

CPI update: June 2023

Core inflation eased to 5.11% with alternate measures of core also down.

India's headline CPI eased to the lowest in 2 years to 4.25% on a YoY basis in May'23 (Apr: 4.7%).

- An elevated base drives broad lowering of inflation across major sub-segments except Personal Care and Tobacco and Pan.
- A favorable base of 94 bps in May'23 was offset by 51 bps MoM rise thus taking headline inflation lower by 45 bps.
- An elevated base in Transportation (sharp fuel price increases in the wake of the Ukraine war) was partially offset by higher Personal Care (gold price increases matched with a sharp fall last year in May) thus pulling core lower to 5.11% YoY.

Food inflation fell to 3.29% on a YoY basis in May'23 (Apr: 4.16%) with disinflation in oils and vegetables partly neutralized the high inflation in spices, cereals, milk, and pulses.

- Vegetables prices were up by 3.4% MoM in May'23 which was marginally higher than 1.7% MoM increase seen in Apr'23. This is due to seasonality.
- Cereal inflation, though elevated, edged lower to 12.7% YoY (Apr: 13.7%) as a fall in wheat (open market) and products, bajra, maize and others more than offset increases in rice, rice products and millets.
- Spices inflation was high at 17.9% YoY. Milk inflation also ran high at 8.9% YoY along with 'prepared meals' at 6.4% YoY.

'Fuel and Light' inflation was lower at 4.6% on a YoY basis (Apr: 5.5% YoY) as base effect doused sharp monthly increases in electricity and kerosene (open market).

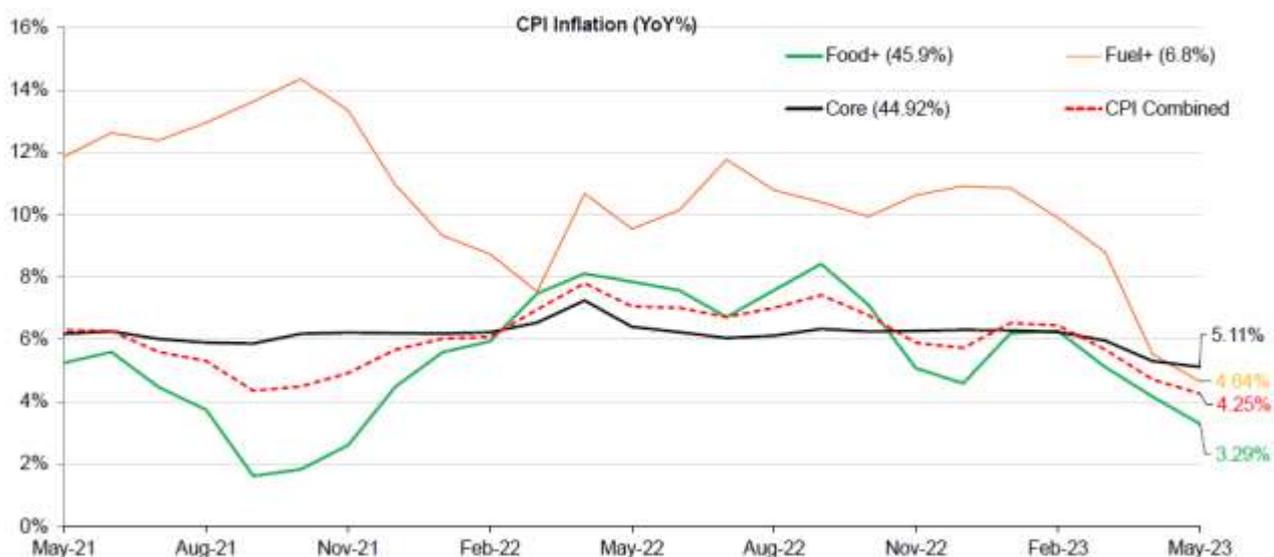
Core inflation (ex food, fuel and pan) eases to 5.11% YoY (Apr: 5.3%)

- Within core, all sub-segments barring 'Personal care' (adverse base from gold prices correcting sharp in May last year) witnessed fall in inflation.
- Exclusion-based measures of core also eased. Weighted median CPI fell to 5.55% YoY from 5.71% in Apr.
- Inflation in items of core CPI basket witnessing >6% inflation fell to 44% (below 50% for the first time since Jun'21) from peak of 68% in Apr'22.

Headline CPI inflation, though drops in Q1 was influenced by the high base and is expected to rise gradually above 5% by end of year averaging to 4.8% for FY24.

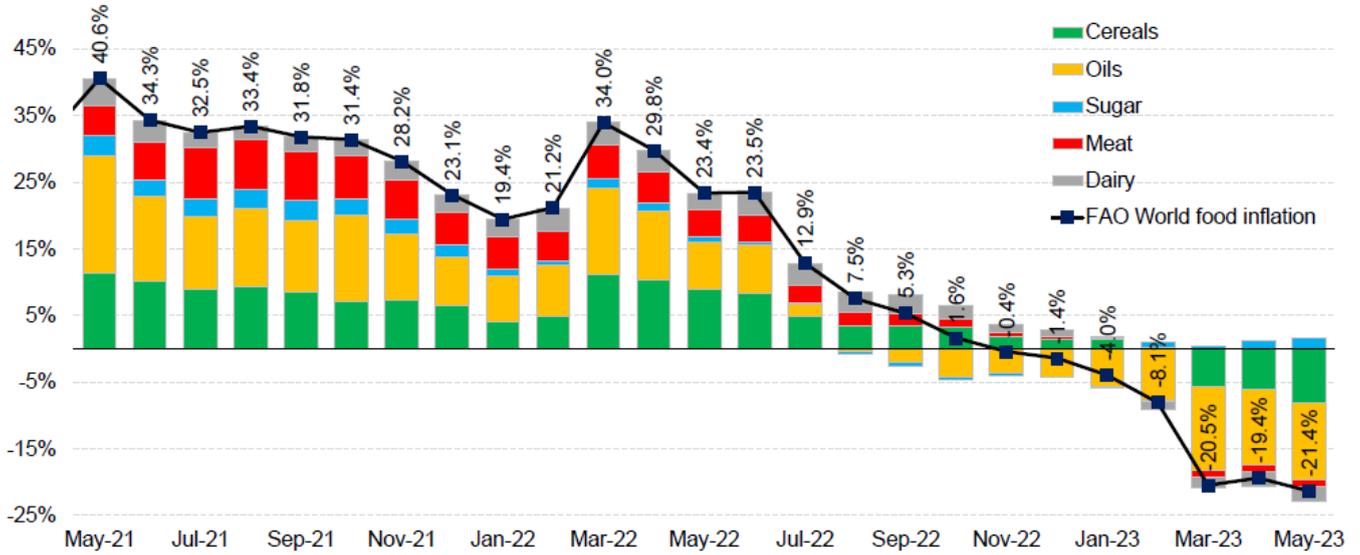
- Upside risks to inflation emanating from components of food, and downside risks from global slowdown.

May'23 headline CPI drops further to a 2y low of 4.25% YoY (Apr: 4.7% YoY) as elevated base drives broad based fall across segments



World food inflation is now back down mirroring the high base, though this is still exposed to a measure of geopolitical risk

FAO world food inflation



Source: Axis Bank Business and Economic Research Team

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