

CONSUMER PRICE INDEX

CPI inflation dipped to 4.8% in April 2024; stance change unlikely in June 2024 policy amid uncertainty around food inflation outlook

MAY 2024





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The CPI inflation softened marginally to 4.8% in April 2024, led by fuel, clothing, and tobacco groups.

The MoM uptick of 0.6% in miscellaneous group was highest since April 2022, partly led by surge in global gold prices.

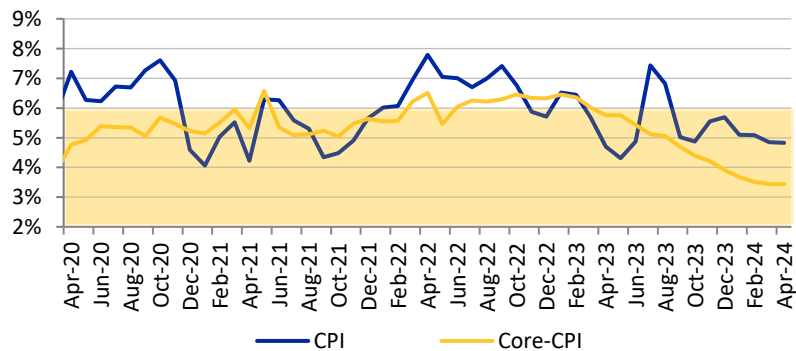
ICRA expects CPI inflation to rise to 5.0-5.2% in May 2024, led by adverse base effect for food; given continued uncertainty regarding food price outlook beyond Q2 FY2025, stance change is unlikely in June 2024 policy.

The headline CPI inflation eased to 4.83% in April 2024 from 4.85% in March 2024, on a year-on-year (YoY) basis, in line with ICRA's forecast. Notably, the month-on-month (MoM) momentum in miscellaneous items accelerated to 0.6% in April 2024, the highest since April 2022, led by a surge in global gold prices; had it not been for this, the core-CPI (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) print would have eased in the month. Going forward, ICRA fears that the food and beverages inflation will retrace above the 8.0% mark in May 2024, partly on account of the adverse base (+3.3% in May 2023 vs. +4.2% in Apr 2023), as well as the heatwave conditions during the summer season, which would push up the headline CPI inflation to 5.0-5.2% in May 2024. With continued uncertainty, especially around the risks to the food inflation trajectory after Q2 FY2025, the chance of a stance change in the upcoming June 2024 monetary policy review appears dim.

- **Marginal dip in CPI inflation to 4.8% in Apr 2024:** Printing in line with ICRA's forecast, the YoY headline CPI inflation eased slightly to 4.8% in April 2024 from 4.9% in March 2024, led by a larger deflation in the fuel and light segment, and softer prints for the clothing and footwear, and pan, tobacco and intoxicants groups. While the inflation for miscellaneous group was unchanged at 3.5% in April 2024, compared to March 2024, the sequential uptick stood at a high 0.6% in April 2024, as against the average of 0.2% in H2 FY2024, partly led by the surge in global gold prices.
- **CPI inflation expected at 5.0-5.2% in May 2024, with food and beverage inflation above 8%:** ICRA expects the food and beverages inflation to retrace above the 8.0% mark in May 2024, partly on account of the adverse base (+3.3% in May 2023 vs. +4.2% in Apr 2023), as well as the above-normal temperatures and heatwave conditions during the summer season, which would push up the headline CPI inflation to 5.0-5.2% in the ongoing month. Thereafter, the impending favourable base effects during Q2 FY2025 are expected to materially soften the headline inflation print to 2.5-3.5% in July 2024 and August 2024. Nevertheless, a timely onset and well distribution of monsoon would be crucial to support agriculture output in 2024-25 and help control food inflation.
- **Policy stance unlikely to change in June 2024 MPC policy:** With continued uncertainty, especially on the risks to the food inflation trajectory after Q2 FY2025, the chance of a stance change in the upcoming June 2024 monetary policy review appears rather dim. At best, we foresee 50 bps of rate cuts from the MPC in H2 FY2025.

