

CONSUMER PRICE INDEX

CPI inflation eased to 18-month low 4.7% in April 2023, raising likelihood of a pause in June 2023 policy review

May 2023





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Predominantly led by a high base, the CPI inflation softened to 4.7% in April 2023, lowest since Oct 2021

Food, fuel and miscellaneous groups drove the fall in the YoY CPI inflation in April 2023 vs. March 2023

Core inflation eased to 5.7% in April 2023, recording the first sub-6% print after 10 months

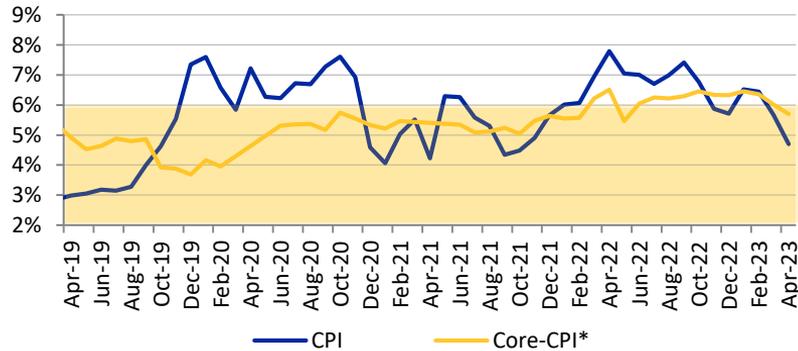
ICRA foresees a high likelihood of a pause from MPC in June 2023

A favourable base dampened the headline CPI inflation to a lower-than-expected 4.7% in April 2023 (ICRA's exp: +5.0%) in year-on-year (YoY) terms from 5.7% in March 2023. Around 90% of this dip was led by food and beverages, fuel and light, and miscellaneous items. ICRA projects the CPI inflation to be range-bound at 4.7-5.0% in May-June 2023. With the CPI inflation below 5.0% and surprisingly subdued industrial growth, we see a high likelihood of a pause from the Monetary Policy Committee (MPC) in its next meeting, even as a pivot to rate cuts appears distant.

- **Sharper-than-expected dip in CPI inflation to 4.7% in April 2023:** The CPI inflation softened to 4.7% in April 2023 (18-month low) from 5.7% in March 2023, led by a favourable base, as well as lower-than-normal temperatures, which delayed the seasonal rise in prices of some food items. The April 2023 CPI inflation printed within the MPC's 2.0-6.0% range for the second consecutive month.
- **Food, fuel and miscellaneous items were the key drivers of the moderation in CPI inflation:** As much as 90% of the correction of 96 bps in the YoY CPI inflation in April 2023, relative to the prior month was led by food and beverages (41 bps), miscellaneous items (24 bps) and fuel and light (22 bps).
- **Core-CPI inflation softened to sub-6% level in April 2023 after 10 months:** The core-CPI inflation (CPI excluding food and beverages, fuel and light and petrol and diesel index for vehicles) dipped to 5.7% in April 2023 from 6.0% in the previous month, led by all categories barring pan, tobacco, and intoxicants, which reported an uptick.
- **MPC expected to pause again in June 2023 review:** Although the impact of a favourable base effect related to escalation of geopolitical conflict is likely to have peaked in April 2023, ICRA projects the CPI inflation to be range-bound at 4.7-5.0% in May-June 2023. The timeliness and intensity of the monsoon onset would be known when the MPC meets at its next scheduled meeting in June 2023, which would feed into whether its CPI inflation projection of 5.2% for FY2024 needs to be modified. With a dip in the CPI inflation below 5.0% and surprisingly subdued growth in the Index of Industrial Production (IIP), we anticipate a high likelihood of a pause from the MPC in its next meeting. However, a pivot to rate cuts appears quite distant.

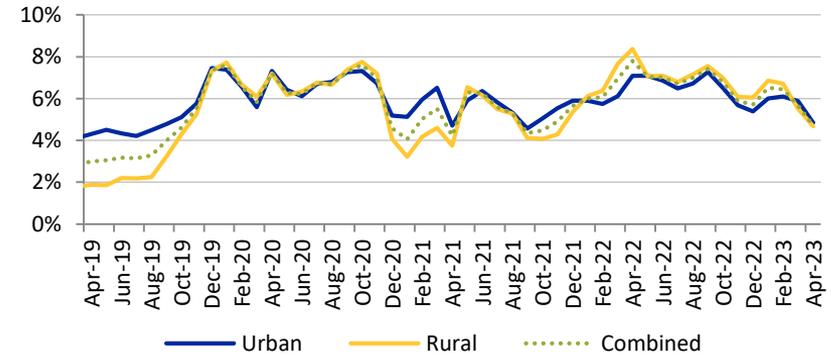
Aided by a high base, headline CPI inflation softened to 4.7% in April 2023, lowest since October 2021

