

Macro Insights

12th September, 2023

CPI eases to 6.83 per cent

Retail inflation measured by CPI moderated to 6.83% in August 2023, compared to 7.44% in the previous month.

Highlights:

- India's retail inflation moderated in August'2023 to 6.83 per cent, due to a softening of vegetable prices.
- CPI breached the tolerance band of RBI of 2 to 6 per cent for second straight month.
- The core inflation moderated to 4.79 per cent in August.
- Urban inflation moderated to 6.59 per cent from 7.20 per cent in the previous month and rural inflation declined to 7.02 per cent from 7.63 per cent in the earlier month.
- Food Price index softened to 9.94 per cent.

Chart: Consumer Price Index - August'23

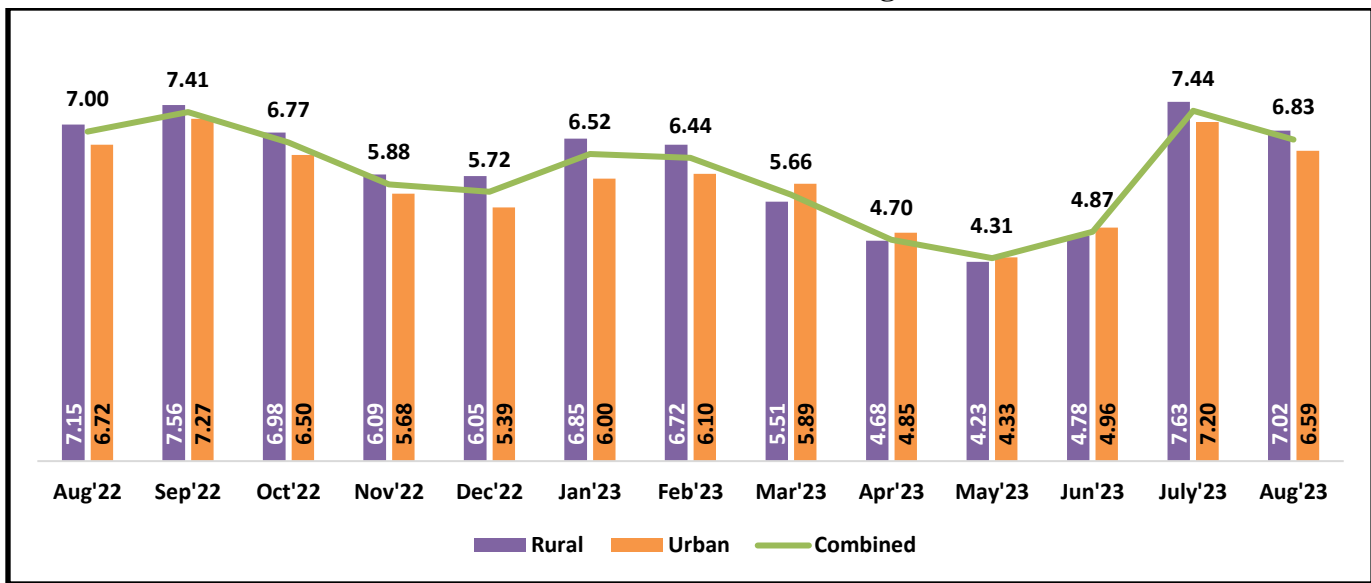


Table: Components of CPI

	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
June	7.56	4.63	1.83	3.65	9.52	6.19	3.93	4.56	10.14	3.92	6.28	5.19	7.01	4.87
July	6.71	10.57	1.78	3.80	9.85	5.64	3.90	4.47	11.76	3.67	5.91	5.05	6.71	7.44
Aug	7.57	9.19	1.67	4.10	9.91	5.15	4.06	4.38	10.78	4.31	5.95	4.91	7.00	6.83

Views:

- India's consumer price index (CPI) inflation eased to 6.83 per cent in August 2023, from 15 month high inflation in July, due to cooling of vegetable prices.
- The softening in the food inflation is due to subsidizing of vegetable prices by the government and ban on exports of some cereals and rice, thus bringing temporary relief to the households.
- The Consumer Food Price Index (CFPI) eased to 9.94 per cent in August from 11.51 per cent in July.
- A decline was witnessed in Food & Beverages, Clothing & Footwear segment and Housing segment.
- Following are the latest inflation projections given by RBI in its Monetary Policy:

RBI Projection	Q2'FY24	Q3'FY24	Q4'FY24	FY24	Q1'FY25
CPI Inflation	6.2%	5.7%	5.2%	5.4%	5.2%

- Food inflation is high due to patchy rainfalls in many regions of the country. There are upside risks to CPI inflation over the next few months as monsoon-related risks on food prices play out.
- Core inflation is moderating month on month and is at 4.79 per cent in August'2023.
- The worst is expected to be over in terms of recent spike in vegetable prices, mainly tomato prices. We might see a deceleration in the headline number due to turnaround in the vegetable prices.
- Though, recent spike in the crude oil prices remain a worry for the headline inflation number. Brent crude oil is trading around 90\$ per barrel mark due to supply constraints. Oil prices are rising as major oil producers Saudi Arabia and Russia announced the extension of their voluntary supply cuts of 1.3 million barrels per day until the end of this year.
- For the entire year, we expect the CPI inflation to average around 5.3 – 5.5%. Ultimately, headline inflation is expected to converge towards core inflation once the food-related shocks subside. The RBI is not expected to hike the key policy rate.

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