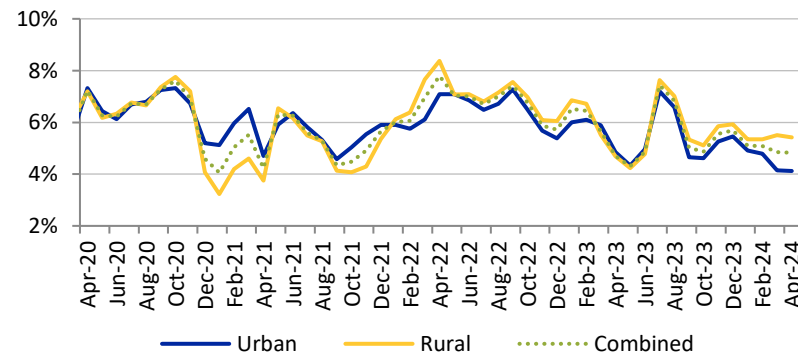
CPI inflation softened marginally to 4.8% in April 2024 along expected lines

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)

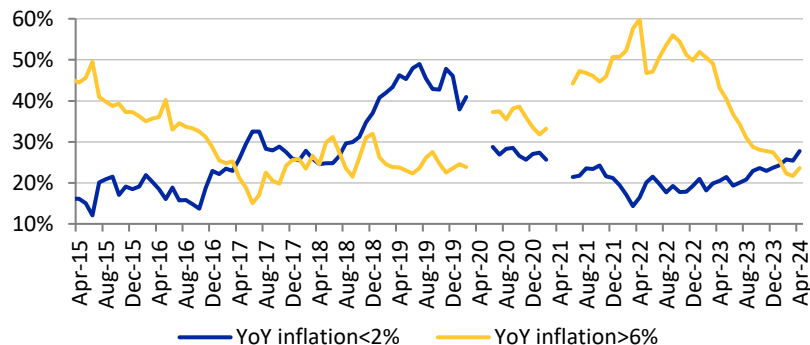


Source: NSO; CEIC; ICRA Research

- Printing in line with ICRA's forecast, the headline CPI inflation eased slightly to 4.83% in April 2024 (+4.7% in April 2023) on a YoY basis from 4.85% in March 2024 (+5.7% in March 2023). This has also trailed the 6.0% threshold of the MPC's medium-term forecast range of 2.0-6.0% for the eighth consecutive month.
- In addition, the core-CPI inflation (CPI excluding food and beverages, fuel and light, and petrol and diesel indices for vehicles) was unchanged at a multi-year low of 3.4% in April 2024 (lowest since June 2017). With a flattish print in core-CPI inflation and a fall in the headline figure, the wedge between the two dipped somewhat to 139 bps from 141 bps in March 2024, while remaining at elevated levels.
- The fall in the CPI inflation in urban areas (to +4.11% in April 2024 from +4.14% in March 2024) in April 2024 relative to March 2024 was shallower than that in rural areas (to +5.43% from +5.51%). Interestingly, the gap between the two has remained elevated at 131 bps in April 2024 (136 bps in March 2024).

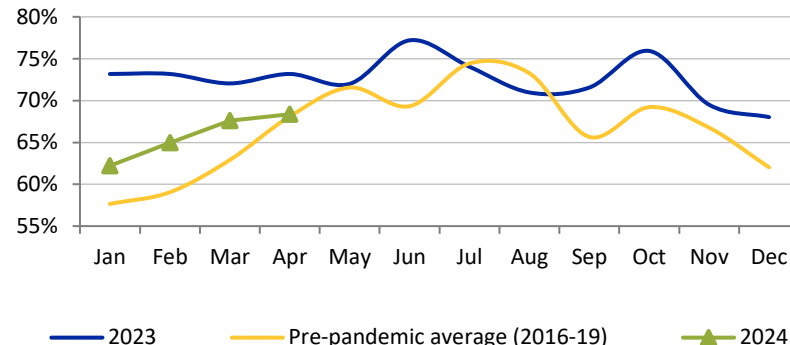
Share of items in CPI basket with inflation >6% rose in April 2024, after receding to post-Covid lows in March 2024

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 (%)