EXHIBIT: Headline and Core CPI Inflation (YoY)



*Since the detailed data for April-May 2020 is not available, we have not excluded prices for petrol and diesel of vehicles in the calculation of the core-CPI index for the YoY inflation rates in April-May 2021;
Source: NSO; CEIC; ICRA Research

EXHIBIT: Rural and Urban CPI Inflation (YoY)

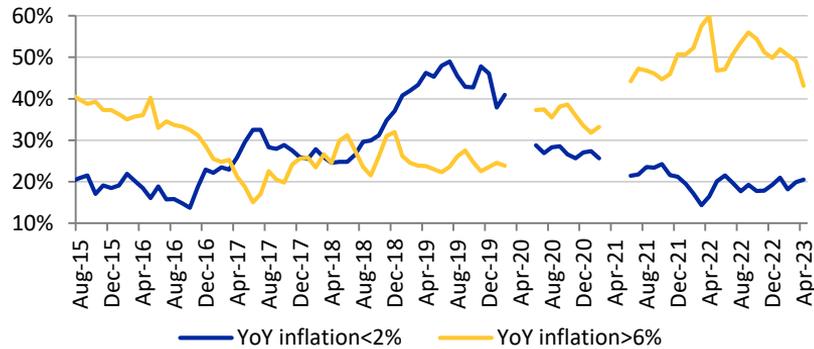


Source: NSO; CEIC; ICRA Research

- On a high base, the headline CPI inflation softened to an 18-month low of 4.7% on a YoY basis in April 2023 (+7.8% in April 2022) from 5.7% in April 2023 (+7.0% in April 2022), while exceeding ICRA's expectations (+5.0%). Moreover, the April CPI inflation printed below the 6.0% threshold of the MPC's medium-term forecast range of 2.0-6.0% for the second consecutive month, while staying above the 4.0% mark for 44 months in a row.
- The core-CPI inflation (at +5.7%) exceeded the headline inflation for the second consecutive month in April 2023, with the latter benefitting from a sharp drop in the food inflation, and the wedge between the two widened to 100 bps from 34 bps in March 2023.
- There was a sharper moderation in the CPI inflation in urban areas (to +4.8% from + 5.9%), compared to the rural areas (to +4.7% from + 5.5%) in April 2023, relative to March 2023. This was driven by a larger decline in the urban inflation for fuel and light, food and beverages, and the miscellaneous segment, as compared to the rural inflation for these segments in April 2023, relative to March 2023.

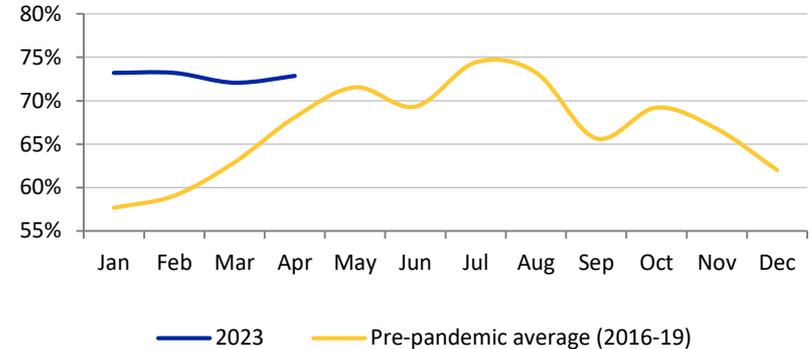
Share of CPI items that witnessed MoM increase in prices in April 2023 remained higher than pre-pandemic average

EXHIBIT: Share of items in the CPI* with YoY inflation outside the MPC's target range of 2.0-6.0% (%)



*Based on the 299 items covered in the CPI basket; Source: NSO; CEIC; ICRA Research

EXHIBIT: Share of items in the CPI basket* reporting a sequential increase in prices (%)

