

CPI COOLS DOWN EASING PRESSURE ON RATE FRONT

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CPI inflation fell to a 12-month low of 5.72% in Dec'22, along expected lines, primarily due to huge decline in vegetable prices with sowing practices by farmers undergoing a tectonic shift, aligning with better weather and technology forecasting. The vegetable CPI sub-index fell by 15.08% almost double the rate seen in previous month. The movement in vegetable prices in December mirrors the pattern seen in the previous month which has pulled the overall CPI inflation down to a new low in December. All other sub-components of the Food and Beverages maintained a similar trend as seen in previous month. The gap between rural and urban CPI however increased to 66 bps in Dec'22 as compared to only 1 bps in May'22. The rural CPI increased by 6.1% in Dec'22 as compared to 5.4% increase in Urban CPI. Large and persistent divergence between rural and urban inflation could result in differences in real wage rates, real interest rates and inflation expectations which can pose challenges for monetary policy.

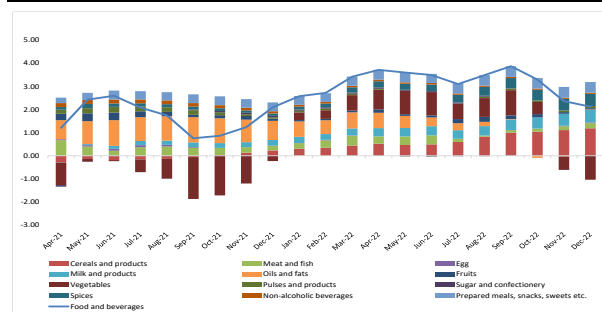
After the lower CPI inflation for Dec'22, we have revised down our estimates for the remaining months of this fiscal. We believe CPI inflation will remain below 6% going forward. Inflation will decline materially and coming down to 5% by Mar'23. For Q1 FY24 we expect average CPI of 4.7%. Against the evolving landscape, we see little incentive for further rate hike, with synchronised past actions on rate front yet to show the full impact. The next policy statement is due on Feb 6-8 and just comes after the Union budget on Feb 1 and also after the FOMC policy statement on Jan 31-1, first in 2023, giving impetus to data driven stance.

The Core CPI also moderated to 6.09% in December, compared to 7.09% in April 2022. However, in the past 20-months Core CPI has remained above 5.7% and average is at 6.07%, which indicate that core CPI remained stagnant and elevated. Index of Industrial Production (IIP), for November 2022, has grown (y-o-y basis) at 7.1% to 137.1. IIP for Mining, Manufacturing and Electricity sectors grew (y-o-y basis) at 9.7%, 6.05%, and 12.7% to stand at 122.7, 136.7 and 166.7 respectively.

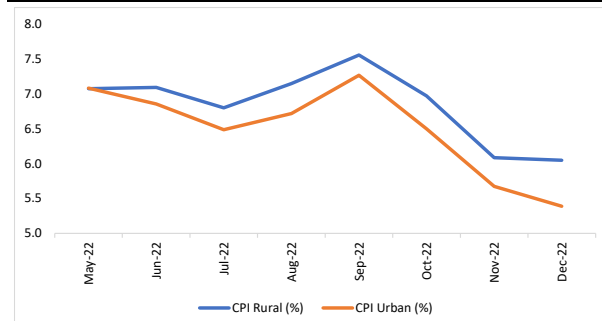
CPI FELL TO 5.72% IN DECEMBER 2022

- ◆ As expected, CPI inflation fell to a 12-month low of 5.72% in Dec'22, primarily due to huge decline in vegetable prices.
- ◆ The vegetable CPI sub-index fell by 15.08% almost double the rate seen in previous month. The movement in vegetable prices in December mirrors the pattern seen in the previous which has pulled the overall CPI inflation down to a new low in December. All other sub-components of the Food and Beverages maintained a similar trend as seen in previous month.
- ◆ The gap between rural and urban CPI increased to 66 bps in Dec'22 as compared to only 1 bps in May'22. The rural CPI increased by 6.1% in Dec'22 as compared to 5.4% increase in Urban CPI. Large and persistent divergence between rural and urban inflation could result in differences in real wage rates, real interest rates and inflation expectations which can pose challenges for monetary policy.

Weighted Contribution of Food and Beverages



Rural & Urban CPI (% YoY)



Source: SBI Research

DECLINING CORE INFLATION

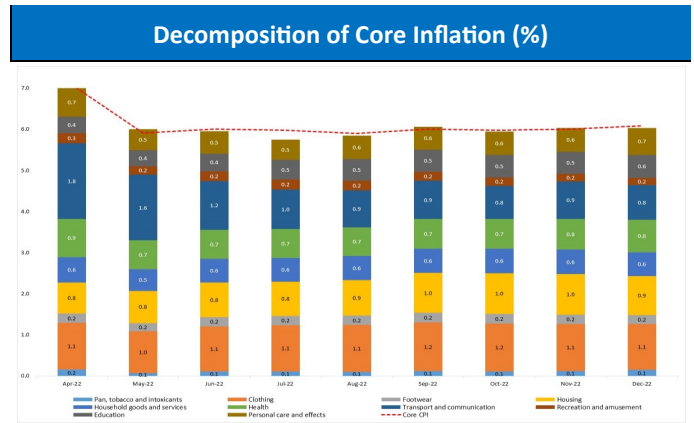
- ◆ The Core CPI also moderated to 6.09% in December, compared to 7.09% in April 2022. However, in the past 20-months Core CPI has remained above 5.7% and average is at 6.07%, which indicate that core CPI remained stagnant and elevated.
- ◆ The core inflation that has trended down from its peak in April. The moderation is on account of fall in contribution of Transport and communication from 1.8% in April to 0.8% in December.

