

CONSUMER PRICE INDEX

CPI inflation eased to 4.9% in Mar 2024; heatwave, rising crude prices impart uncertainty to near-term outlook

APRIL 2024





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The CPI inflation eased to 4.9% in March 2024 from 5.1% in Feb 2024, but exceeded ICRA's forecast of 4.7%

Food and beverage inflation eased marginally to 7.7% in March 2024, whereas core-CPI inflation was stable at 3.5%

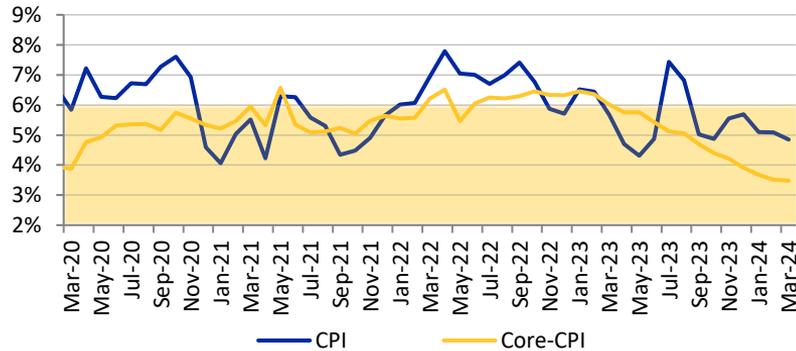
ICRA expects monetary easing to be back ended in 2024, amid pending clarity on monsoon, crude oil price trajectory, and US Fed rate actions; MPC to cut rates by 50 bps at best in H2 FY2025

The headline CPI inflation eased to 4.9% in March 2024 from 5.1% in February 2024 on a year-on-year (YoY) basis, slightly higher than ICRA's forecast of 4.7%, with food inflation softening only marginally as compared to the previous month and core inflation remaining steady at 3.5%. This moderation of 24 bps was largely driven by fuel and light (-17 bps), and miscellaneous items (-3 bps), aided by the reduction in prices of the LPG cylinders, and retail selling prices of petrol and diesel. Looking ahead, ICRA expects the CPI inflation to ease mildly to 4.8% in April 2024, even as food inflation is expected to remain sticky at above 7.0% mark. In ICRA's view, monetary easing is likely to be quite back ended in 2024, pending clarity on various factors such as the turnout of the monsoon, evolution of crude oil prices as well as rate action from the US Fed. At best, we foresee 50 bps of rate cuts from the Monetary Policy Committee (MPC) in H2 FY2025.

- **CPI inflation dipped to 4.9% in Mar 2024, but exceeded our forecast:** The headline CPI inflation dipped to 4.9% in March 2024 (+5.7% in March 2023) on a YoY basis from 5.1% in February 2024 (+6.4% in February 2023), while printing slightly above ICRA's forecast for the month (+4.7%). The fuel and light (-17 bps) and miscellaneous items (-3 bps), accounted for a bulk of the overall fall of 24 bps in the YoY CPI inflation prints between these months, aided by reduction in prices of petrol, diesel and the LPG cylinder by the Oil Marketing Companies (OMCs) before the onset of model code of conduct.
- **CPI inflation to ease to 4.8% in Apr 2024, near-term outlook uncertain amid rising crude prices and heatwave:** ICRA estimates the CPI inflation at 4.8% in April 2024, even as food & beverages inflation will remain above the 7.0% mark. An intensification of the impending heatwave may worsen the seasonal uptick in prices of perishables, heightening the criticality of a favourable monsoon in 2024 to keep food inflation in check and inflationary expectations well-anchored. The ongoing uptrend in global crude oil prices could also pose a risk to the CPI inflation outlook in the near term, although the impact of transmission depends on pass through to retail fuel prices.
- **Rate cuts likely to be back ended in 2024:** Monetary easing is likely to be quite back ended in 2024, pending clarity on various factors such as the turnout of the monsoon, evolution of crude oil prices as well as rate action from the US Federal Reserve. At best, we foresee 50 bps of rate cuts from the MPC in H2 FY2025.