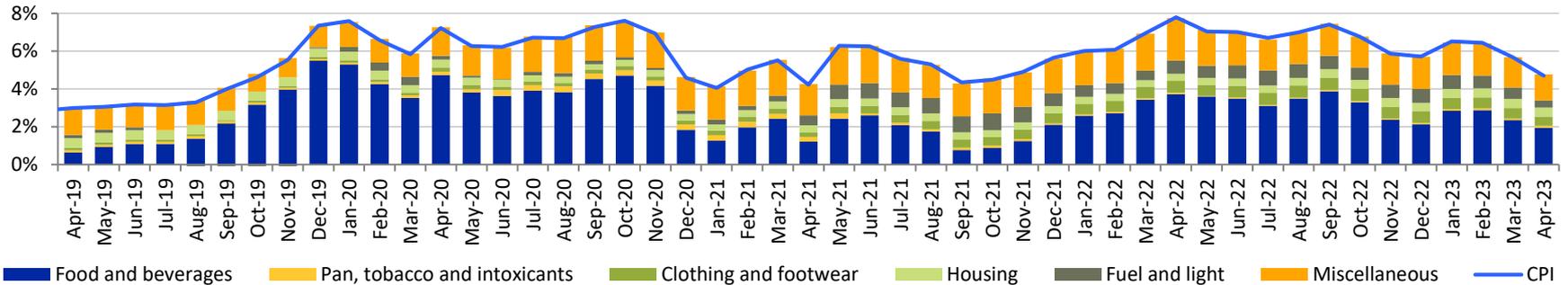


*Based on the 299 items covered in the CPI basket; on financial-year basis; Source: NSO; CEIC; ICRA Research

- The share of items in the CPI basket that witnessed a sequential increase in prices inched up slightly to 73% in April 2023 from 72% in March 2023; while this remained higher than the average levels recorded during the pre-pandemic period (FY2017-20 for March: 63% and April: 68%), the gap between the two closed in April 2023 relative to the last few months. Overall, price pressures remain generalised, notwithstanding the sharp moderation in the YoY headline inflation print in April 2023.
- The share of items in the CPI basket that reported a YoY inflation rate above the MPC's upper limit of 6.0% declined to 43.2% in April 2023 from 49.1% in March 2023.

Food, fuel and miscellaneous groups contributed to 90% of drop in YoY CPI inflation in April 2023 relative to March 2023

EXHIBIT: Composition of CPI Inflation (YoY)

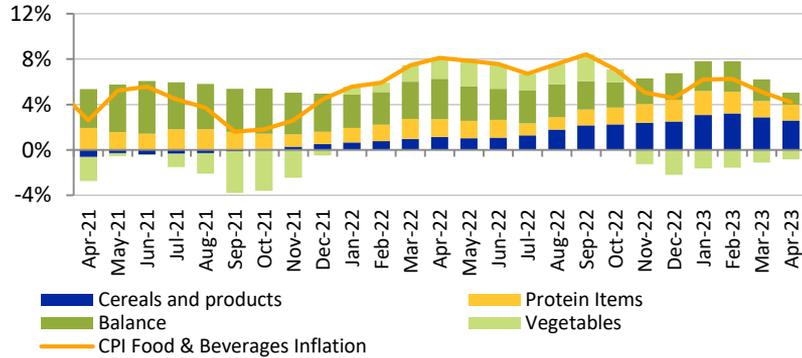


Source: NSO; CEIC; ICRA Research

- The decline in the YoY CPI inflation in April 2023, relative to March 2023 was broad-based across the major sub-groups, with only pan, tobacco and intoxicants reporting an uptick (to +3.5% from +3.0%).
- As much as 90% of the correction of 96 bps in the YoY CPI inflation in April 2023, relative to the prior month was led by food and beverages (41 bps), miscellaneous items (24 bps) and fuel and light (22 bps).

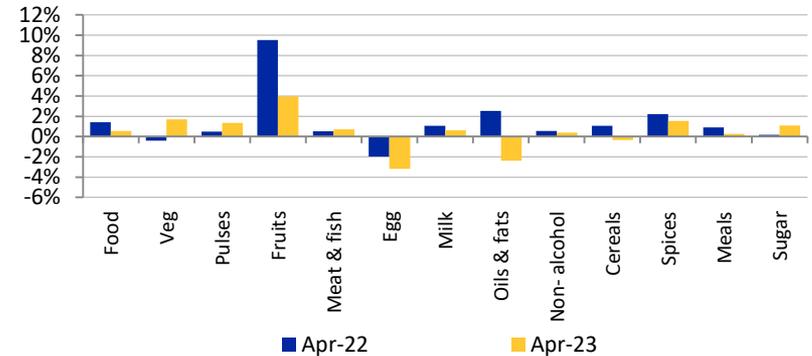
Food and beverages inflation printed at 17-month low 4.2% in April 2023, benefitting from favourable base, above-normal rainfall

EXHIBIT: Composition of Food and Beverages Inflation (YoY)



Proteins comprises meat and fish, egg, milk and products, pulses and products; Balance comprises oil and fats, fruits, sugar and confectionary, spices, non-alcoholic beverages, prepared meals, snacks, sweets etc.; Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM Change in Food and Beverage Sub-Index

