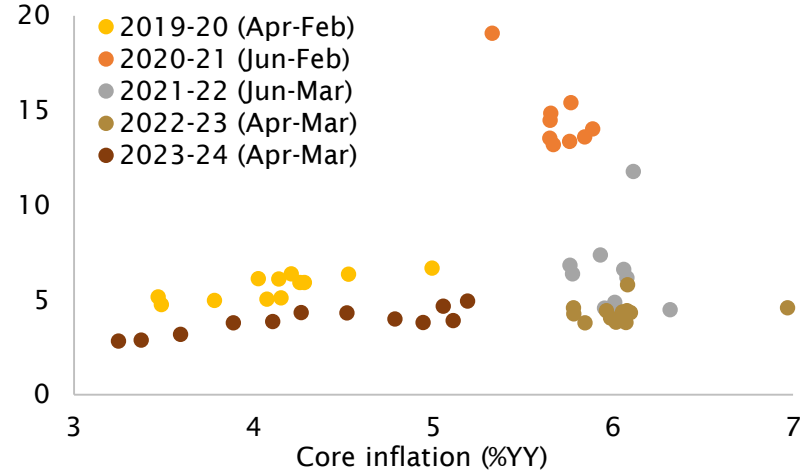


# Various measures of core inflation continue to soften

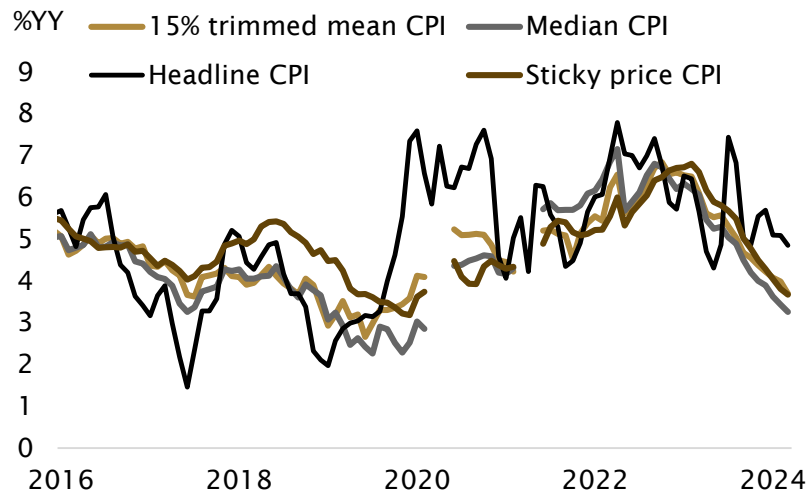
- Core inflation (ex-food and fuel) has moderated by around 285 basis points from its recent peak of 6.1% in January 2023. This moderation has been driven by clothing and footwear (84bps), followed by transport, communication (55bps), housing (39bps), household goods and services (37bps), and health (25bps). Various measures of core inflation continue to ease.
- The softness in core inflation in FY24 was similar to the levels last seen in FY20, which also corresponds to the lower cross-sectional variation in inflation rates across items in the CPI inflation basket.
- However, also similar to FY20 is the impact of food price shocks that impart volatility to headline CPI, irrespective of the underlying low core inflation.