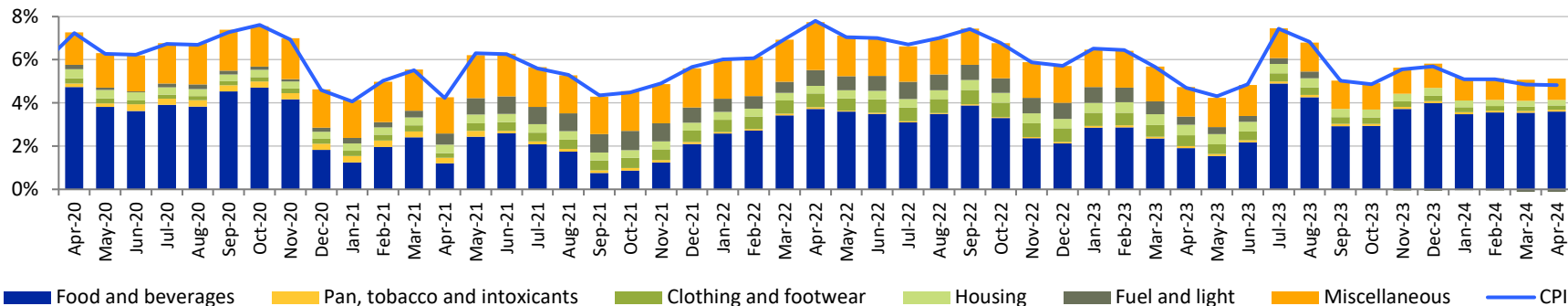


*Based on the 299 items covered in the CPI basket; on financial-year basis; Source: NSO; CEIC; ICRA Research

- The share of items in the CPI basket that reported a YoY inflation rate above the MPC's upper limit of 6.0% rebounded to 23.6% in April 2024 from the post-Covid low of 21.6% in March 2024. However, the share of items that reported a YoY inflation below the 2.0% mark also rose to 27.7% (highest since Sep 2020) from 25.4%, respectively.
- The share of items in the CPI basket that witnessed a sequential increase in prices rose for the third consecutive month, albeit slightly to 68.4% in April 2024 from 67.6% in the prior month, while printing in line with the average levels recorded in the pre-pandemic period during the month (FY2017-20 for April: 68.1%). Nevertheless, this is substantially lower than the respective levels seen in 2023.

Wider deflation in fuel and light segment absorbed uptick in food and beverages inflation in April 2024, relative to March 2024

EXHIBIT: Composition of CPI Inflation (YoY)

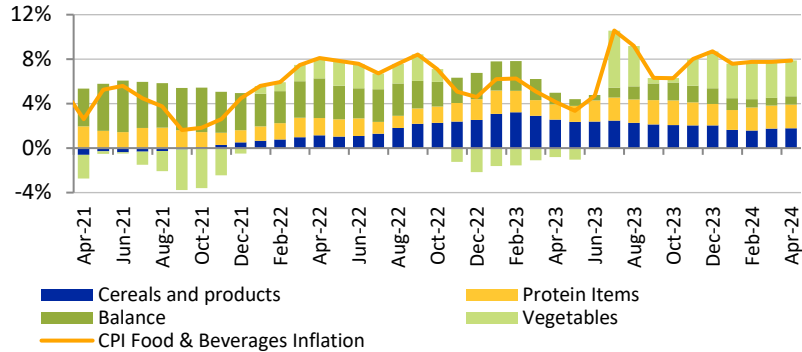


Source: NSO; CEIC; ICRA Research

- The marginal moderation in the headline inflation in April 2024, compared to the prior month was led by a wider deflation in fuel and light (to a series-low -4.2% from -3.4%), and softer YoY inflation prints for pan, tobacco and intoxicants (to a 16-month low +3.0% from +3.1%), clothing and footwear (to a 44-month low +2.9% from +3.0%), and housing (to +2.68% from +2.71%). In contrast, food and beverages (to a four-month high +7.9% from +7.7%) and miscellaneous items (to +3.54% from +3.50%) reported a mild uptick in their YoY inflation prints in April 2024, vis-à-vis March 2024.
- Encouragingly, all the sub-groups other than food and beverages saw sub-4% inflation for the fourth consecutive month in April 2024.
- **In terms of contribution, while the fuel and light (-6 bps) and clothing and footwear (-1 bp) segments largely drove the dip in the YoY CPI inflation print between April 2024 and March 2024, this was partly offset by the uptick in food and beverages (+6 bps) and miscellaneous items (+1 bp).**

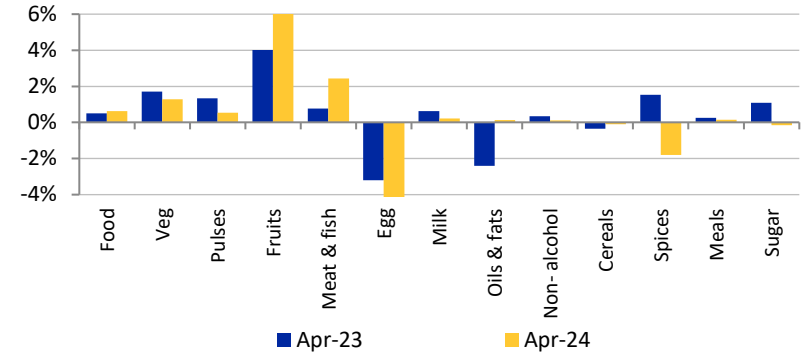
Although inflation in food and beverages inched up to four-month high in April 2024, the uptick was not broad based