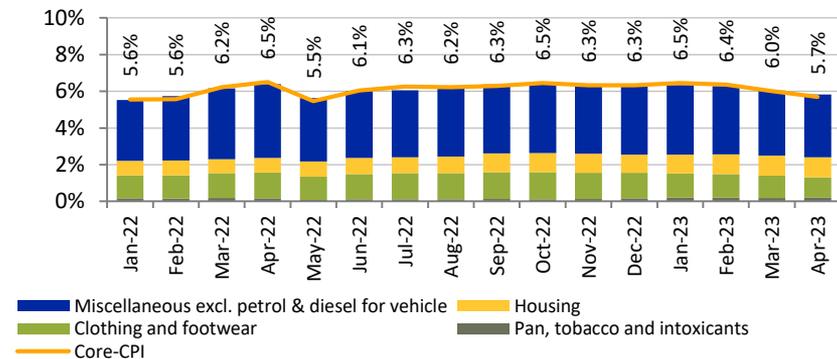


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non-alcohol: Non-alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- The inflation for food and beverages (with a weight of 45.9% in the CPI) corrected to a 17-month low of 4.2% in April 2023 (+8.1% in April 2022) from 5.1% in March 2023 (+7.5% in March 2022), benefitting from a favourable base effect. Moreover, April 2023 was marked by above-average rainfall and lower than normal temperatures, which helped to keep prices of some perishables such as fruits under check. There was a fall in the YoY inflation in eight of the 12 sub-groups (with a sizeable weight of 32.5% in the CPI basket), including fruits (to +2.1% in Apr 2023 from +7.6% in Mar 2023), oils and fats (to -12.3% from -7.9%, mirroring global trends), cereals and products (to +13.7% from +15.3%), eggs (to +3.1% from +4.4%), milk (to +8.8% from +9.3%) etc.
- On the contrary, the deflation for vegetables narrowed for the fourth consecutive month to 6.5% from 8.5%, respectively, led by potato, onion, garlic, ginger and cabbage amidst a fall in the inflation for other heavily weighted items like tomato, palak, etc.
- In MoM terms, the index of food and beverages rose by 0.6% in April 2023, less than half of the surge of 1.4% seen in April 2022, reflecting the trend for oils and fats (-2.4% in Apr 2023 vs. +2.5% in Apr 2022), fruits (+4.0% vs. +9.5%), cereals (-0.3% vs. +1.1%), etc.

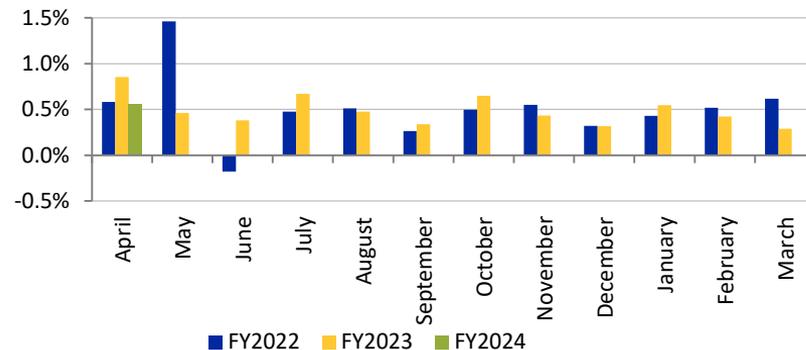
Core inflation recorded its first sub-6% print in April 2023 after 10 months, albeit on the back of a high base