## Persistence of core inflation

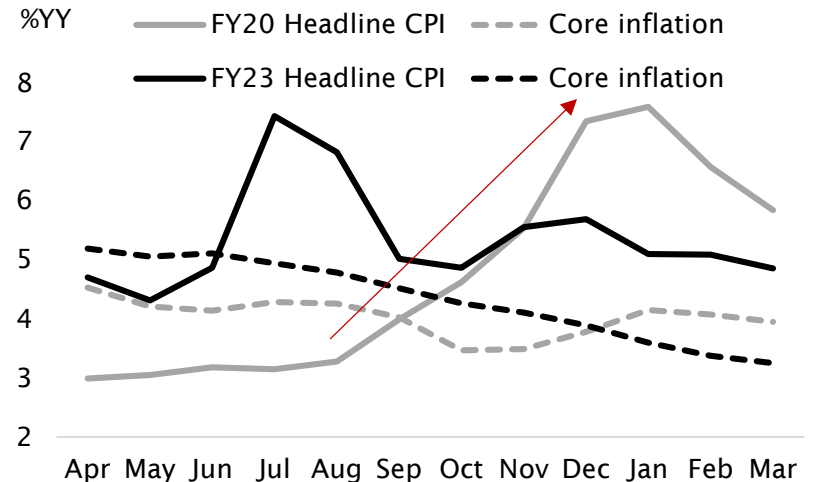
Cross-sectional SD



## Various measures of core inflation continue to soften



## Headline CPI surged in FY20 despite easing core prices





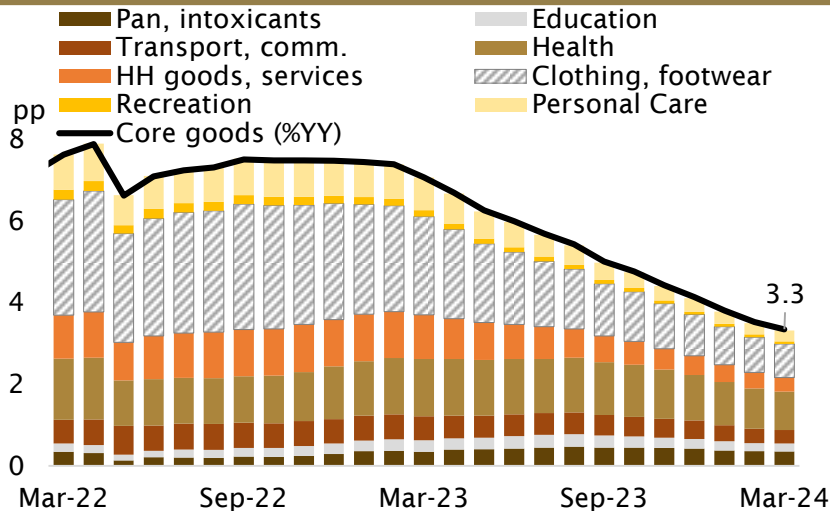
# Both core goods and services inflation continue to moderate

- The recent easing in core goods inflation has been driven by lower inflation in clothing and footwear. While housing continues to dominate core services, inflation in the component has been moderating, and services ex-housing continues to trend lower. This contradicts the anecdotal evidence on higher residential demand and diversion of household savings to physical assets such as housing.
- In its latest monetary policy report, the RBI attributed lower duration of price stickiness in housing to staggered house rent data collection under the survey method used for compiling the house rent index. Additionally, the idiosyncrasies associated with measuring house rent for government provided households - all these probably warrant an update to the measurement of housing index in CPI.