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

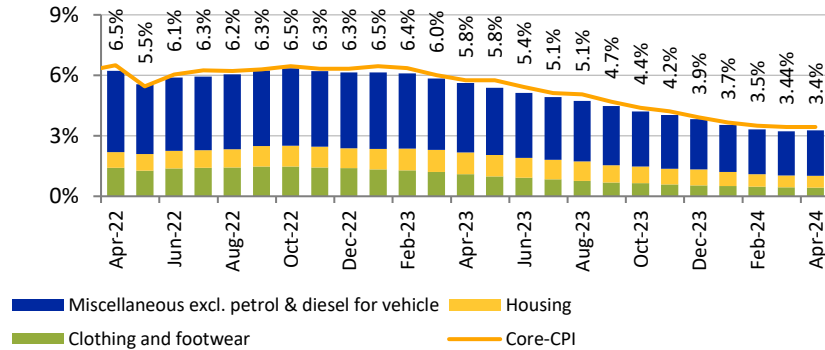


Food: Food & Beverages; Veg: Vegetables; Pulses: Pulses & products; Milk: Milk & products; Cereals: Cereals & products; Non- alcohol: Non- alcoholic beverages; Meals: Prepared meals & snacks; Source: NSO; CEIC; ICRA Research

- The inflation in food and beverages (with a weight of 45.9% in the CPI) rose to a four-month high of 7.9% in April 2024 (+4.2% in April 2023) from 7.7% in March 2024 (+5.1% in March 2023), while remaining above the 7%-mark for the sixth consecutive month.
- However, the disaggregated trend was not broad based, with an uptick in the YoY inflation for only four of the 12 sub-groups (with a weight of 19.7% in the CPI basket) including cereals and products (to +8.6% from +8.4%), meat and fish (to a 22-month high +8.2% from +6.4%), oils and fats (to -9.4% from -11.7%), and fruits (to +5.2% from +3.0%) in April 2024, compared to March 2024. This was partly offset by a softening in the inflation for the other food sub-groups, with a weight of 26.1%, namely, vegetables (to +27.8% from +28.3%, led by onion, brinjal, garlic, etc.), spices (to a 26-month low +7.8% from +11.4%), pulses and products (to +16.8% from +17.8%), etc.
- In MoM terms, the index of food and beverages rose by 0.6% in April 2024, slightly higher than the year-ago level (+0.5%). The higher MoM print in Apr 2024 vs. Apr 2023 for fruits (+6.2% vs. +4.0%), and oils and fats (+0.1% vs. -2.4%), was offset by lower prints in vegetables (+1.3% vs. +1.7%) and spices (-1.8% vs. +1.5%), etc.

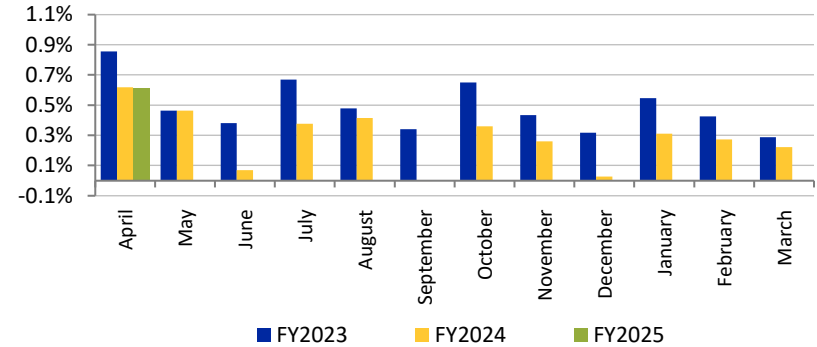
Core-CPI inflation remained largely unchanged at 3.4% in April 2024, similar to March 2024

EXHIBIT: Composition of core Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: MoM trends in core inflation