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

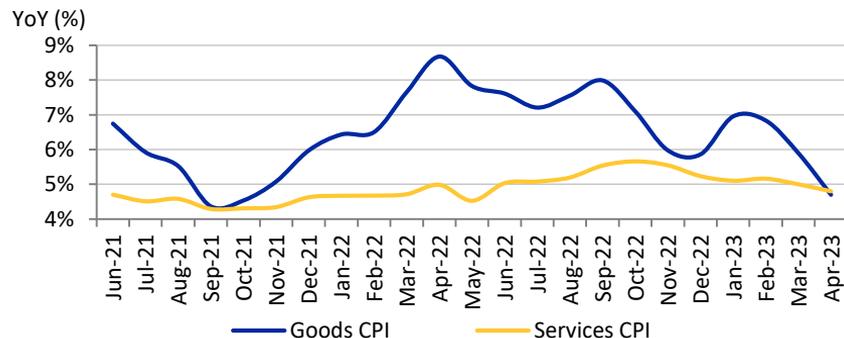


Source: NSO; CEIC; ICRA Research

- Reflecting a high base, the core-CPI inflation eased to an 11-month low of 5.7% in April 2023 (+6.5% in April 2022) from 6.0% in March 2023 (+6.2% in March 2022). Nevertheless, it was the first sub-6% print since May 2022 (+5.5%).
- This was driven by a softening in the inflation prints for most of the sub-groups, including clothing and footwear (to +7.5% from +8.2%), miscellaneous items excluding petrol, diesel for vehicles (to +6.0% from +6.2%), and housing (to +4.9% from +5.0%), even as there was an uptick in the inflation for pan, tobacco and intoxicants (to +3.5% from +3.0%).
- In MoM terms, the core-CPI rose by 0.6% in April 2023, sharper than the upticks recorded in Feb 2023 (+0.4%) and March 2023 (+0.3%). However, it remained lower than the surge seen in April 2022 (+0.9%).

Goods inflation posted a sharper correction than services inflation in April 2023 relative to March 2023

EXHIBIT: YoY Trends in Goods and Services CPI



Services items constitute to 23.4% weight in the CPI basket; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY Trends in services – top 5 items by weight

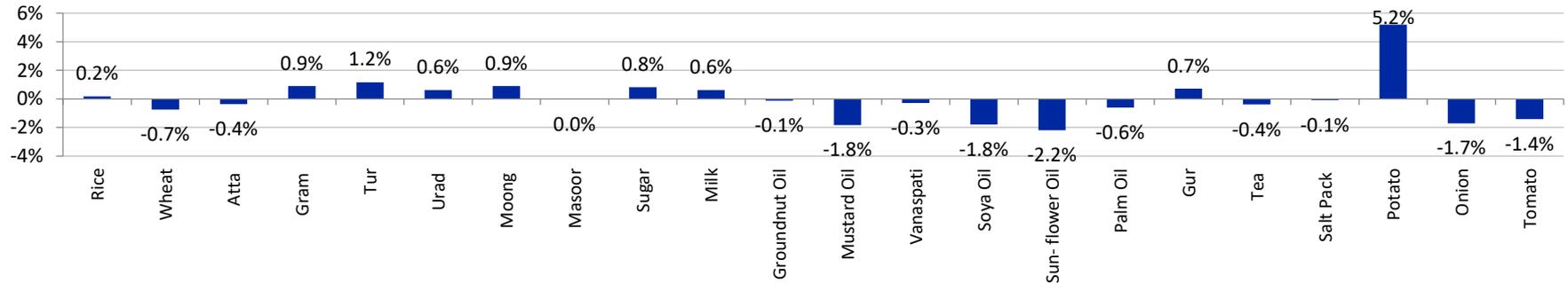
Services item	Weight in CPI	YoY (%)		
		Feb-2023	Mar-2023	Apr-2023
House rent, garage rent	9.51	4.8%	4.9%	4.8%
Tuition and other fees	2.90	6.2%	6.0%	6.0%
Telephone charges: mobile	1.84	1.5%	1.16%	1.15%
Bus/tram fare	1.37	7.0%	6.7%	5.6%
Cable TV connection charges	0.82	3.1%	2.8%	2.5%

Source: NSO; CEIC; ICRA Research

- In terms of a services vs. goods approach to assessing the CPI, services inflation (with a weight of 23.4% in the CPI) softened to 11-month low of 4.8% in April 2023 (+5.0% in April 2022) from 5.1% in March 2023 (+4.7% in March 2022) on a favourable base.
- The YoY inflation moderated in April 2023 relative to March 2023 for 25 of the 34 services items covered in the CPI basket (19.5% weight in the CPI), including house rent (weight: 9.5%; YoY: to +4.8% from +4.9%), bus/tram fare (weight: 1.4%; to +5.6% from +6.7%), domestic servant/cook (weight: 0.6%; to +4.8% from +5.1%), etc.
- Compared to services, the inflation in the goods segment (with a weight of 76.6% in the CPI) reported a sharper correction to 4.7% in April 2023 from 5.9% in March 2023. The decline in latter was driven by both food and beverages (weight: 45.9%; to +4.2% from +5.1%) as well as the balance goods (weight: 30.8%; to +5.3% from +7.0%).

