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CPI remains above RBI's upper band

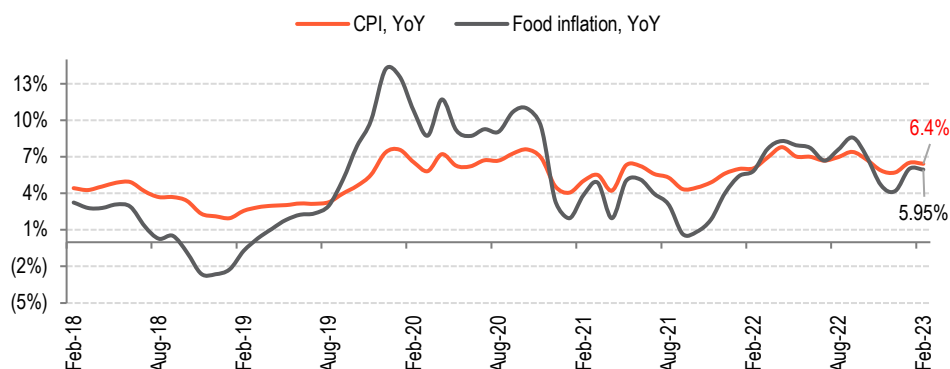
Headline inflation came in marginally above our expectation, though elevated print continues to add discomfort. Food inflation remained high, with over 5 out of 12 sub-groups within food and beverage composition registering above 6% inflation. Acceleration in housing prices, kept considerable risk on Core. Stickiness in core inflation alludes to higher discretionary spending and pass through of input costs to output prices. A number of firms are yet to pass on these high prices, which will lift their selling prices further. RBI would be highly cautious of this print and be in a wait and watch mode. It expects CPI to edge up by 5.7% in Q4 and 6.5% for FY23. Any large deviation from this forecast will be viewed with caution. Given the ongoing challenges as well as the formation of EL NINO conditions and greater chance of heat wave, puts an upside risk to inflation in the coming months. We expect CPI to average around 6.5% in FY23 and 5-5.5% in FY24. The overshoot of CPI, mandates RBI to hike rate by another 25bps in Apr'23 meet and will push RBI to remain data dependent for the future course of action.

CPI inflation moderates a tad bit

CPI inflation eases marginally: CPI inflation data edged down modestly to 6.4% in Feb'23 after moving up to 6.5% in Jan'23. For the second-month in a row, CPI data came in above RBI's upper tolerance band. Food inflation virtually remained steady at 5.9% in Feb'23. Stickiness of core inflation persists.

Modest changes in Food inflation: CPI food index continued to remain elevated at 5.95% in Feb'23 against 6% in Jan'23, on YoY basis. Amongst major food items, sharpest pace of increase was led by fruit prices which moved up to 6-month high at 6.4% in Feb'23 from 3% in Jan'23. Cereals continued to clock double digit inflation (highest in this series) in line with expectation at 16.7% from 16.3% in Jan'23. Even milk prices also rose to 9.6% (8-year high) in Feb'23 from 8.8% in Jan'23. Pace of disinflation in vegetable prices went down from -11.7% in Jan'23 to -11.6% in Feb'23. Notably, 5 out of 12 broad group of food and beverage noticed inflation above 6%. However, inflation of eggs, meat & fish, spices and pulses registered a fall in Feb'23.

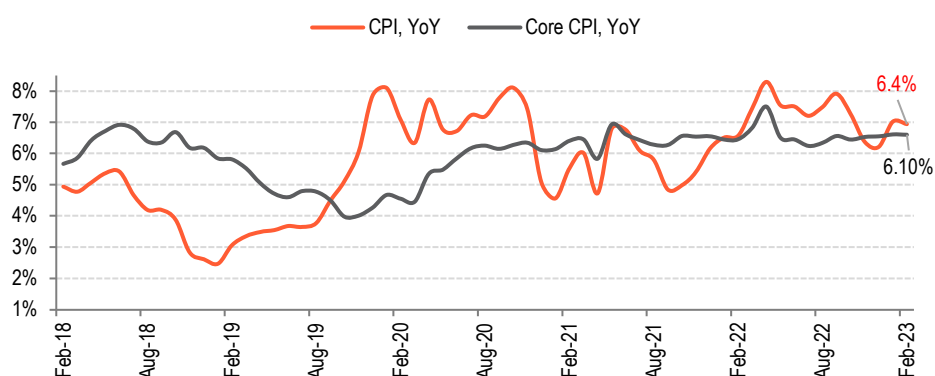
Figure 1: CPI inflation



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) remained sticky at 6.1% in Feb'23 as well. Amongst major items of core, housing inflation accelerated to more than 3-year high to 4.8% in Feb'23 from 4.6% in Jan'23. Health inflation also rose to 10-month high at 6.5% in Feb'23 from 6.4%. However, some comfort has been seen with lower prices of gold contributing towards personal care and effect inflation going down to 9.4% from 9.6% in Jan'23. Transport and communication and education have also registered moderation. Amongst the 8 major broad group of core inflation, 4 of the items have remained above 6%.

Figure 2: Core inflation remains sticky:



Source: CEIC, Bank of Baroda Research

Fuel inflation: Fuel prices eased further to 9.9% in Feb'23 from 10.8% in Jan'23. On sequential basis though, fuel inflation had inched up to 0.1% in Feb'23.

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