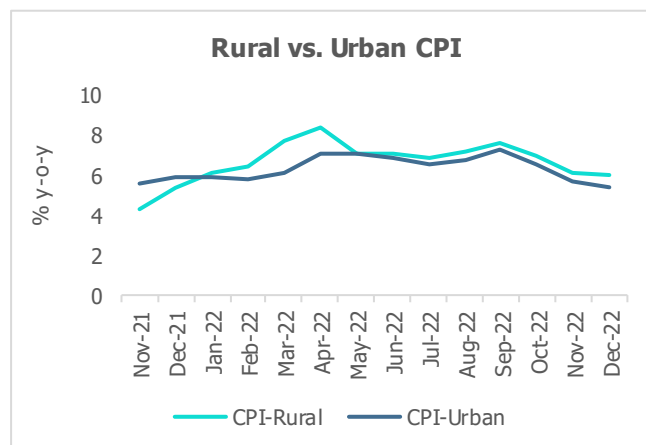
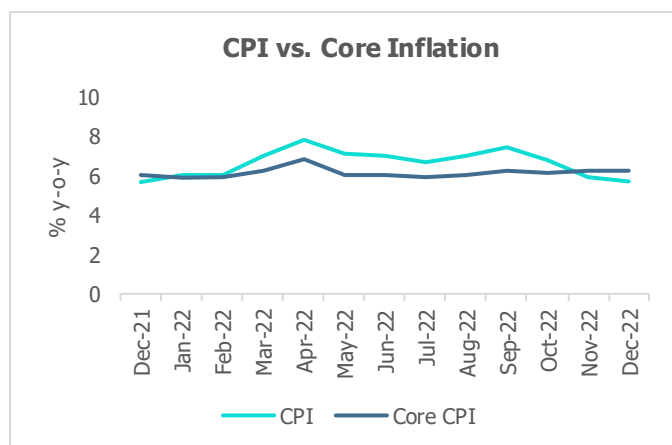


# Headline CPI Eases In Dec

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India's CPI-based retail inflation data came as a positive surprise in December, easing below the Reserve Bank of India's (RBI) upper tolerance for the second straight month as food inflation moderated. Headline CPI eased to 5.7% (Y-o-Y), its lowest levels since November 2021, as compared to 5.9% (Y-o-Y) a month ago. On a sequential basis, the headline number contracted 0.4%. The softening is attributed to a larger-than-expected contraction in vegetable prices (-15% Y-o-Y) that helped offset the rise in other food items like cereals, eggs, meat, milk, and spices. Nevertheless, core inflation remained sticky over 6% as pressure emanating from pent-up service sector demand continued through December, evident from rising costs of healthcare, education, and personal care.

Speaking of the rural-urban classification, inflationary pressures moderated at a faster pace in urban areas as compared to that of the rural regions. Nevertheless, the sequential moderation revealed a similar softening for both.



Source: MOSPI

## Headline CPI Moderates on Sharp Contraction in Vegetable Prices

A sharp contraction in prices of vegetables for the second consecutive month drove the headline CPI number lower in December. On an annualized basis, costs of tomato and onion contracted significantly last month. On a month-on-month basis, potato prices too contributed to bringing the food inflation lower.

In contrast, cereals, the largest component of the food basket saw an increase in prices, rising consecutively for the past six months. Wheat prices reported a rise of 22% on a year-on-year basis. The trend however could reverse going ahead considering that the cold wave in major wheat-growing states such as Gujarat, Punjab, Madhya Pradesh, and Haryana, has led to wider acreage of the crop, potentially resulting in bumper harvest. Rice prices also witnessed a steady growth of 10.5% (YoY) in December, albeit moderating on a sequential basis.

Though prices of milk and edible oil rose on an annualized basis in December, the sequential momentum reported a contraction for both commodities. Going ahead, rising input costs is expected to see a further hike by cooperatives. This could potentially keep milk prices elevated in the coming months.

Other components like fuel and light, housing and clothing and footwear too contributed to inflationary pressures in December, rising 13.1%, 7.9% and 11%, respectively. The housing segment however reported a month-on-month decline. Components such as kerosene and diesel for vehicles drove the fuel and light segment.

### The Way Forward

Though the overall CPI inflation is on a declining trend, core CPI continues to pose as a pain point for the policy makers. Services inflation emanating from pent-up demand has remained stubborn and could continue to pose as a hindrance in bringing the headline number to the 4% target. From the policy perspective, we believe that RBI's move at the February MPC meeting will be a close call with core CPI inflation remaining sticky.

### Component-Wise Retail Inflation (% y-o-y)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Total
<b>Weight</b>	<b>45.86</b>	<b>2.38</b>	<b>6.53</b>	<b>10.07</b>	<b>6.84</b>	<b>28.32</b>	<b>100</b>
Dec-21	4.47	3.16	8.36	8.62	8.30	6.65	5.66
Jan-22	5.58	2.45	8.70	9.47	8.78	6.55	6.01
Feb-22	5.93	2.39	8.58	10.10	8.86	6.58	6.07
Mar-22	7.47	2.98	9.06	11.29	9.40	7.02	6.95
Apr-22	8.10	2.70	9.51	12.12	9.85	8.03	7.79
May-22	7.84	1.15	8.53	10.72	8.85	6.82	7.04
Jun-22	7.56	1.83	9.19	11.92	9.52	6.28	7.01
Jul-22	6.71	1.78	9.52	11.89	9.85	5.91	6.71
Aug-22	7.57	1.67	9.58	11.85	9.91	5.95	7.00
Sep-22	8.41	1.98	9.90	12.23	10.17	6.06	7.41
Oct-22	7.10	1.87	9.78	12.16	10.16	5.90	6.77
Nov-22	5.07	2.07	9.51	11.94	9.83	6.01	5.88
Dec-22	4.58	2.55	9.20	11.47	9.58	6.17	5.72

Source: MOSPI

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