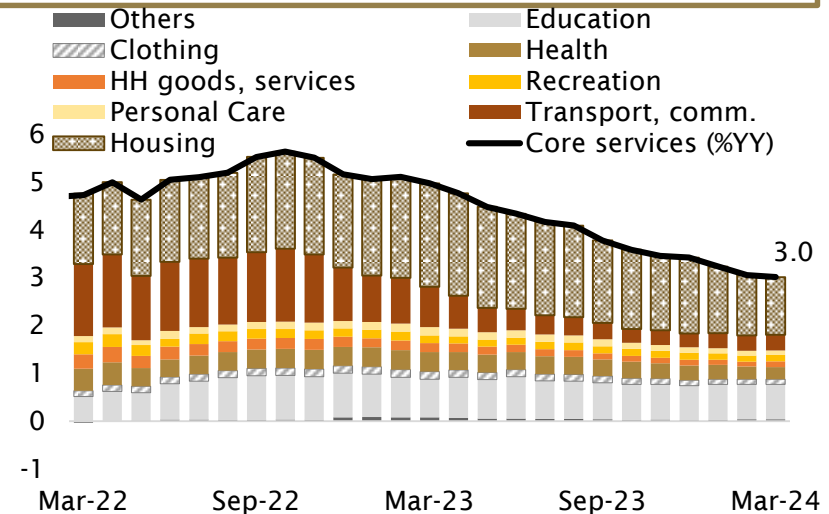
### Housing index



### Contribution of components to core goods inflation



### Contribution of components to core services inflation

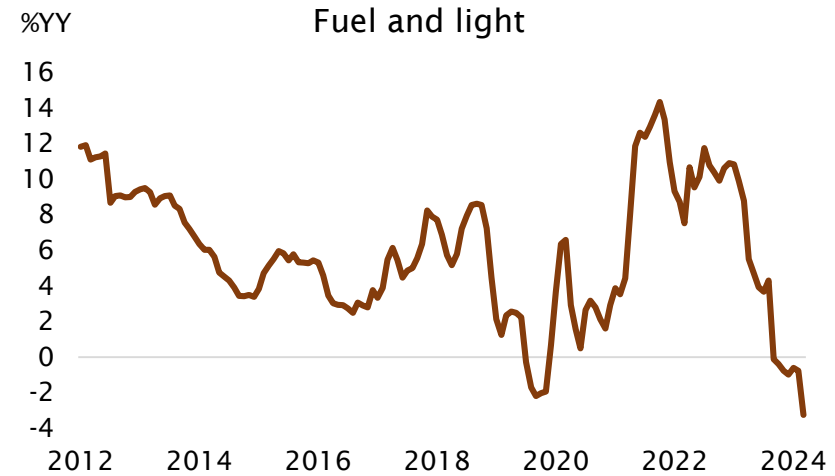




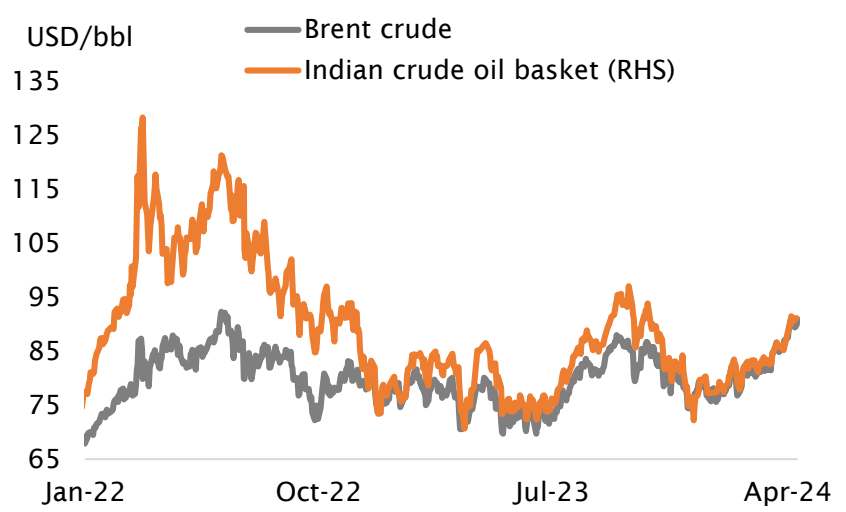
# Fuel deflation at fresh low, global prices warrant monitoring

- Fuel prices remained in deflation for the seventh month, collapsing to a fresh low of -3.2% in March. The recent cut in petrol and diesel prices and increase in LPG subsidy aided softening in prices.
- Similar deflationary trend was last seen in the current CPI series in end-2019, which was a result of multiple factors such as decline in global petroleum product prices, deflation in items of rural consumption (due to higher LPG use) and electricity.
- Recently, crude prices rose above USD90/barrel. UN food price index rose sequentially in March, snapping a seven-month long easing trend. Prices of commodities ex-fuel have also been rising. Amid continued geopolitical woes, output cut extension by OPEC+ countries, hedges against inflation; an increasing optimism regarding the global economy is also fueling the latest commodity price rally.

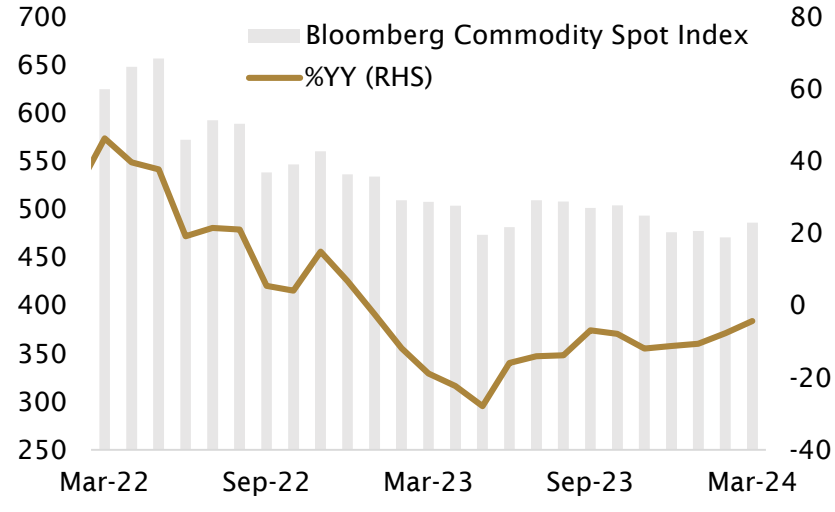
Fuel deflation at fresh low in current series