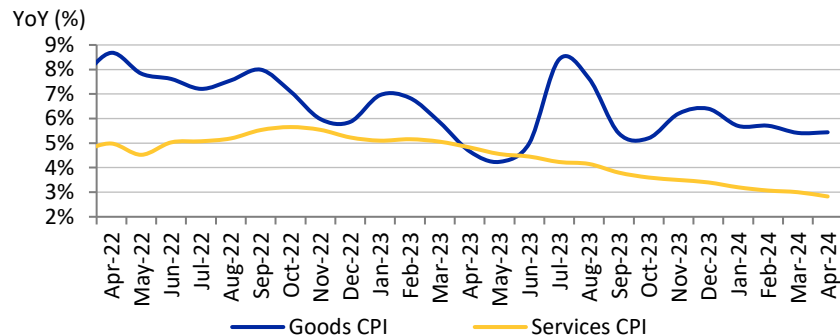


Source: NSO; CEIC; ICRA Research

- The core-CPI inflation stood at an 82-month low of 3.4% in April 2024 similar to the print for March 2024. Inflation in the miscellaneous group, excluding petrol and diesel indices, rose to 3.9% in April 2024 from 3.8% in March 2024, entirely led by personal care and effects (to a five-month high +7.4% from +6.0%, partly led by the surge in gold prices). The inflation in all the other sub-categories marginally softened between these two months.
- A stricter measure of core-CPI, computed as CPI excluding food and beverages, fuel and light, petrol and diesel indices for vehicles, and gold, eased to a multi-year low of 3.0% in April 2024 from 3.2% in March 2024.
- In MoM terms, the core-CPI rose by 0.6% in April 2024, similar to the uptick seen in the same month of 2023, largely led by the unusually high 3.0% sequential increase in the personal care and effects sub-group.

Services inflation slid to a fresh series-low 2.8% in April 2024, amid broad-based dip across most items

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

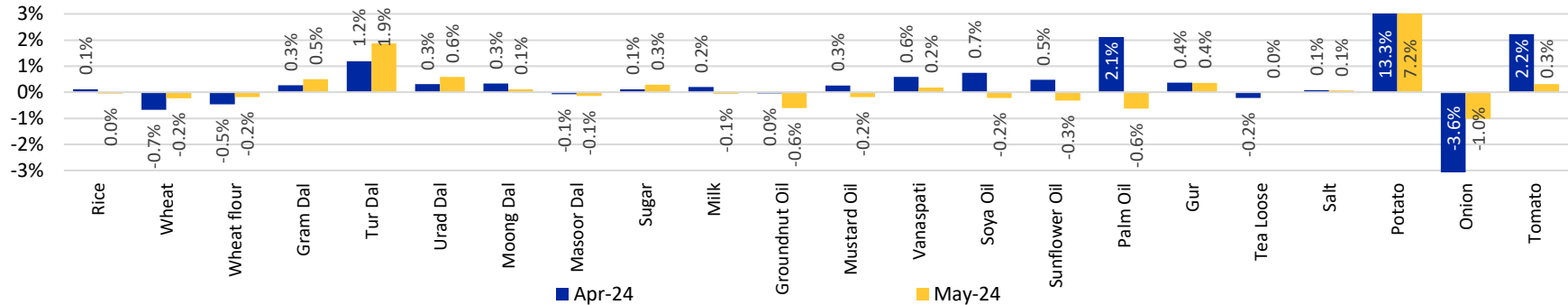
Services item	Weight in CPI	YoY (%)		
		Feb-2024	Mar-2024	Apr-2024
House rent, garage rent	9.51	2.8%	2.7%	2.6%
Tuition and other fees	2.90	5.0%	5.0%	4.4%
Telephone charges: mobile	1.84	1.5%	1.5%	1.4%
Bus/tram fare	1.37	1.8%	1.8%	1.5%
Cable TV connection charges	0.82	2.4%	2.6%	2.7%

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 14th consecutive month, to a fresh series-low of 2.8% in April 2024 (+4.8% in Apr 2023) from 3.0% in March 2024 (+5.1% in Mar 2023). The YoY inflation either moderated or remained steady between these months for as many as 27 of the 34 services items covered in the CPI basket (with a high weight of 18.2% in the CPI), including house rent (weight: 9.5%; to +2.6% from +2.7%), tuition and other fees (2.9%; to +4.4% from +5.0%), telephone charges: mobile (1.8%; to +1.4% from +1.5%), bus/tram fare (weight: 1.4%; to +1.5% from +1.8%), etc.
- The inflation in the goods segment (with a weight of 76.6% in the CPI) was unchanged at 5.4% in April 2024 vis-à-vis March 2024, with the uptick in the food and beverages group (weight: 45.9%; to +7.9% in Apr 2024 from +7.7% in Mar 2024) being offset by the dip in the non-food and beverages goods group (30.8%; to a 51-month low of +1.8% from +2.0%).