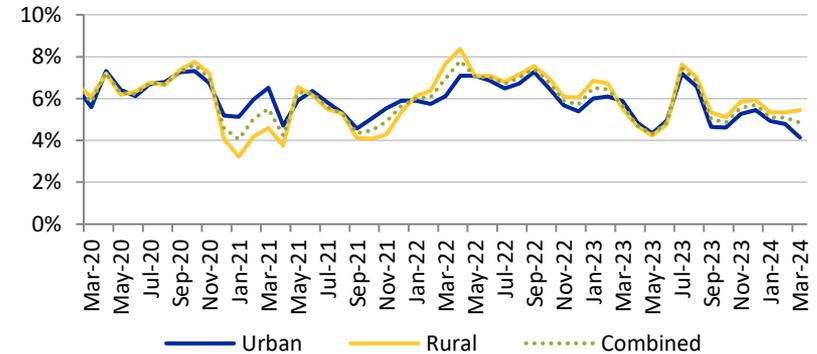
CPI inflation eased to 4.9% in Mar 2024 from 5.1% in Feb 2024, while exceeding ICRA's expectations

EXHIBIT: Headline and Core CPI Inflation (YoY)



*Since the detailed data for May-June 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 May-June 2021;
Source: NSO; CEIC; ICRA Research

EXHIBIT: Rural and Urban CPI Inflation (YoY)

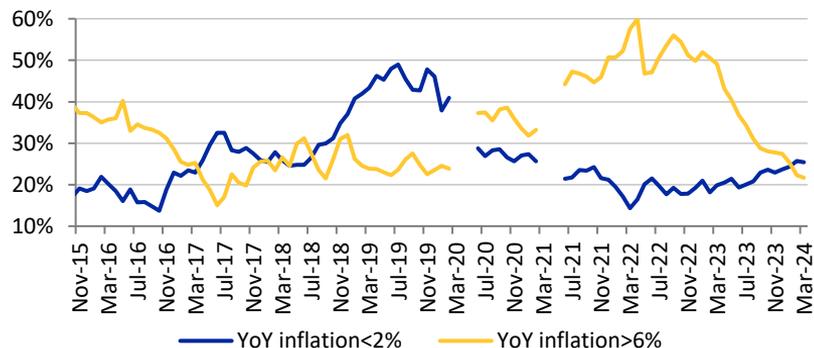


Source: NSO; CEIC; ICRA Research

- The headline CPI inflation dipped to 4.9% in March 2024 (+5.7% in March 2023) on a YoY basis from 5.1% in February 2024 (+6.4% in February 2023), printing slightly above ICRA's forecast for the month (+4.7%). Nevertheless, the March 2024 CPI print remained lower than the 6.0% threshold of the MPC's medium-term forecast range of 2.0-6.0% for the seventh straight month.
- Encouragingly, the core-CPI inflation (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) reached a new all-time low of 3.48% in March 2024 (based on the available data since Jan 2015), although this was only marginally lower than the previous-low 3.51% seen in March 2024. With a flattish print in core-CPI inflation and a fall in the headline figure, the wedge between the two dipped to 137 bps from 158 bps in February 2024.
- The CPI inflation in urban areas (to +4.1% in March 2024 from +4.8% in Feb 2024) dipped sharply in March 2024 relative to February 2024, as opposed to the uptick in the rural CPI inflation (to +5.4% from +5.3%). The inflation in the latter group continues to outpace the former for the ninth straight month.

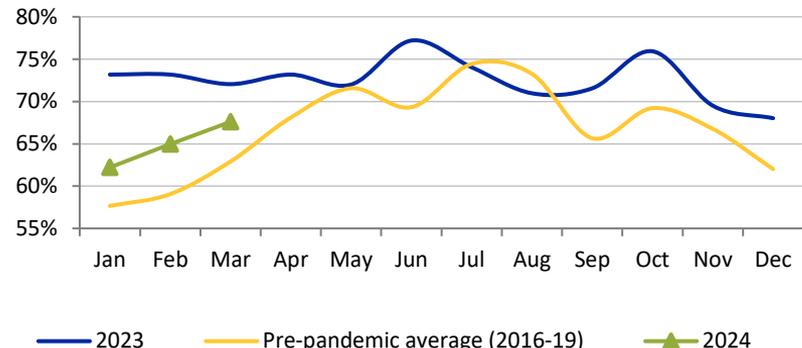
Share of items in CPI basket with inflation >6% dipped to post-Covid low of 21.6% in Mar 2024

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 (%)