Crude oil prices - Indian basket and Brent



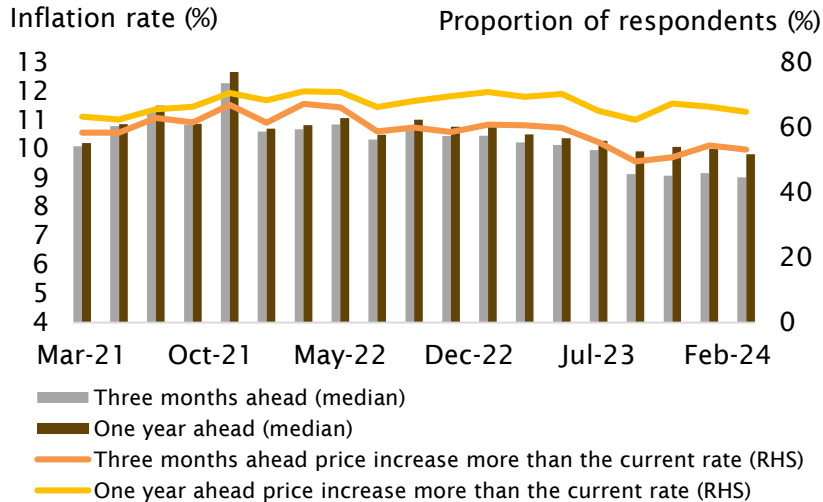
Bloomberg commodity spot index



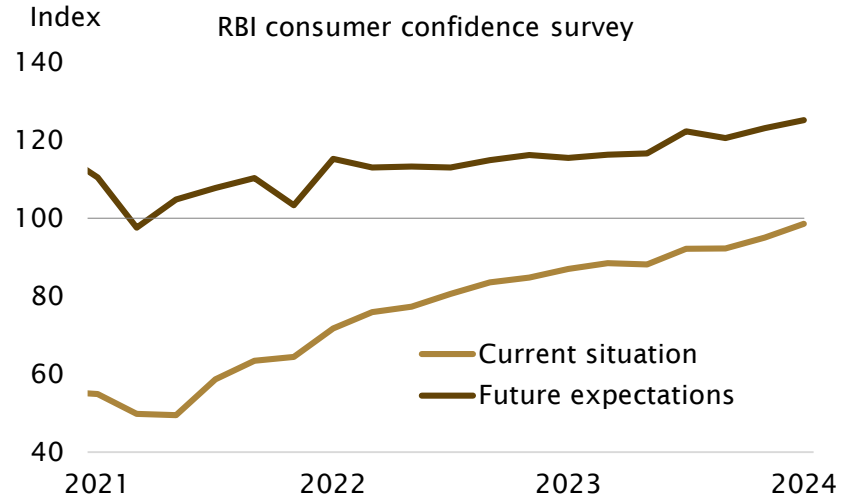


# Mixed signals for inflation from latest RBI survey data

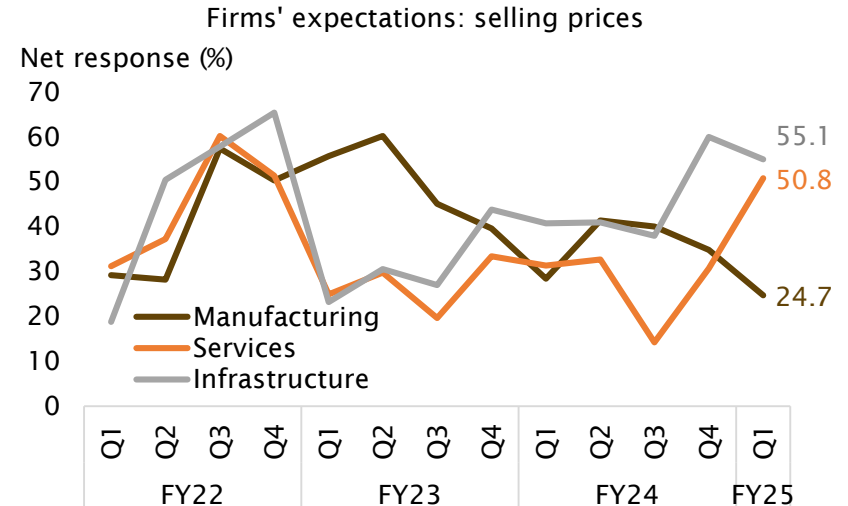
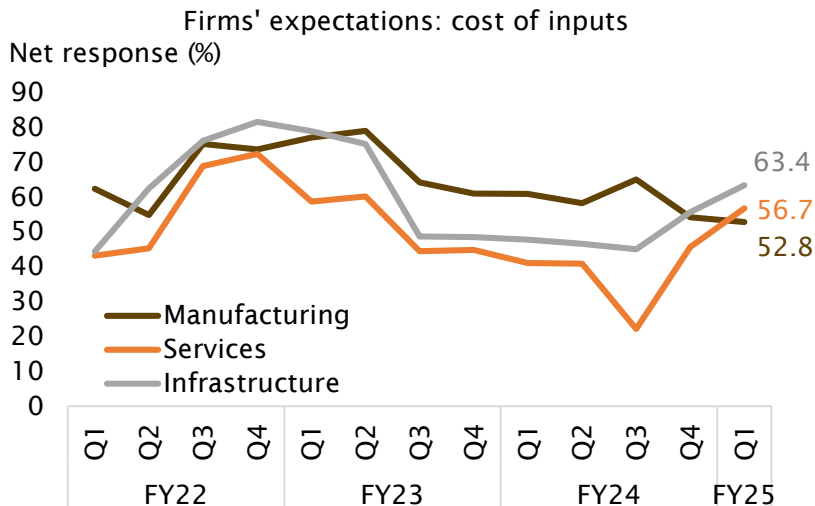
## Household inflation expectations continue to moderate