INFLATION TRAJECTORY

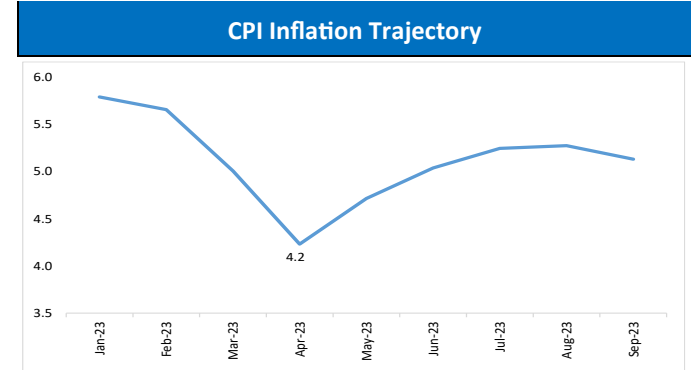
- ◆ After the lower CPI inflation for Dec'22, we have revised down our estimates for the remaining months of this fiscal. We believe CPI inflation will remain below 6% going forward. Inflation will decline materially and coming down to 5% by Mar'23. For Q1 FY24 we expect average CPI of 4.7%.
- ◆ Against the evolving landscape, we see little incentive for further rate hike, with synchronised past actions on rate front yet to show the full impact. The next policy statement is due on Feb 6-8 and just comes after the Union budget on Feb 1 and also after the FOMC policy statement on Jan 31-1, first in 2023, giving impetus to data driven stance.

IIP EXPANDED BY 7.1% IN NOVEMBER 2022

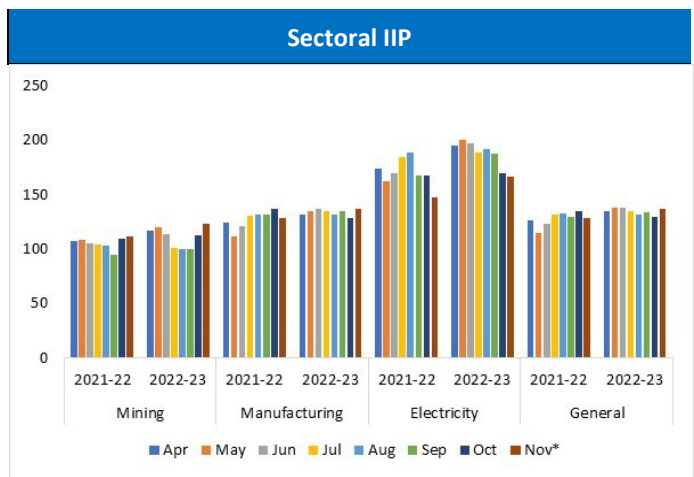
- ◆ Index of Industrial Production (IIP), for November 2022, has grown (y-o-y basis) to 5-months high of 7.1%, compared to 1.0% growth in Nov'2021.
- ◆ IIP for Mining, Manufacturing and Electricity sectors grew (y-o-y basis) at 9.7 %, 6.05%, and 12.7% to stand at 122.7, 136.7 and 166.7 respectively.
- ◆ At the 2 digit level, IIP Increase has been seen into Manufacture of food, beverages, recorded media, chemical, pharmaceuticals, rubber, non-metallic minerals, basic metals, computer, electronic, electrical equipment, machinery , motor vehicles, transport equipment, and furniture. IIP Decline has been seen into tobacco products, textiles, wearing apparel, leather , wood and products, paper , coke and refined petroleum.
- ◆ As per Use-based classification, all categories witnessed expansion. Major growth is seen in Capital goods (20.7%) and Infrastructure/construction goods (12.7%) reflecting boost in manufacturing and infrastructure.



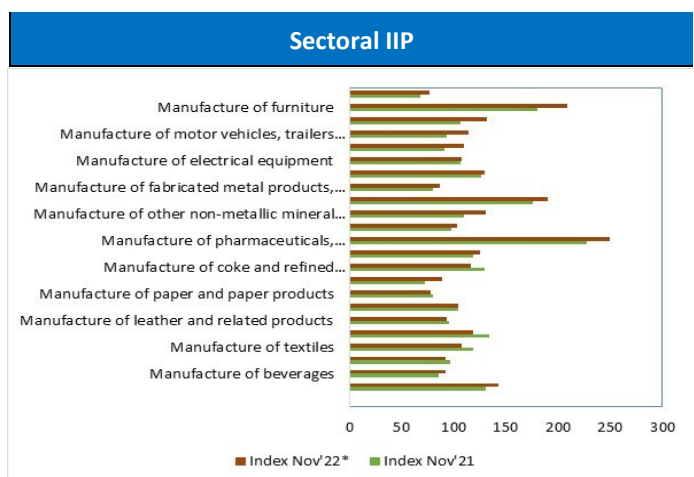
Source: SBI Research



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