OUTLOOK: Early data for May 2024 reveals mixed trend in retail food prices; CPI inflation to rise modestly to 5.0-5.2% in the month

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

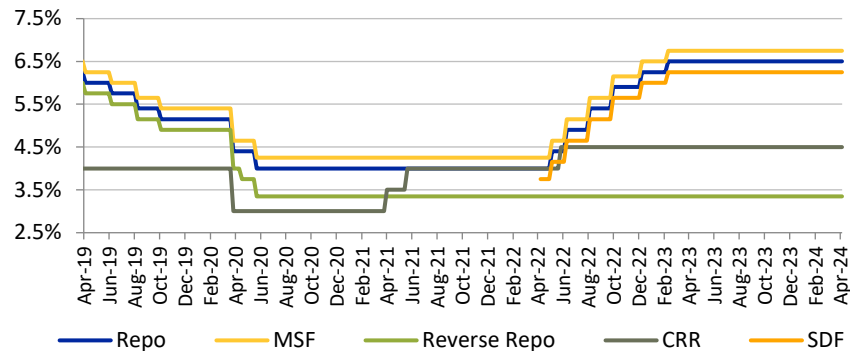


*Till May 12, 2024; Source: DCA; CEIC; ICRA Research

- The data released by the Department of Consumer Affairs (DCA) indicates a mixed trend in the retail food prices in May 2024, with a sequential hardening in prices of half of the 22 essential commodities. A fall in the domestic output of few pulses and potato in 2023-24, as well as the seasonality in perishables is likely to have exerted pressure on the prices of such items in May 2024. On a positive note, the price of rice has remained stable, while the prices of wheat, onion, and most varieties of edible oils have softened in the current month, compared to April 2024.
- In YoY terms, the inflation print for 12 of these 22 items has trended lower in May 2024 vs. April 2024, led by pulses, sugar and milk, whereas wheat and edible oils in the other set of items have displayed a higher YoY print. Overall, **ICRA estimates the food and beverages inflation to cross the 8.0% mark in May 2024 (+7.9% in Apr 2024), partly on account of the adverse base (+3.3% in May 2023 vs. +4.2% in Apr 2023), which would push up the headline CPI inflation to 5.0-5.2% in the ongoing month.**
- **While the international prices of crude oil have eased in the ongoing month, the food prices are vulnerable to above-normal temperatures and heatwave conditions during the summer season, which is likely to keep food inflation at elevated levels until June 2024. Thereafter, the impending favourable base effects during Q2 FY2025 are expected to materially soften the headline inflation print to 2.5-3.5% in July 2024 and August 2024. Nevertheless, a timely onset and well distribution of monsoon season would be crucial to support agriculture output in 2024-25 and help control food inflation.**

OUTLOOK: Policy stance change highly unlikely in June 2024 MPC policy

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)	
	Feb 2024	April 2024	Feb 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