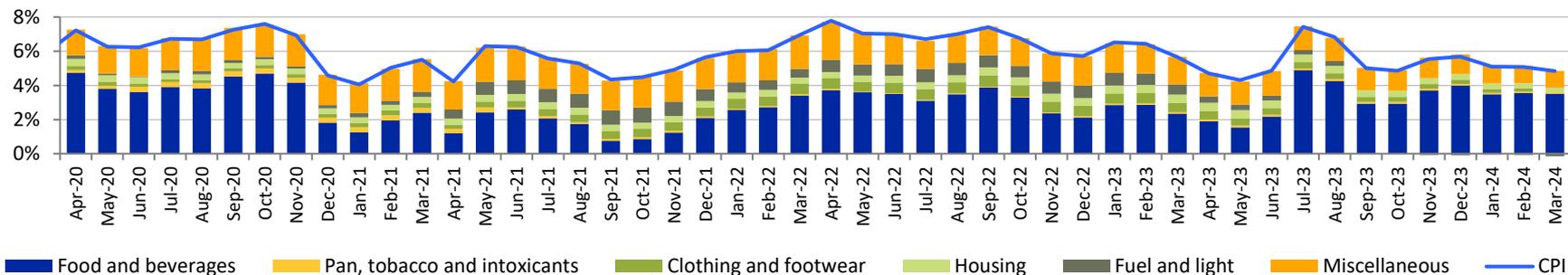


*Based on the 299 items covered in the CPI basket; on financial-year basis; Source: NSO; CEIC; ICRA Research

- The share of items in the CPI basket that witnessed a sequential increase in prices rose for the second consecutive month to 68% in March 2024 from 65% in the prior month, and even trended above average level recorded in the pre-pandemic period (FY2017-20 for Feb: 59% and March: 62%) for the seventh consecutive month. Nevertheless, this is substantially lower than the respective levels seen in February-March of 2023.
- The share of items in the CPI basket that reported a YoY inflation rate above the MPC's upper limit of 6.0% eased to a post-Covid low of 21.6% in March 2024 from 22.3% in February 2024, owing to the softening inflation print in non-food items. However, the share of items that reported a YoY inflation below the 2.0% mark eased somewhat to 25.4% from 25.8%, respectively.

Fuel and light contributed majorly to the dip in headline inflation print in Mar 2024 compared to Feb 2024, amid price cut on LPG cylinders

EXHIBIT: Composition of CPI Inflation (YoY)

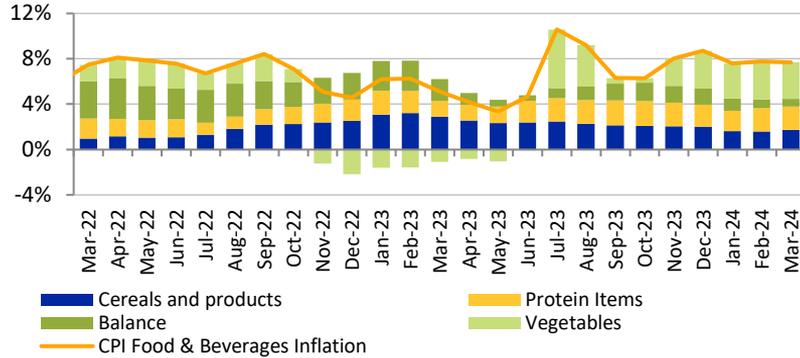


Source: NSO; CEIC; ICRA Research

- The fall in the headline inflation in March 2024, compared to the prior month was led by a YoY softening in the prints for fuel and light (to -3.2% from -0.8%) and miscellaneous sub-group (to +3.5% from +3.6%), benefitting from the reduction in prices of LPG cylinder and retail selling prices of petrol and diesel by the OMCs. This was followed by modest dips in other categories, including, food and beverages (to +7.7% from +7.8%), housing (to +2.8% from +2.9%), clothing and footwear (to +3.0% from +3.1%), and pan, tobacco and intoxicants (to +3.06% from +3.12%).
- Encouragingly, all the sub-groups other than food and beverages saw sub-4% inflation in March 2024 for the third consecutive month.
- **In terms of contribution, the fuel and light segment (-17 bps) accounted for as much as 73% of the overall reduction of 24 bps in the YoY CPI inflation print between March 2024 and February 2024.**

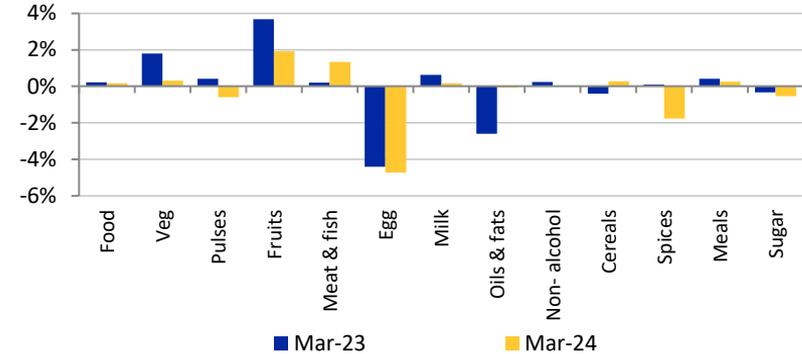
Inflation for food and beverages remained high at 7.7% in Mar 2024, only slightly lower than Feb 2024 print

