

Macro Insights

14 June 2022

CPI drops to 7.04% but above the upper limit of Reserve Bank of India

Ministry of Statistics and Programme Implementation (MOSPI) has released the monthly statistics on Consumer Price Index (CPI) for May 2022. Retail inflation drops to 7.04% in May 2022 from 7.79% in the previous month i.e. April 2022. CPI inflation stood at 6.30% in May last year.



Retail inflation drops to 7.04% .

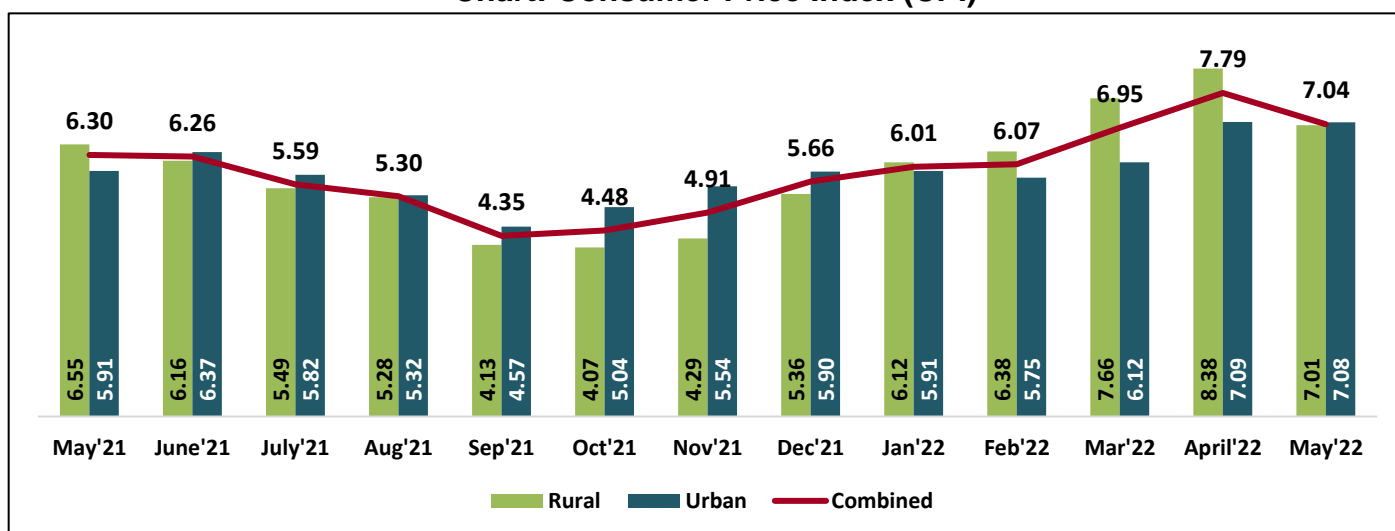


CPI inflation stood at 6.30% in May'20



The excise duty cuts on petrol & diesel and duty cuts on other items may have played a part in cooling down inflation

Chart: Consumer Price Index (CPI)



Highlights:

- India's retail inflation dropped to 7.04 per cent on account of a favourable base effect, it stayed well above the upper limit of the RBI target range for the fifth consecutive time.
- Urban inflation in May declined marginally to 7.08 per cent, while Rural inflation declined significantly from 8.38 per cent to 7.01 per cent.
- Core inflation, which is non-food, non-fuel, contracted to 6.09 per cent in May 2022 from 6.97 per cent in April 2022.
- Food inflation, which accounts for nearly half the CPI basket, was 7.97 per cent, marginally lower than 8.31 per cent in the previous month.
- The Inflation was mainly driven by Fuel & Light (9.54 per cent), Clothing & Footwear (8.85 per cent), Transport & Communication (9.54 per cent), Vegetables (18.26 per cent), Oils and fats (13.26 per cent).

Table: Components of CPI

| | Food and beverages | | Pan, tobacco and intoxicants | | Clothing and footwear | | Housing | | Fuel & Light | | Miscellaneous | | General | |
|--------|--------------------|------|------------------------------|------|-----------------------|------|---------|------|--------------|-------|---------------|------|---------|------|
| Weight | 45.86% | | 2.38% | | 6.53% | | 10.07% | | 6.84% | | 28.32% | | 100% | |
| | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| Mar | 5.24 | 7.47 | 9.87 | 2.98 | 4.41 | 9.40 | 3.50 | 3.38 | 4.43 | 7.52 | 6.95 | 7.02 | 5.52 | 6.95 |
| Apr | 2.60 | 8.10 | 9.01 | 2.70 | 3.49 | 9.85 | 3.73 | 3.47 | 7.98 | 10.67 | 6.12 | 8.03 | 4.23 | 7.79 |
| May | 5.24 | 7.84 | 10.03 | 1.15 | 5.32 | 8.85 | 3.86 | 3.71 | 11.86 | 9.54 | 7.25 | 6.82 | 6.30 | 7.04 |

Views:

- The elevated inflation justified the two recent interest rate hikes by the central bank.
- The excise duty cuts on petrol & diesel and duty cuts on other items may have played a part in cooling down inflation. Besides the base effect, the impact of lowering of taxes by the Centre earlier did play out to a certain extent to lower inflation.
- Following are the latest inflation projections given by RBI in its Monetary Policy:

| RBI Projection | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | FY23 |
|----------------|---------|---------|---------|---------|------|
| CPI Inflation | 7.5% | 7.4% | 6.2% | 5.8% | 6.7% |

- Going forward, favorable base effect will start diminishing from June 2022 onwards but there may be relief on inflation front on account of duty cuts on imports, debarring wheat exports and expectations of normal monsoon in the coming months.

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