- The minutes of the Monetary Policy Committee's (MPC) meeting that was held in April 2024 revealed caution among the members around the upside risks to inflation, particularly related to uncertainties in food prices, and the impact of geopolitical tensions on commodity prices and supply chains. In addition to this, the Governor had highlighted that favourable growth dynamics and the outlook for FY2025 provides policy space to remain focused on price stability.
- **With continued uncertainty, especially on the risks to the food inflation trajectory after Q2 FY2025, the chance of a stance change in the upcoming June 2024 monetary policy review appears rather dim. 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
		Feb-24	Mar-24	Mar-24	Apr-24	Apr-24	
		Final	Provisional	Final	Provisional	Provisional	
CPI (combined)	100.00	5.1%	4.9%	4.9%	4.8%	0.5%	
Food and beverages	45.86	7.8%	7.7%	7.7%	7.9%	0.6%	
Cereals and products	9.67	7.7%	8.4%	8.4%	8.6%	-0.1%	
Meat and fish	3.61	5.2%	6.4%	6.4%	8.2%	2.4%	
Egg	0.43	10.7%	10.3%	10.3%	7.1%	-6.1%	
Milk and products	6.61	3.9%	3.4%	3.4%	3.0%	0.2%	
Oils and fats	3.56	-14.0%	-11.7%	-11.7%	-9.4%	0.1%	
Fruits	2.89	4.8%	3.1%	3.0%	5.2%	6.2%	
Vegetables	6.04	30.2%	28.3%	28.3%	27.8%	1.3%	
Pulses and products	2.38	18.9%	17.7%	17.8%	16.8%	0.5%	
Sugar and confectionary	1.36	7.5%	7.3%	7.3%	5.9%	-0.2%	
Spices	2.50	13.5%	11.4%	11.4%	7.8%	-1.8%	
Pan, tobacco and intoxicants	2.38	3.1%	3.1%	3.1%	3.0%	0.4%	
Clothing and footwear	6.53	3.1%	3.0%	3.0%	2.9%	0.2%	
Housing	10.07	2.9%	2.8%	2.7%	2.7%	1.0%	
Fuel and light	6.84	-0.8%	-3.2%	-3.4%	-4.2%	-1.0%	
Miscellaneous	28.32	3.6%	3.5%	3.5%	3.5%	0.6%	
Household goods and services	3.80	2.8%	2.7%	2.7%	2.7%	0.2%	
Health	5.89	4.5%	4.3%	4.3%	4.3%	0.3%	
Transport and communication	8.59	1.8%	1.5%	1.5%	1.1%	-0.2%	
Recreation and amusement	1.68	2.7%	2.8%	2.8%	2.6%	0.1%	
Education	4.46	4.8%	4.7%	4.7%	4.2%	0.3%	
Personal care and effects	3.89	5.2%	6.0%	6.0%	7.4%	3.0%	
CPI-Food	36.55	8.7%	8.5%	8.5%	8.7%	0.7%	
CPI-Core	44.97	3.5%	3.5%	3.4%	3.4%	0.6%	
CPI Rural	5.3%	5.3%	5.4%	5.5%	5.4%	0.4%	
CPI Urban	4.8%	4.8%	4.1%	4.1%	4.1%	0.6%	

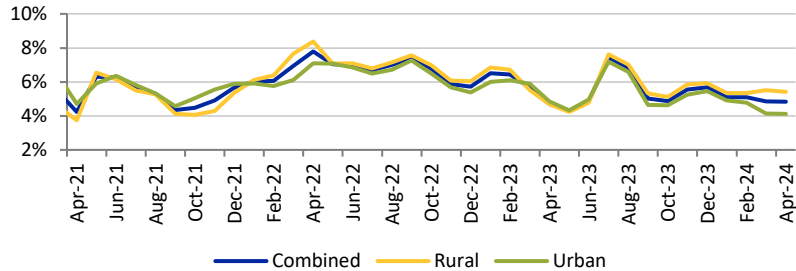
Source: National Statistical Office (NSO); CEIC; ICRA Research

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

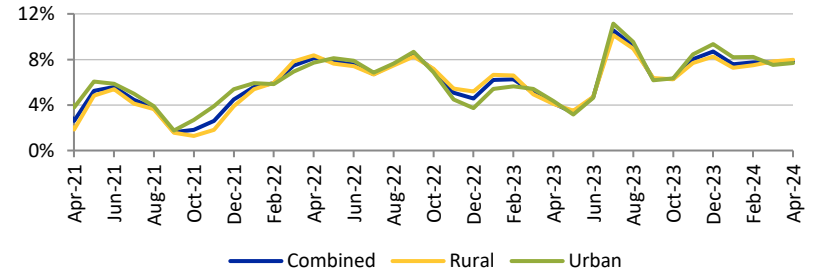
*Sources other than PDS; Source: NSO; CEIC; ICRA Research

EXHIBIT: CPI Inflation (YoY)



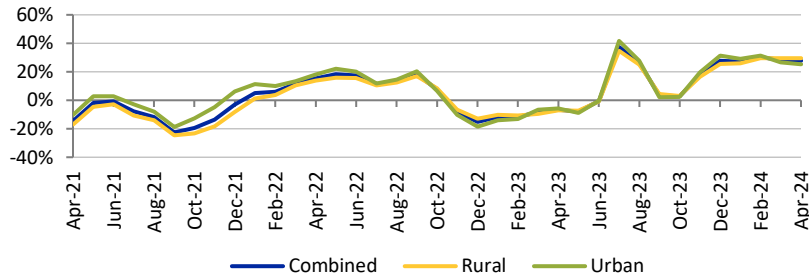
Source: NSO; CEIC; ICRA Research

EXHIBIT: Food and Beverages Inflation (YoY)