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

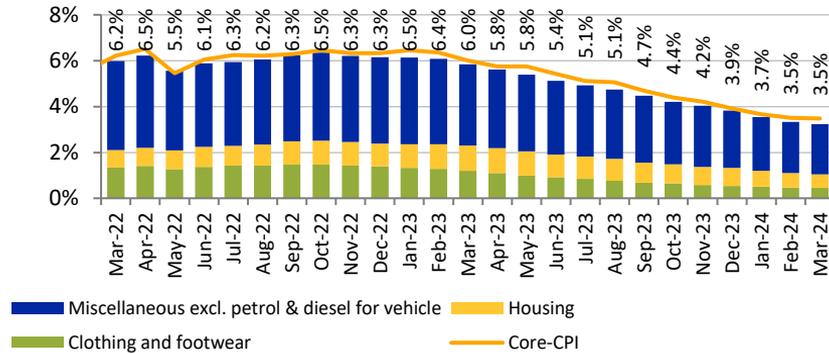


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non- alcohol: Non- alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- While the inflation in food and beverages (with a weight of 45.9% in the CPI) softened marginally to 7.7% in March 2024 (+5.1% in March 2023) from 7.8% in February 2024 (+6.3% in February 2023), it remains above 7% mark for the fifth consecutive month.
- However, the disaggregated trend was fairly broad based, with a moderation in the YoY inflation for nine of the 12 sub-groups (with a sizeable weight of 29.0% in the CPI basket) including vegetables (to +28.3% from +30.2%, led by tomato, brinjal, garlic, etc.), spices (to +11.4% from +13.5%), fruits (to +3.1% from +4.8%), pulses and products (to +17.7% from +18.9%), etc. in March 2024, compared to the prior month. However, this was largely offset by a considerable hardening in the inflation for the other three food sub-groups, with a weight of 16.8%, namely, cereals and products (to +8.4% from +7.7%), meat and fish (to +6.4% from +5.2%), and oils and fats (to -11.7% from -14.0%).
- In MoM terms, the index of food and beverages rose by 0.2% in Mar 2024, in line with that seen in the year-ago month. The higher MoM print in Mar 2024 vs. Mar 2023 for oils and fats (-0.1% vs. -2.6%), and meat and fish (+1.3% vs. +0.2%), was offset by lower prints in vegetables (+0.3% vs. +1.8%) and spices (-1.8% vs. +0.1%).

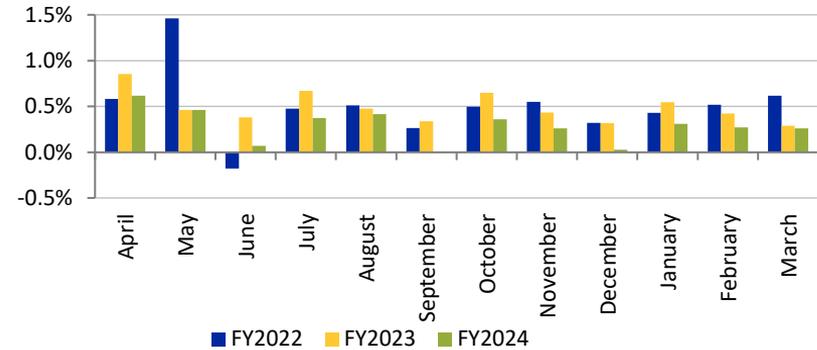
Core-CPI inflation was unchanged at 3.5% in Mar 2024, compared to Feb 2024

