

Macro Insights

12th February, 2024

CPI eases up to 5.10 per cent

Retail inflation measured by CPI reduced to 5.10% in January 2024, compared to 5.69% in the previous month.

Highlights:

- India's retail inflation reduces in January '2024 to 5.10 per cent, due to decline in food inflation.
- CPI is on the higher end of RBI's tolerance band of 2 to 6 per cent.
- The core inflation moderated to 3.60 per cent in January.
- Urban inflation reduced to 4.92 per cent from 5.46 per cent in the previous month and rural inflation reduced to 5.34 per cent from 5.93 per cent in the earlier month.
- Food Price index decreased to 8.30 per cent.

Chart: Consumer Price Index - January'23

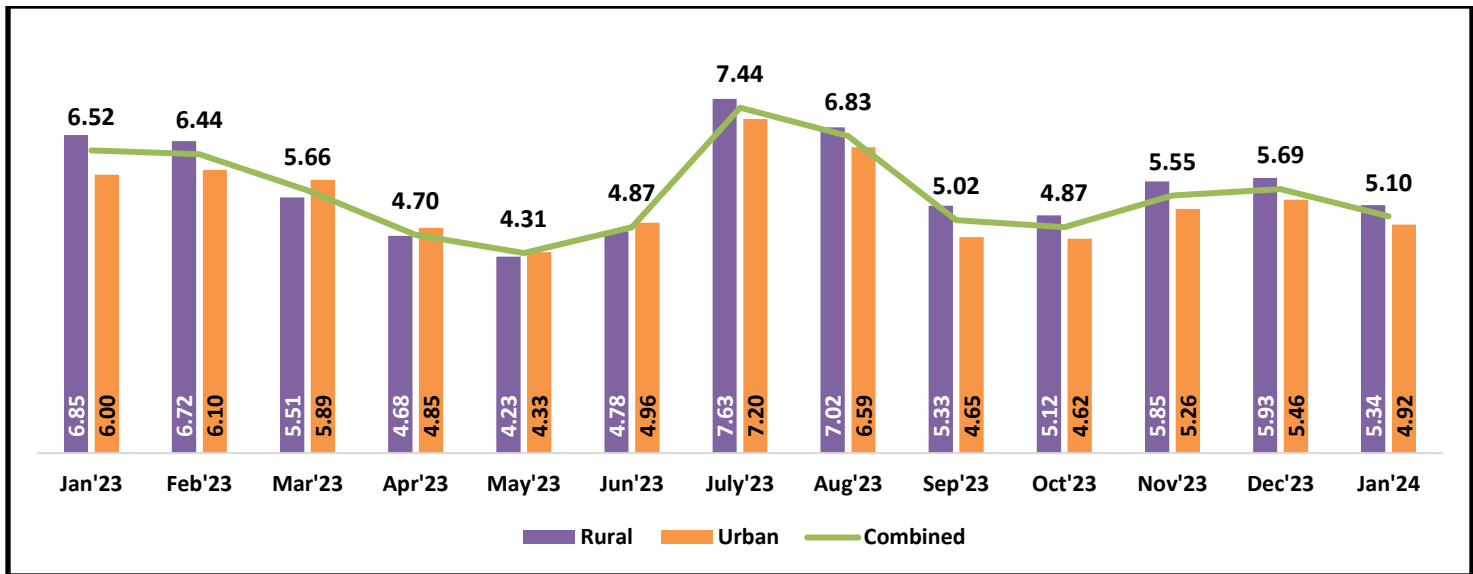


Table: Components of CPI

	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%	
	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year
Nov	5.07	8.02	2.07	3.81	9.83	3.90	4.63	3.55	10.62	-0.77	6.01	4.38	5.88	5.55
Dec	4.58	8.70	2.55	3.65	9.58	3.61	4.47	3.63	10.91	-0.99	6.17	4.07	5.72	5.69
Jan	6.19	7.58	3.12	3.28	9.08	3.37	4.62	3.20	10.84	-0.60	6.21	3.82	6.52	5.10

Views:

- India's consumer price index (CPI) inflation eases to 5.10 per cent in January 2024, with favorable seasonal support from food, disinflation in fuel, and subdued core inflation drivers.
- The trajectory of moderation could persist if food price pressures remain contained in the near term. However, climate risks and potential adverse spillover from escalation in merchandise trade costs post the Red Sea disturbance may introduce volatility in food prices.
- The Reserve Bank of India, maintaining its repo rate at 6.50% for the sixth consecutive meeting on February 8, underscored "large and repetitive food price shocks" as a significant risk to the ongoing disinflation trend.
- The core inflation is declining steadily month on month. This shows that RBI's rate hike is working effectively through the system.
- RBI is expected to maintain its key policy rate unchanged until at least end-June before considering a 25 basis points cut in each of the third and fourth quarters, a relatively modest move compared with expectations for other global central banks' easing cycles.
- Uneven rainfall damaged some 2023 rabi crops, while the delayed monsoon arrival caused a delayed harvesting cycle of kharif crops resulting in restricted supplies. Kharif harvest arrivals and progress in rabi sowing together with El Niño weather conditions need to be monitored.
- The correction in the inflation for food and beverages was led by a favourable base effect. While rabi sowing has caught up with last year's level, reservoir storage remains well below the year-ago levels in most regions, continuing to imbue caution into the outlook for the rabi harvest. Inflation for the miscellaneous sub-group, which includes various services, fell below 4 per cent after a gap of 49 months, and is expected to remain sub-4% over H1 CY2024, auguring well for the core inflation

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