## Improving confidence could translate to higher demand



## More firms in infra., services sectors expect higher input costs in Q1; mixed signals on pass-through to output prices



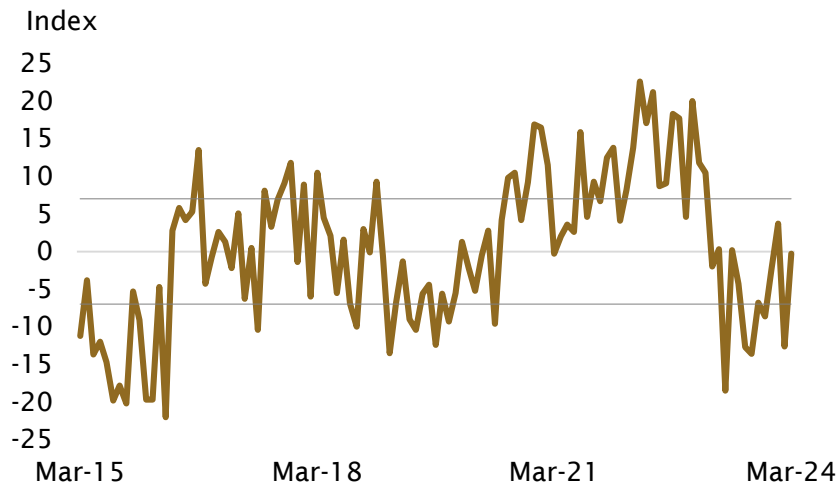




# Outlook and policy implication

- The forecast of above normal monsoon during the year bodes well for food inflation that continued to impart volatility to the headline print in FY24 and was an impediment to the central bank's disinflation efforts. However, the prediction of above normal maximum temperatures and heatwave days during April-June could drive inflation higher in case of perishables such as vegetables and fruits. The period coincides with peak harvesting season for items such as onions in some of the key producing states.
- The second advance estimates on food grain production for FY24 indicate output to be lower than previous year, similar to the first advance estimates for horticulture output. In addition to lower production, the prediction of heatwave days could necessitate continued supply-side intervention in the near-term.
- Global commodity prices have rallied recently. In addition to geopolitical tensions, economic uncertainties - pertaining to the disinflation process across economies and the timing and quantum of shift in the monetary policy cycle - have also increased flight to safe haven assets such as gold. However, an increasing optimism regarding the health of the global economy is also fueling commodity prices.
- The latest CPI inflation print is unlikely to change the RBI MPC stance or policy rates. The MPC is likely to wait until Q2-FY24 for clarity on the monsoon outturn, shift in monetary policy cycle of major AE central banks and further updates on global commodity price trajectory before starting to ease or shift its stance.

Southern Oscillation Index turning neutral



FY24 food grain output likely to be lower than last year

SAE (lakh tonnes)		2022-23	2023-24	%YY
Cereals	Total	2895.7	2859.1	-1.3
	Kharif	1480.9	1470.7	-0.7
	Rabi	1414.8	1388.4	-1.9
Rice	Total	1255.2	1238.2	-1.4
	Kharif	1105.1	1114.6	0.9
	Rabi	150.0	123.6	-17.6
Wheat	Rabi	1105.5	1120.2	1.3
Pulses	Total	239.8	234.4	-2.2
	Kharif	76.2	71.2	-6.6
	Rabi	163.6	163.2	-0.2
Foodgrains	Total	3135.5	3093.5	-1.3
	Kharif	1557.1	1541.9	-1.0
	Rabi	1578.4	1551.6	-1.7



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