OUTLOOK: Headline CPI inflation likely to remain range bound at 4.7-5.0% in May-June 2023

EXHIBIT: Early MoM trends in retail prices in May 2023

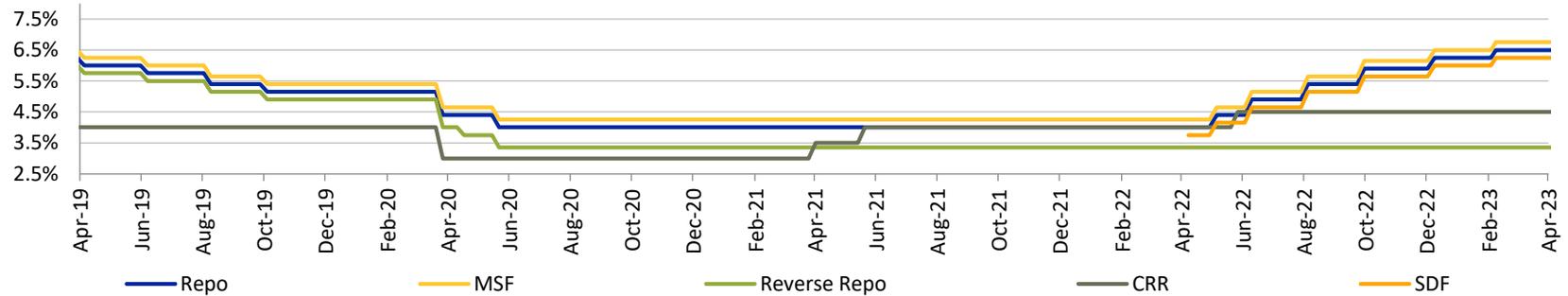


*Till May 9, 2023; Source: CEIC; ICRA Research

- As per the early data for May 2023, the average retail prices of vegetables (onion, tomato, brinjal, okra, etc.), wheat and wheat flour (government relief measures, and rising wheat stocks via procurement) and edible oils (mirroring global downtrend) have softened in sequential terms. However, average prices of rice (rising global prices amid fears of lower production), milk (elevated fodder costs), potato, most pulses, and some fruits (guava, papaya and pineapple) have risen sequentially in this month.
- Notwithstanding the mixed MoM trends across food items, the YoY CPI food inflation is likely to remain subdued in May 2023 aided by the sustained high base (+8.0% in May 2022). In addition, the abatement of heatwave conditions and above-normal rainfall since the second half of April 2023 have eased the concerns of a sharp uptick in perishable prices in the near term.**
- Although the impact of a favourable base effect related to escalation of geopolitical conflict is likely to have peaked in April 2023, ICRA projects the CPI inflation to remain range bound at 4.7-5.0% in May-June 2023.

OUTLOOK: MPC expected to pause again in June 2023 policy review; pivot to rate cuts appears unlikely in near term

EXHIBIT: Movement in Key Rates



Source: NSO; CEIC; ICRA Research

- There was a relatively larger step-up in prices of some services in the post-pandemic period, following the reopening in the economy. However, annual changes in the services segment are likely to be of a smaller quantum going ahead, which may lead to some tempering in the core inflation in FY2024.
- With El Nino expected to materialise only in the second half of the monsoon season as per the IMD, kharif sowing may not be impacted. However, any subsequent deficiency in monsoon rainfall could affect kharif yields and winter sowing, and thereby food inflation, which poses a risk to the CPI inflation trajectory.
- **The timeliness and intensity of the monsoon onset would be known when the MPC meets at its next scheduled meeting in June 2023, which would feed into whether its CPI inflation projection of 5.2% for FY2024 needs to be modified. With a dip in the CPI inflation below 5.0% and surprisingly subdued IIP growth, we foresee a high likelihood of a pause from the MPC in its next meeting. However, a pivot to rate cuts appears quite distant.**

Table A.1: Trend in CPI Inflation (YoY)

