

Food inflation: still overpowering.

CPI print came in slightly higher than our estimate at 4.8% (BoB estimate: 4.7%). Food inflation continued to pose considerable risk with sequential momentum visible across 8 out of 20 broad categories of food. Going forward, we expect food inflation to remain above 7% in Q1FY25. The upside risk emanates from spillover from higher global food prices (cereals, meat, oilseeds), lower reservoir levels and uneven distribution of rainfall. Core is also exhibiting some buildup on a sequential basis. Further, with India's durable growth picture, correction in core inflation cannot be ruled out. A delay in the rate cut cycle by the Fed might further weigh on the dollar and push prices of other commodities higher, which might further impinge on core inflation indirectly.

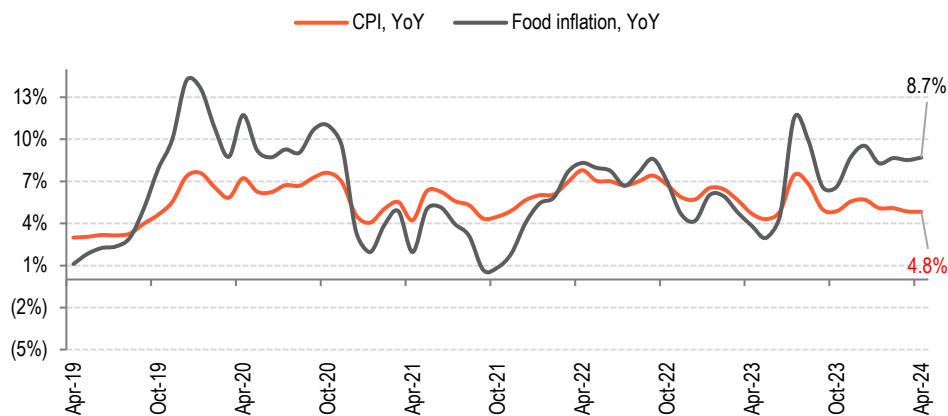
Thus, RBI's approach would be nimble balancing and counterbalancing the risks. We expect that the rate cut might be delayed from our earlier forecast of Aug'24. Our headline CPI forecast for FY25 stands at 4.5-5%. Thus, unless inflation is well aligned and anchored to the 4% target, RBI might be cautious in its rate approach.

Food inflation continued to remain sticky:

CPI inflation came in slightly higher than our estimate: CPI inflation came in at 4.8% in Apr'24, on YoY basis, higher than our estimate of 4.7%. Food inflation inched up to 8.7% in Apr'24 from 8.5% in Mar'24. Within food, 6 out of 12 broad categories have remained above 6% with inflation in vegetables and pulses remaining at double digit of 27.8% and 16.8% respectively in Apr'24. The sequential picture gives a better picture of the evolution of food inflation. Food inflation has risen by 0.7% in Apr'24 on MoM basis compared to 0.2% in Mar'24. On a seasonally adjusted basis, food inflation went up by 0.3%, so some of the upside rise was attributable to seasonal phenomenon as well. Pressure points were across the board ranging from cereals, meat and fish, oils and fats, fruits, vegetables, pulses, and sugar.

Going forward, the outlook of food inflation remains foggy. Spillover from higher global food prices, lower reservoir levels compared to last year (27% vis a vis 34%) and no sign of reversal in the trajectory of vegetable inflation pose considerable upside risk to inflation. Q1 generally has the effect of an elevated vegetable inflation (sequential momentum), as seen historically. Thus, we expect food to remain above 7% in Q1FY25 as well.

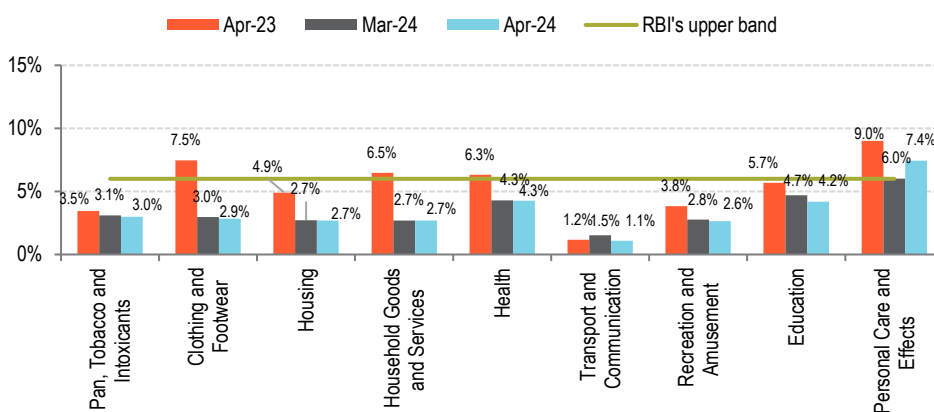
Figure 1: Food inflation picked up



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) was stable at 3.2%. Core inflation was stable, on YoY basis. Apart from personal care and effects (due to elevated price of gold, 7.9% increase MoM), sub-categories of core showed moderation. However, here sequential picture also gave a better clarity. Sequentially core inflation picked up to 0.6% from 0.1% in Mar'24. The momentum came from housing which rose by 1% from -0.2% in Mar'24, on MoM basis, which is a seasonal trend. Apart from this, clothing, household goods and services, education and personal care and effects also noticed considerable momentum. Thus, some buildup in core cannot be ruled out in the medium term. We expect core to remain around 4% in Q1FY25.

Figure 2: Sub-components of Core



Source: CEIC, Bank of Baroda Research

Fuel and Light inflation fell by -4.2% in Apr from -3.4% in Mar'24, on YoY basis and by -1%, on a sequential basis, as Kerosene prices showed moderation.

Way forward: High frequency price data of May'24 is still showing retail price pressure, albeit some disinflation compared to previous month's sequential momentum. The reversal of potato and tomato prices, which for the past three months gained considerable momentum, has been comforting. However, pressure points remain for major pulses (Gram, Arhar and Tur), wheat (atta) and onion. Going forward, food conundrum will remain. Unseasonal rains have already hit some part of India

which might aggravate supply side bottlenecks. Apart from this, the difference between retail and wholesale prices of certain vegetables such as potato and onion are still higher compared to their long run averages. Thus, some pass-through IS yet to happen which might push prices higher. **Our BoB ECI for May'24, is running at 6.9% on a YoY basis.**

Some upward correction in core inflation might also be witnessed in the near term as some consumer goods companies in their transcript have stated to raise MRP soon. Other factors which may put upside pressure to core includes robust housing demand and higher gold prices.

The key watchable for RBI at this current juncture will be how the food inflation would pan out for the year. But the rhetoric of Fed has changed completely. A lower pace of rate cut by Fed would ideally keep the interest rate differential between India and US in favour of a buoyant capital flow for India, going forward. Thus, RBI's approach would be nimble approach eyeing the trajectory of food inflation, going forward. Rate cut by RBI might also be delayed.

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