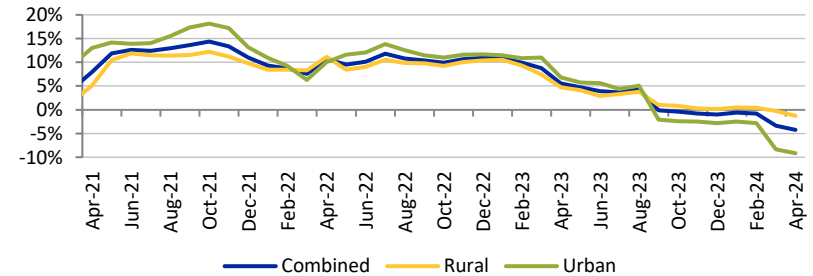
Source: NSO; CEIC; ICRA Research

EXHIBIT: Vegetables Inflation (YoY)



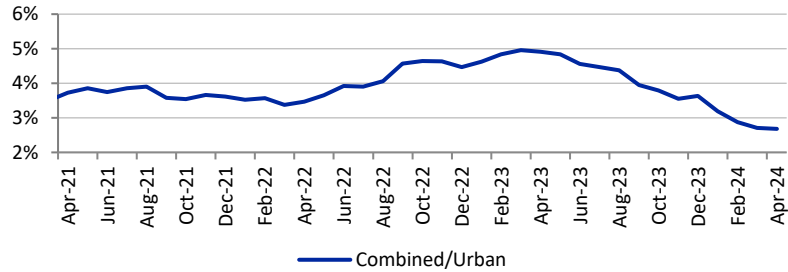
Source: NSO; CEIC; ICRA Research

EXHIBIT: Fuel and Light Inflation (YoY)



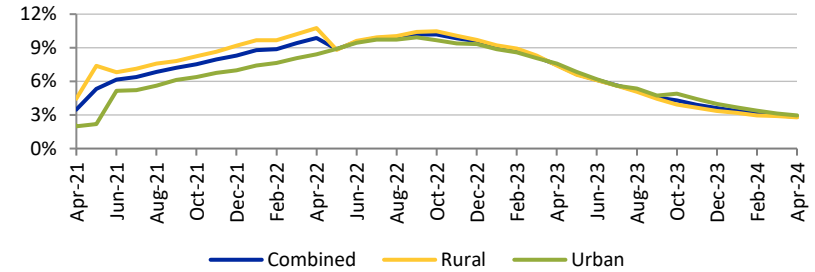
Source: NSO; CEIC; ICRA Research

EXHIBIT: Housing Inflation (YoY)



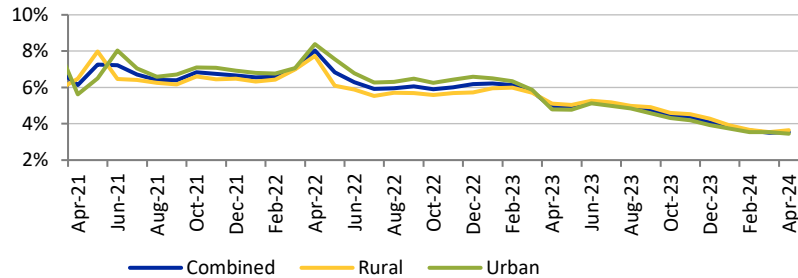
Source: NSO; CEIC; ICRA Research

EXHIBIT: Clothing and Footwear Inflation (YoY)



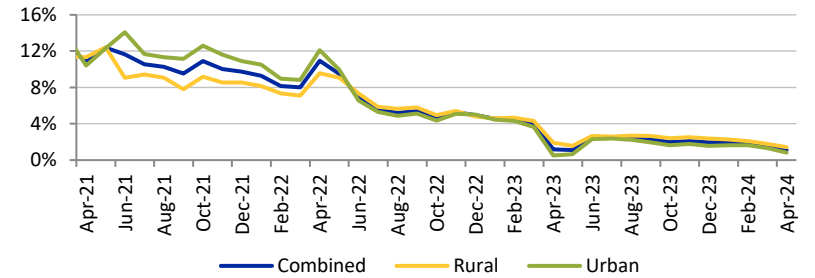
Source: NSO; CEIC; ICRA Research

EXHIBIT: Miscellaneous Inflation (YoY)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Transport and Communication Inflation (YoY)



Source: NSO; CEIC; ICRA Research



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