

## Macro Insights

12<sup>th</sup> January, 2023

### CPI – at 1 year low

Retail inflation measured by CPI moderated to 12-month low at 5.72% in December 2022, compared to 5.88% in the previous month.

### Highlights:

- India's retail inflation dropped to 1 year low to 5.72% in December mainly due to sharp deflation in vegetables and easing of price pressures in "food and beverages" category.
- The CPI has come within the tolerance limit of Reserve Bank of India's (RBI) of 2- 6 per cent for the second straight month.
- Both urban and rural inflation declined in December 2022. Urban inflation eased to 5.39 per cent from 5.68 per cent in the previous month and rural inflation eased to 6.05 per cent from 6.09 per cent in November.
- Core inflation is persistently high and inched to 6.1 per cent in December from 6 per cent in November. It is a cause of concern.
- Food inflation saw a sequential decline from 4.67 per cent in November to 4.19 per cent in December.

Chart: Consumer Price Index - Dec'22

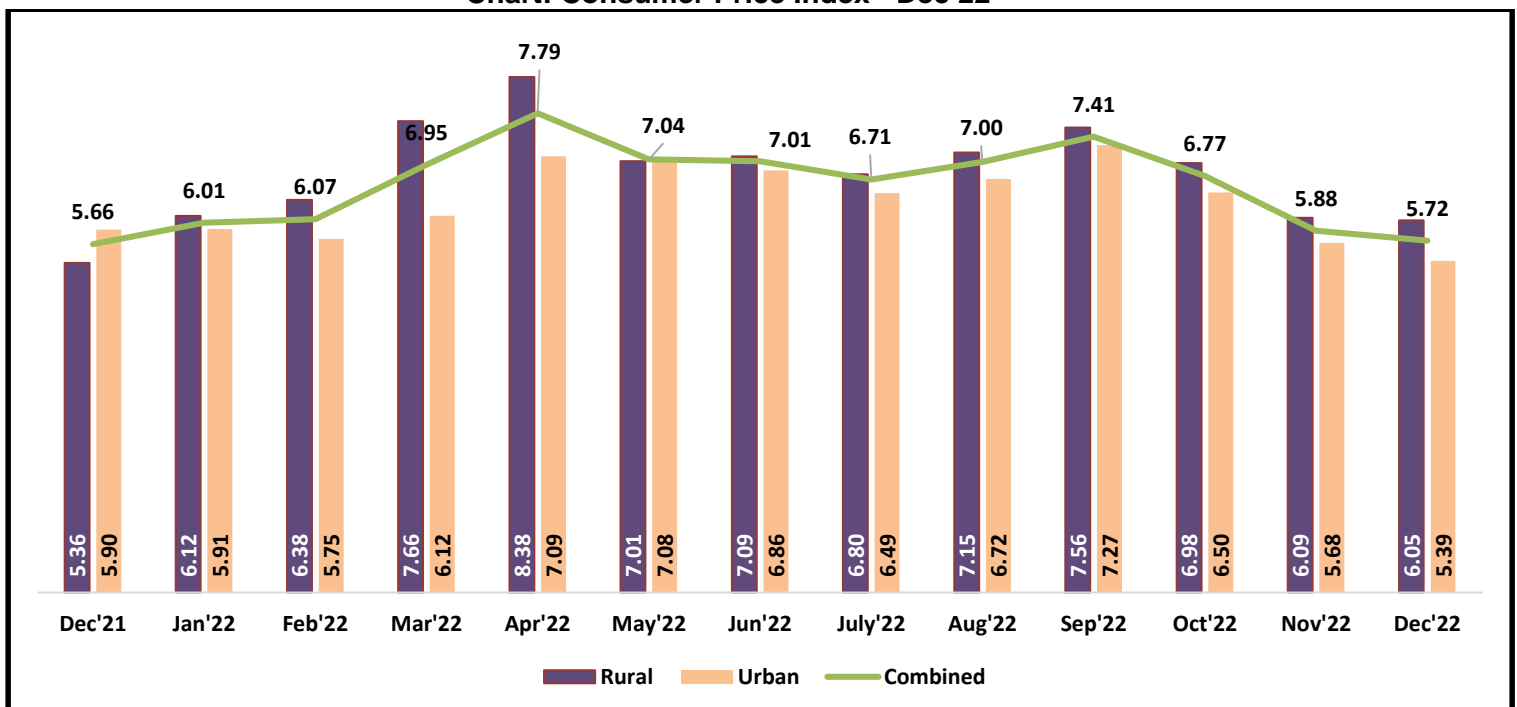


Table: Components of CPI

	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
Oct	1.82	<b>7.04</b>	4.27	<b>1.87</b>	7.53	<b>10.16</b>	3.54	<b>4.58</b>	14.35	<b>9.93</b>	6.83	<b>5.90</b>	4.48	<b>6.77</b>
Nov	2.60	<b>5.07</b>	4.05	<b>2.02</b>	7.94	<b>9.83</b>	3.66	<b>4.57</b>	13.35	<b>10.62</b>	6.75	<b>6.07</b>	4.91	<b>5.88</b>
Dec	4.47	<b>4.58</b>	3.16	<b>2.55</b>	8.30	<b>9.58</b>	3.61	<b>4.47</b>	10.95	<b>10.97</b>	6.65	<b>6.17</b>	5.66	<b>5.72</b>

### Views:

- India's retail inflation for December decelerated on the back of relaxation in the food prices especially the vegetable prices. The food inflation is responsible for nearly half the CPI basket.
- Inflation rate for "Fuel & Light", "Cereals", "Clothing & Footwear" categories are still elevated.
- WPI had hit a 21-month low of 5.85 per cent in November. It was the first time that the wholesale inflation was below retail inflation suggesting that the pass-through of elevated input costs to finished products was nearing completion.
- Going forward, though the relatively benign global commodity prices and a favorable base will likely continue to ease retail inflation in the short term, the outlook is still uncertain. The price pressures in next fiscal will be influenced by how geopolitical factors play out. Economic slowdown in China coupled with impending recession in the West can play a role in imported inflation.
- The low inflation print is unlikely to prevent RBI from going for sixth round of rate hike in February MPC which is expected to take policy rate from 6.25 per cent at present to 6.50 per cent.

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