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

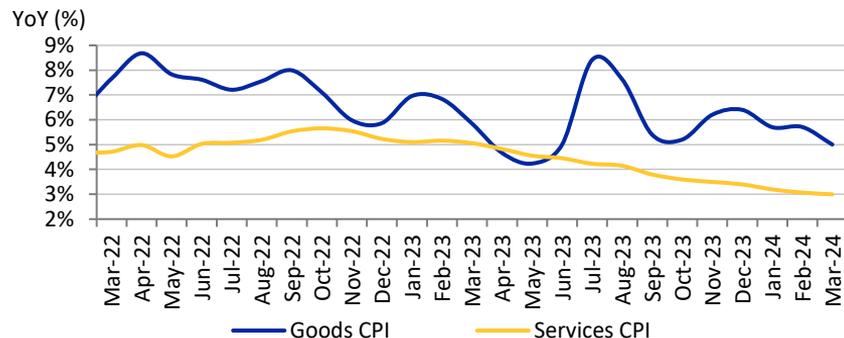


Source: NSO; CEIC; ICRA Research

- The core-CPI inflation stood at a series-low 3.48% in March 2024 (+6.0% in Mar 2023; +6.4% in Feb 2023), largely in line with the print seen in February 2024 (+3.51%). Inflation in the miscellaneous group, excluding petrol and diesel indices, cooled off to a 75-month low of 3.8% in March 2024 from 3.9% in February 2024, led by all categories barring personal care and effects (to +6.0% from +5.2%, partly led by surge in gold prices), and recreation and amusement (to +2.8% from +2.7%), which reported an uptick compared to February 2024. The inflation in all other categories marginally softened between these months.
- In MoM terms, the core-CPI rose by 0.26% in March 2024, as compared to 0.29% seen in the same month of 2023. The core-CPI has increased by just 3.5% during FY2024 (between March 2023 and March 2024), trailing the 6.0% jump that was seen during FY2023. This is in line with our expectation that following a large reset in prices of services in FY2023 after a resumption of normal activity, the price increases would be relatively subdued in FY2024.

Services inflation continued to chart a downtrend, slid to a series-low 3.0% in Mar 2024

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

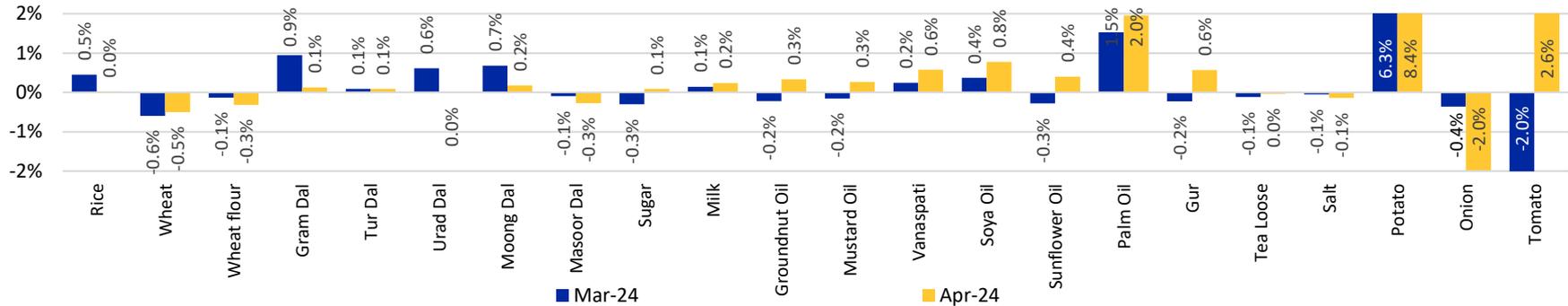
Services item	Weight in CPI	YoY (%)		
		Jan-2024	Feb-2024	Mar-2024
House rent, garage rent	9.51	3.1%	2.8%	2.7%
Tuition and other fees	2.90	5.1%	5.0%	5.0%
Telephone charges: mobile	1.84	1.5%	1.5%	1.5%
Bus/tram fare	1.37	1.9%	1.8%	1.8%
Cable TV connection charges	0.82	2.4%	2.4%	2.6%

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 for 13th consecutive month, to a fresh series-low of 3.0% in March 2024 (+5.1% in Mar 2023) from 3.1% in February 2024 (+5.2% in Feb 2023). The YoY inflation either moderated or remained steady between these months for as many as 23 of the 34 services items covered in the CPI basket (with a high weight of 20% in the CPI), including house rent (weight: 9.5%; to +2.7% from +2.8%), doctor’s/surgeon’s fee (weight: 0.8%; to +3.0% from +3.4%), etc.
- The inflation in the goods segment (with a weight of 76.6% in the CPI) eased to 5.4% in March 2024 from 5.7% in February 2024, led by the segments other than food and beverages (weight: 30.8%), which dipped quite sharply to 2.0% from 2.7%, respectively, amid the cut in LPG and fuel prices.

