

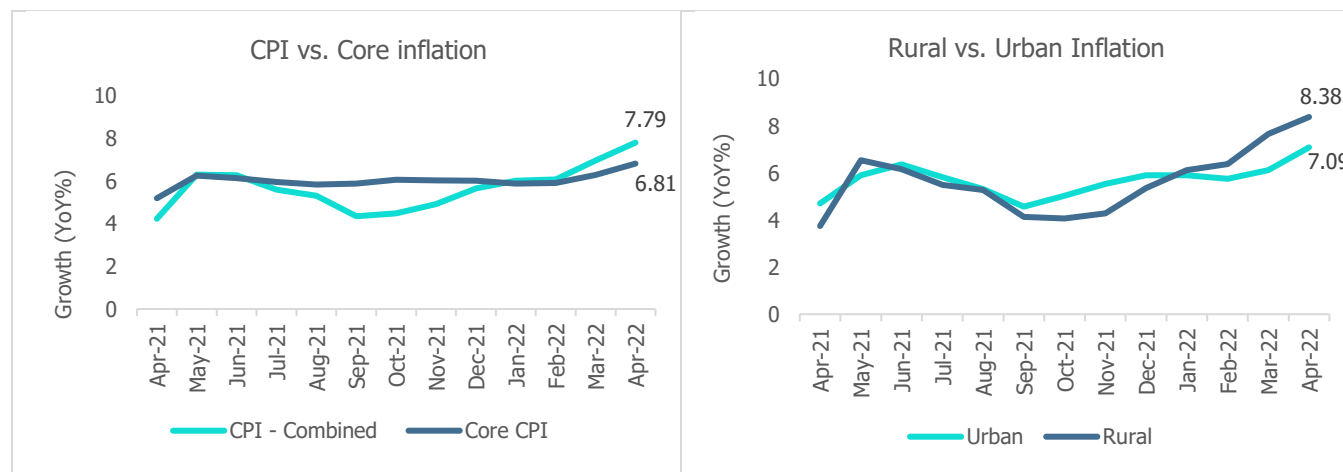
# Retail Inflation Surges to 8-Year High in April

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Retail inflation surged to 7.79% in April 2022, its highest since April 2014. While the spike in CPI inflation is higher than market expectations, an even more concerning aspect is that the core inflation has shot up to 6.81%. Food has continued to be the major driver, contributing around 47% to overall inflation in April. Within the food category, edible oils, cereals and dairy products prices have witnessed the sharpest hike owing to global supply shocks, domestic production shortfalls and rising feed costs. Cereal inflation, which was exhibiting a deflationary trend until September 2021, rose to 5.96% in April, while oil and fats inflation registered double-digit inflation (17.28%) for the 25<sup>th</sup> straight month.

Rising fertiliser prices internationally are expected to push production costs higher for farmers and it will feed into food prices. In the past 12 months, World Bank's fertiliser price index has surged by more than 150%. Subsidy support extended by the government could provide some relief but whether it will be enough to tame the cost of production remains to be seen.

Spike in CPI inflation has been more pronounced in rural India as the rural basket gives more weightage to food items. As a result, rural inflation has been outpacing that in urban areas since January 2022. From 3.75% in April last year, inflation in rural regions has more than doubled to 8.38% in April 2022. This could have implications on rural demand, which is yet to show a healthy pickup. Urban inflation has also been inching upwards for the past two months, which reflects the building of core pressures in the economy.



Source: MOSPI and CareEdge Calculations

Higher coal and natural gas prices in international markets have increased electricity generation costs for power companies. This has resulted in many states hiking electricity tariffs in April. This combined with a hike in LPG prices for commercial uses by Rs 250 per cylinder in April has led to an uptick in fuel and light inflation at 10.80% in April. Further hikes in LPG cylinder prices (Domestic: Rs 50; Commercial: Rs 102.5) in May will keep the fuel inflation elevated in the near term. The impact of petrol and diesel price hikes during the latter half of March is reflected in April inflation numbers. Transport and communication inflation clocked double-digit growth of 10.91% in April. In addition to its direct impact on transportation and logistics costs, rising energy prices will also have cascading impact on all other categories keeping overall inflation elevated in the coming months.

**Table 1: Component-wise Retail Inflation (YoY%)**

	Food and Beverages	Pan, tobacco and 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>100.00</b>
Apr-21	2.60	9.01	3.49	3.73	7.98	6.12	4.23
May-21	5.24	10.03	5.32	3.86	11.86	7.25	6.30
Jun-21	5.58	3.98	6.14	3.75	12.61	7.21	6.26
Jul-21	4.46	4.71	6.39	3.86	12.38	6.71	5.59
Aug-21	3.73	4.01	6.84	3.90	12.95	6.40	5.30
Sep-21	1.61	4.23	7.22	3.58	13.63	6.38	4.35
Oct-21	1.82	4.27	7.53	3.54	14.35	6.83	4.48
Nov-21	2.60	4.05	7.94	3.66	13.35	6.75	4.91
Dec-21	4.47	3.16	8.30	3.61	10.95	6.65	5.66
Jan-22	5.58	2.45	8.78	3.52	9.32	6.55	6.01
Feb-22	5.93	2.39	8.86	3.57	8.73	6.58	6.07
Mar-22	7.47	2.98	9.40	3.38	7.52	7.02	6.95
Apr-22	8.10	2.70	9.85	3.47	10.80	8.03	7.79

Source: MOSPI

**CareEdge View:**

The global supply chain disruptions, coupled with China's zero Covid policy, are driving inflation numbers up globally. With a persistent rise in prices across almost all categories, inflation has become broad-based in India. There is a heightened risk of second rounds of impact on inflation due to high energy and food prices. This could further strengthen core price pressures, impacting nascent demand revival.

With global turmoil continuing and commodity prices remaining high, there will continue to be upward pressure on inflation in the coming months. For the full year, we estimate the average CPI inflation to be around 6%, with an upward bias. With concerns about the second-round effect of inflation and the wage-price spiral caused by high household inflationary expectations, the RBI will be on tenterhooks. We expect the Central Bank to hike the policy rate by another 25 bps in June and a total of around 75-100 bps in FY23.

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