

FIRST LIGHT

RESEARCH

BOB ECONOMICS RESEARCH | CPI AND IIP

Food inflation: a discomfort

Daily macro indicators

Indicator	08-Mar	11-Mar	Chg (%)
US 10Y yield (%)	4.07	4.10	2bps
India 10Y yield (%)	7.03	7.02	(2bps)
USD/INR	82.79	82.77	0.0
Brent Crude (US\$/bbl)	82.1	82.2	0.2
Dow	38,723	38,770	0.1
Hang Seng	16,353	16,588	1.4
Sensex	74,119	73,503	(0.8)
India FII (US\$ mn)	06-Mar	07-Mar	Chg (\$ mn)
FII-D	276.4	529.4	253.0
FII-E	685.6	1,279.2	593.5

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI AND IIP

CPI print was in line with our estimate at 5.1%. Some pressure points still remain with respect to food inflation, especially with respect to the trajectory of vegetable inflation. Even high frequency price data of Mar'24 is showing underlying pressure in food inflation. Going forward, weather related uncertainty will be the key risk to the food inflation outlook. We do not foresee CPI to fall below 5% till Jun'24, after which a favourable base might help the headline inflation to move towards the 4% target. Core inflation continued to provide the desired comfort. However, resilient macro-economic conditions and its impact on core needs to be carefully monitored. Already housing has started to play a spoilsport. RBI at this current juncture will be in a wait and watch mode. We do not expect any rate action in the upcoming policy and space for a rate cut opens up only in H2.

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CPI AND IIP

12 March 2024

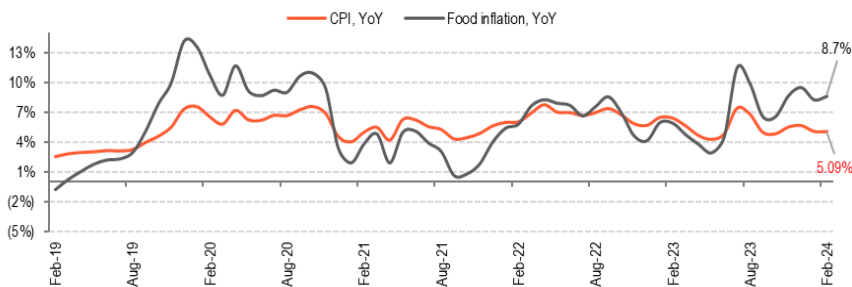
Food inflation: a discomfort

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Dipanwita Mazumdar | Aditi Gupta
Economists

Food bit of a problem, core seen softening

CPI inflation in line with our estimate: CPI inflation was at 5.1% in Feb'24, on YoY basis, broadly unchanged from last month. Food inflation inched up to 8.7% in Feb'24 from 8.3% in Mar'24. Within food, pressure was witnessed in case of meat and fish (5.2% in Feb'24 from 1.2% in Jan'24) and egg inflation (10.7% from 5.6%). This is largely attributable to an unfavourable base. For meat and fish however, some sequential momentum is observed. Apart from this, vegetable inflation also picked up to 30.2% in Feb'24 from 27.1% in Jan'24. Till now, 6 out of 12 broad categories of food inflation have remained above 6%. Among major items only cereals and spices are seeing some moderation in inflation both on a sequential and YoY basis. Notably, for cereals even international prices have also fallen in Feb'24, as per World Bank data.

Figure 1: Food inflation picked up

Source: CEIC, Bank of Baroda Research

On sequential basis, food inflation has inched up by 0.1% in Feb'24 from -0.7% decline seen in Jan'24. Amongst major items, vegetable prices have gained considerably, with the pace of deflation slowing down to -0.1% in Feb'24 from -4.2% in Jan'24. Deflation in fruit categories has also moderated to -0.3% from -2.1% in Jan'24. Other than this, even meat and fish, oils and fats and pulses have inched up sequentially. Going forward, trajectory of food inflation remains uncertain. Weather vagaries will be a key risk to the evolution of trajectory of food inflation.



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