OUTLOOK: Early data for Apr 2024 indicates 15 of the 22 items displayed MoM uptick in prices; heatwave poses upside risks to near term CPI inflation outlook

EXHIBIT: MoM trends in retail prices in March 2024 and April 2024*

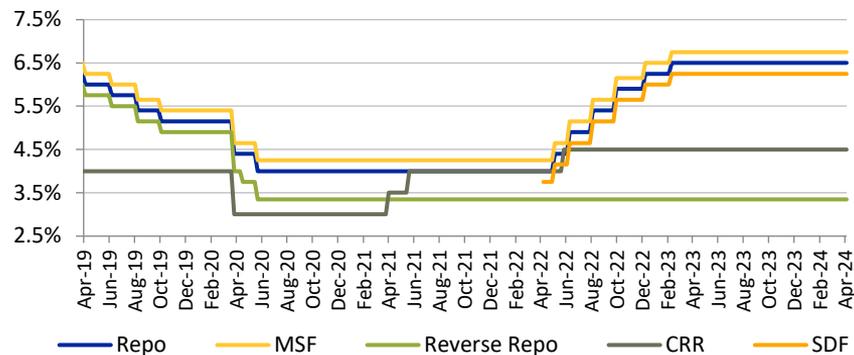


*Till Apr 11, 2024; Source: DCA; CEIC; ICRA Research

- As per the data released by the Department of Consumer Affairs (DCA), the average prices of 15 of the 22 commodities have risen sequentially in the ongoing month, including potato, tomato, edible oils, sugar, milk and some pulses. This number was higher than the MoM uptick recorded in 12 of the 22 items in April 2023. Factors including seasonal uptrend in perishable prices, lower global supply for palm oil leading to a fall in imports, as well as delayed shipments of other edible oils amid the Red sea disruptions, and weak domestic output for pulses in FY2024 have contributed to the sequential hardening in domestic food items in the recent weeks.
- In YoY terms, the inflation print for 10 of these 22 items has trended higher in April 2024 compared to March 2024, led by edible oils, vegetables and wheat, with the other 12 items benefitting from a favourable base. **ICRA estimates the headline CPI inflation to ease mildly to 4.8% in April 2024, even as food inflation will print above the 7.0% mark.**
- Heatwave and above-normal temperatures in the country during Q1 FY2025 are likely to exert upward pressure on prices of perishables in the immediate term. This, along with tight demand-supply dynamics for pulses, recent rebound in edible oil prices, along with an unfavourable base for Q1 FY2025, is likely to keep food inflation prints at elevated levels during the quarter. Thereafter, a timely and well distributed monsoon would be key to influence the outlook for kharif output and food prices. Additionally, the ongoing uptrend in international crude oil and gold prices could pose a risk to the CPI inflation outlook in the near term. Nevertheless, the impact of the rise in the former would depend on the pass through to retail fuel prices, and the impact of such transmission would be relatively lesser compared to the WPI inflation given the different weights of fuel items in the CPI and the WPI baskets.**

OUTLOOK: Rate cuts likely to be back ended in 2024

EXHIBIT: Movement in Key Rates



Source: RBI; CEIC; ICRA Research

EXHIBIT: RBI's GDP growth and CPI inflation forecasts

YoY (%)	CPI Inflation*		GDP Growth (at constant 2011-12 prices)	
	February 2024	April 2024	February 2024	April 2024
MPC Policy Reviews				
Q1 FY2025	5.0%	4.9%	7.2%	7.1%
Q2 FY2025	4.0%	3.8%	6.8%	6.9%
Q3 FY2025	4.6%	4.6%	7.0%	7.0%
Q4 FY2025	4.7%	4.5%	6.9%	7.0%
FY2025	4.5%	4.5%	7.0%	7.0%

*Based on the assumption of a normal monsoon; Source: RBI; ICRA Research

- As was largely expected, the Monetary Policy Committee (MPC) kept the policy rates and stance unchanged in its first bi-monthly policy meeting for FY2025, both with a majority of five of the six members. Notably, the Committee remained optimistic on the growth outlook, retaining the GDP growth projection for FY2025 at 7.0%, slightly higher than ICRA's estimate of 6.5% for this fiscal. Moreover, it expects the CPI inflation to print at 4.5% in FY2025, similar to ICRA's forecast (+4.6%), while highlighting a multitude of upside risks to the food inflation trajectory including above-normal temperatures and rising crude oil prices.
- In ICRA's view, monetary easing is likely to be quite back ended in 2024, pending clarity on various factors such as the turnout of the monsoon, evolution of crude oil prices as well as rate action from the US Fed. At best, we foresee 50 bps of rate cuts from the MPC, in H2 FY2025.