	Weight	Y-o-Y Inflation 2012 Base					M-o-M
		Feb-23	Mar-23	Mar-23	Apr-23	Apr-23	
		Final	Provisional	Final	Provisional	Provisional	
CPI (combined)	100.00	6.4%	5.7%	5.7%	4.7%	0.5%	
Food and beverages	45.86	6.3%	5.1%	5.1%	4.2%	0.6%	
Cereals and products	9.67	16.7%	15.3%	15.3%	13.7%	-0.3%	
Meat and fish	3.61	3.3%	-1.4%	-1.4%	-1.2%	0.7%	
Egg	0.43	4.3%	4.4%	4.4%	3.1%	-3.2%	
Milk and products	6.61	9.6%	9.3%	9.3%	8.8%	0.6%	
Oils and fats	3.56	-0.5%	-7.9%	-7.9%	-12.3%	-2.4%	
Fruits	2.89	6.4%	7.6%	7.6%	2.1%	4.0%	
Vegetables	6.04	-11.5%	-8.5%	-8.4%	-6.5%	1.7%	
Pulses and products	2.38	4.1%	4.3%	4.4%	5.3%	1.3%	
Sugar and confectionary	1.36	1.3%	1.0%	1.0%	1.9%	1.1%	
Spices	2.50	20.2%	18.2%	18.2%	17.4%	1.5%	
Pan, tobacco and intoxicants	2.38	3.2%	3.0%	3.0%	3.5%	0.6%	
Clothing and footwear	6.53	8.8%	8.2%	8.2%	7.5%	0.3%	
Housing	10.07	4.8%	5.0%	5.0%	4.9%	1.0%	
Fuel and light	6.84	9.9%	8.9%	8.8%	5.5%	-0.1%	
Miscellaneous	28.32	6.1%	5.8%	5.8%	4.9%	0.5%	
Household goods and services	3.80	7.4%	7.0%	7.0%	6.5%	0.2%	
Health	5.89	6.5%	6.6%	6.6%	6.3%	0.3%	
Transport and communication	8.59	4.5%	4.0%	4.0%	1.2%	0.2%	
Recreation and amusement	1.68	4.9%	4.3%	4.3%	3.8%	0.2%	
Education	4.46	5.6%	5.4%	5.4%	5.7%	0.8%	
Personal care and effects	3.89	9.4%	8.3%	8.3%	9.0%	1.7%	
CPI-Food	36.55	6.0%	4.8%	4.8%	3.8%	0.6%	
CPI-Core	44.97	6.4%	6.0%	6.0%	5.7%	0.6%	
CPI Rural		6.7%	5.5%	5.5%	4.7%	0.4%	
CPI Urban		6.1%	5.9%	5.9%	4.8%	0.6%	

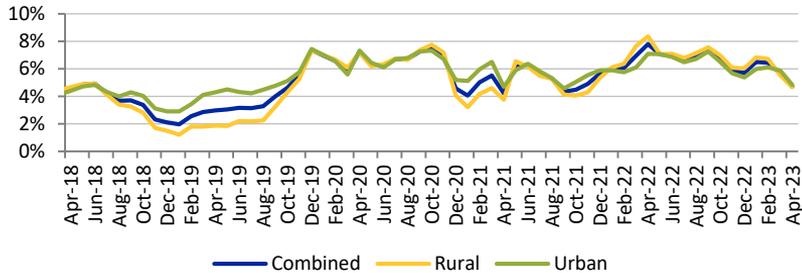
Source: National Statistical Office (NSO); CEIC; ICRA Research

Table A.2: Sub-sectors with major contribution in CPI Inflation

Sub-Group	Item Description	Weight (%)	Sub-Group	Item Description	Weight (%)
Food and Beverages	Milk: Liquid	6.42	Housing	House Rent, Garage Rent	9.51
	Rice – other sources*	4.38		Residential Building and Land (cost of repairs only)	0.28
	Wheat/Atta – other sources*	2.56		Water Charges	0.16
	Cooked Meals Purchased	2.42		Watch man Charges	0.11
Pan, Tobacco and Intoxicants	Bidi	0.43	Fuel and Light	Electricity	2.26
	Foreign/Refined Liquor or Wine	0.40		Firewood and Chips	2.07
	Country Liquor	0.35		LPG (excluding conveyance)	1.29
	Other Tobacco Products	0.26		Dung Cake	0.44
Clothing and Footwear	Saree	0.90	Miscellaneous	Medicine (non-institutional)	4.01
	Cloth for Shirt, Pyjama, Kurta, Salwar, etc.	0.68		Tuition and Other Fees (school, college, etc.)	2.90
	Shirts, T-shirts	0.57		Petrol for Vehicle	2.19
	Shorts, Trousers, Bermudas	0.55		Telephone Charges: Mobile	1.84

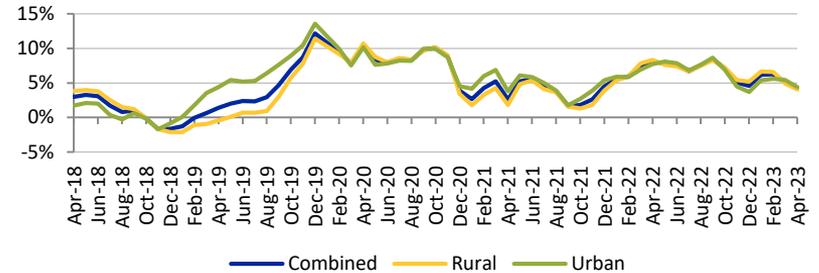
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



