

Macro Insights

14th August, 2023

CPI at 15-month high

Retail inflation measured by CPI surged to 7.44% in July 2023, compared to 4.87% in the previous month.

Highlights:

- India's retail inflation in July'2023 was at 7.44 per cent, due to a jump in vegetable prices, nearing 15 months high.
- CPI breached the tolerance band of RBI of 2 to 6 per cent.
- The core inflation moderated to 4.94 per cent in July.
- Urban inflation increased to 7.20 per cent from 4.96 per cent in the previous month and rural inflation rose to 7.63 per cent from 4.78 per cent in the earlier month.
- Food Price index climbed significantly to 11.51 per cent.

Chart: Consumer Price Index - July'23

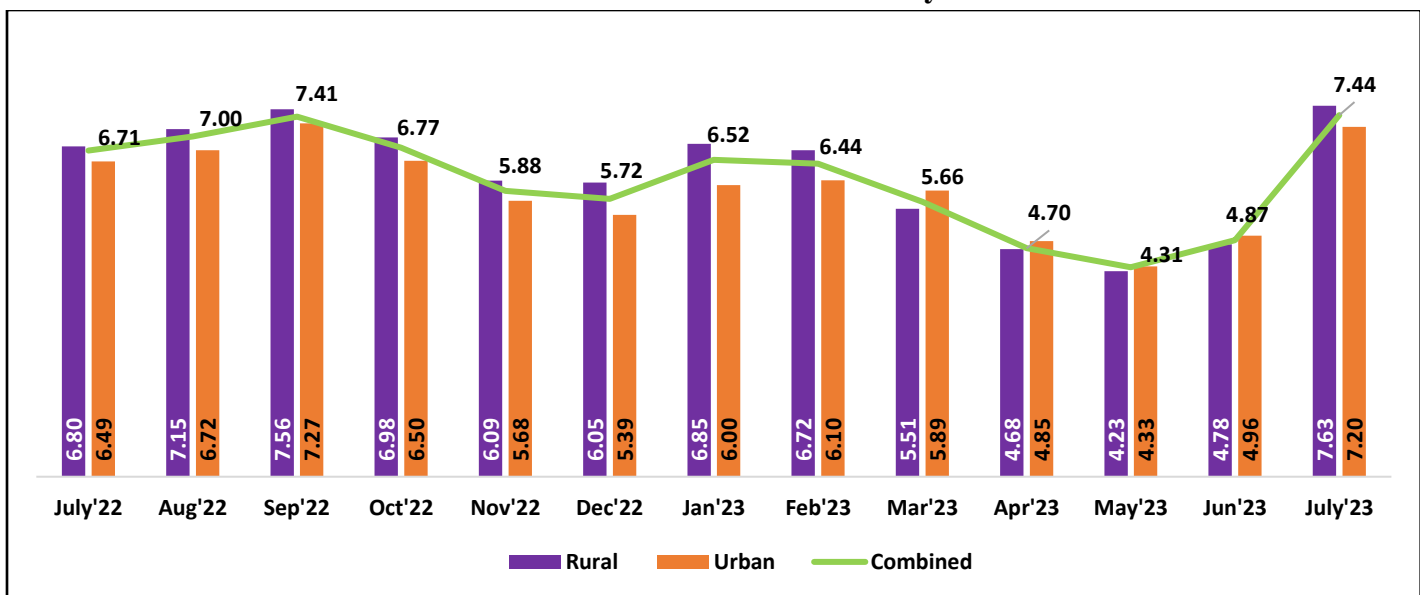


Table: Components of CPI

	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
May	7.84	3.29	1.15	3.55	8.85	6.64	3.65	4.84	9.54	4.64	6.82	4.84	7.04	4.31
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

Views:

- India's consumer price index (CPI) inflation rose substantially to 7.44% in July 2023, crossing the tolerance band of RBI after 4 months.
- The increase in the inflation rate has been recorded due to fading favorable base and higher food inflation.
- The Consumer Food Price Index (CFPI) jumped 11.51 per cent in July from 4.49 per cent in June.
- A decline was witnessed in Clothing & Footwear segment and Fuel & Light 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 4.94 per cent.
- Vegetable prices, especially tomato is causing the inflation to spike. They will only recede after the new crops arrive in the market over the next couple of months. But they still threaten to keep headline inflation at risk due to the weather impact. Moreover, excess rainfall in the northwest regions and flooding in several states could impact crops and affect the supply chains Monsoon's progress and distribution remain critical in the coming two months for food production and inflation.
- For the entire year, we expect the CPI inflation to average around 5.5 – 5.7%. Ultimately, headline inflation is expected to converge towards core inflation once the food-related shocks subside.

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