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

	Weight	Y-o-Y Inflation 2012 Base					M-o-M
		Jan-24	Feb-24	Feb-24	Mar-24	Mar-24	
		Final	Provisional	Final	Provisional	Provisional	
CPI (combined)	100.00	5.1%	5.1%	5.1%	4.9%	0.0%	
Food and beverages	45.86	7.6%	7.8%	7.8%	7.7%	0.2%	
Cereals and products	9.67	7.8%	7.6%	7.7%	8.4%	0.3%	
Meat and fish	3.61	1.2%	5.2%	5.2%	6.4%	1.3%	
Egg	0.43	5.6%	10.7%	10.7%	10.3%	-4.7%	
Milk and products	6.61	4.6%	3.9%	3.9%	3.4%	0.2%	
Oils and fats	3.56	-15.0%	-14.0%	-14.0%	-11.7%	-0.1%	
Fruits	2.89	8.6%	4.8%	4.8%	3.1%	1.9%	
Vegetables	6.04	27.1%	30.2%	30.2%	28.3%	0.3%	
Pulses and products	2.38	19.5%	18.9%	18.9%	17.7%	-0.6%	
Sugar and confectionary	1.36	7.4%	7.5%	7.5%	7.3%	-0.5%	
Spices	2.50	16.3%	13.5%	13.5%	11.4%	-1.8%	
Pan, tobacco and intoxicants	2.38	3.3%	3.1%	3.1%	3.1%	0.2%	
Clothing and footwear	6.53	3.4%	3.1%	3.1%	3.0%	0.2%	
Housing	10.07	3.2%	2.9%	2.9%	2.8%	-0.1%	
Fuel and light	6.84	-0.6%	-0.8%	-0.8%	-3.2%	-2.6%	
Miscellaneous	28.32	3.8%	3.6%	3.6%	3.5%	0.2%	
Household goods and services	3.80	3.1%	2.8%	2.8%	2.7%	0.2%	
Health	5.89	4.9%	4.5%	4.5%	4.3%	0.4%	
Transport and communication	8.59	2.0%	1.8%	1.8%	1.5%	-0.2%	
Recreation and amusement	1.68	2.9%	2.7%	2.7%	2.8%	0.2%	
Education	4.46	4.9%	4.8%	4.8%	4.7%	0.1%	
Personal care and effects	3.89	5.9%	5.2%	5.2%	6.0%	1.4%	
CPI-Food	36.55	8.3%	8.7%	8.7%	8.5%	0.2%	
CPI-Core	44.97	3.7%	3.5%	3.5%	3.5%	0.3%	
CPI Rural	5.3%	5.3%	5.3%	5.3%	5.4%	0.2%	
CPI Urban	4.9%	4.9%	4.8%	4.8%	4.1%	-0.2%	

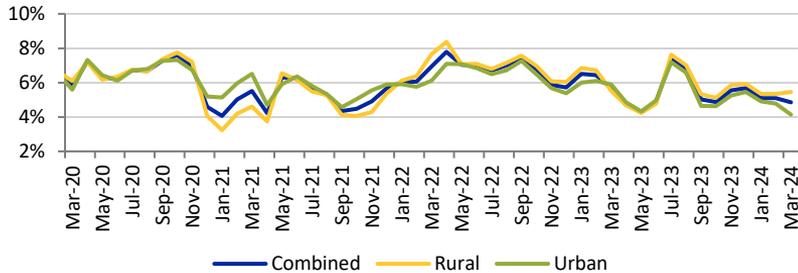
Source: National Statistical Office (NSO); CEIC; ICRA Research

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

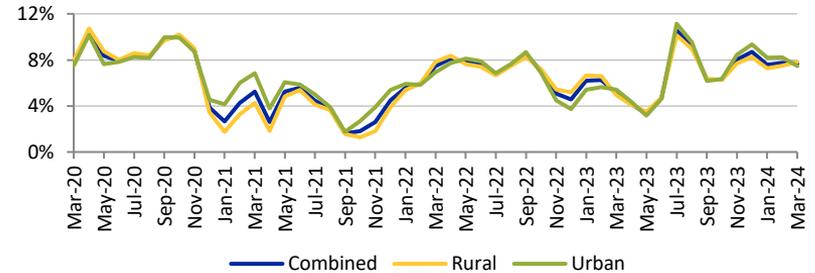
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