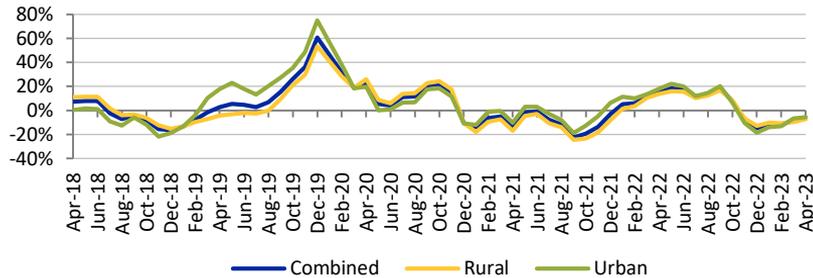
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



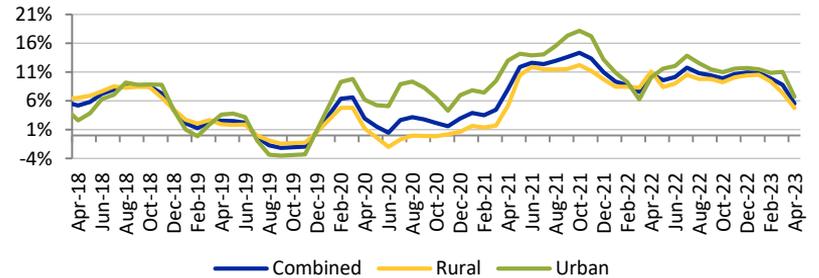
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



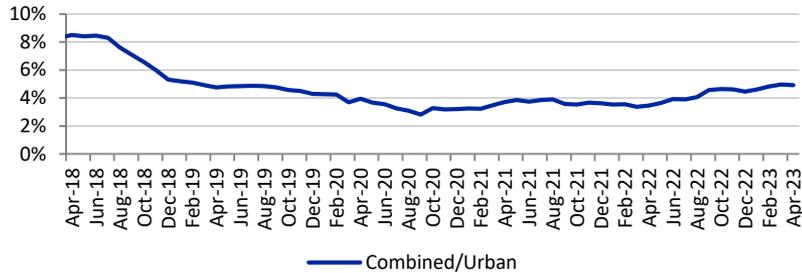
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



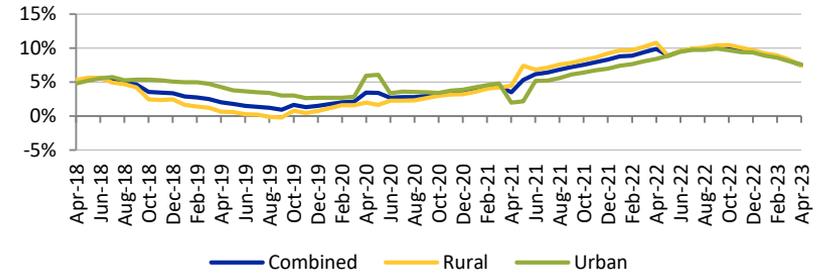
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



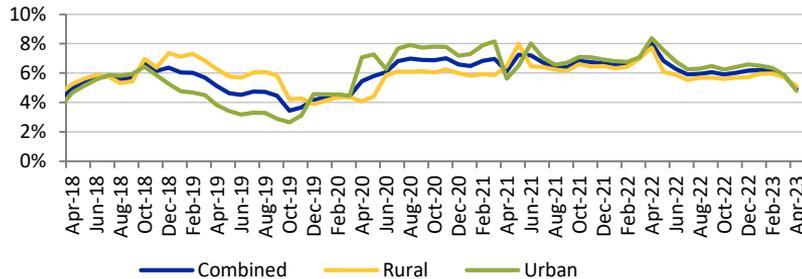
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



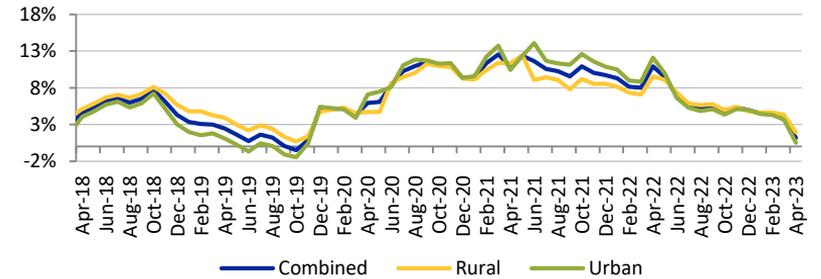
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, and Head- Research and Outreach	aditin@icraindia.com	0124- 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzo Pahwa	Senior Associate Economist	aarzo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Senior Associate Economist	tiasha.chakraborty@icraindia.com	0124- 4545 848
Anusha Jindal	Associate Economist	anusha.jindal@icraindia.com	0124 – 4545 399





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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