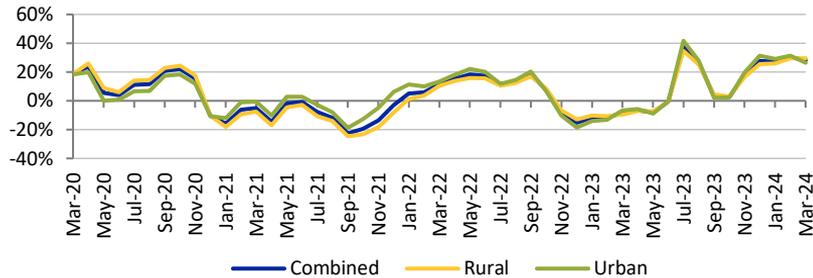
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



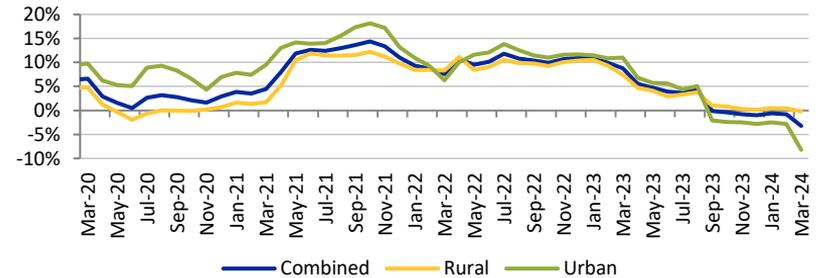
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



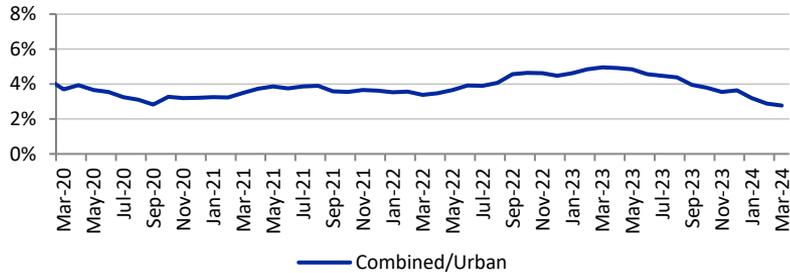
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



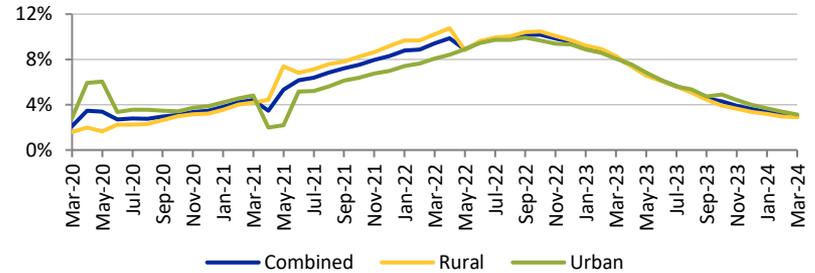
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



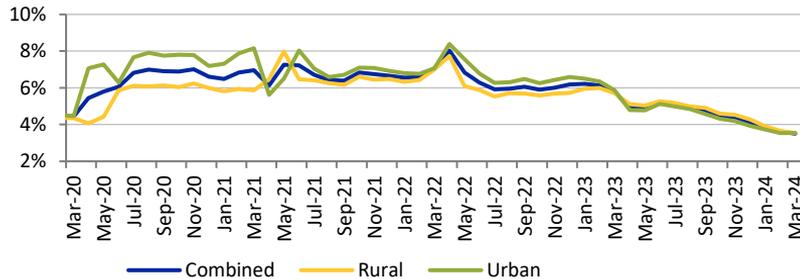
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



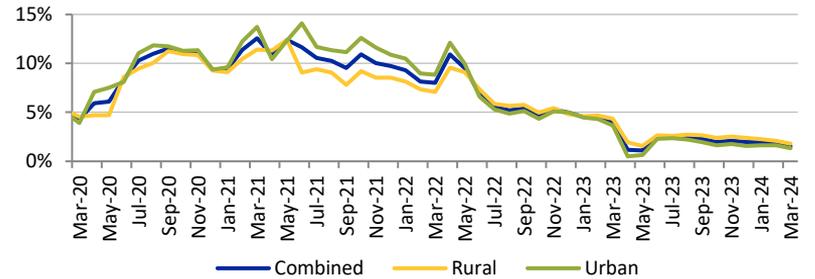
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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