

India's retail inflation reading for January'23 surprised on the upside, reversing the moderation of the last two months and once again going back to above the RBI upper tolerance range. The headline inflation print for the month at 6.52% was significantly higher than expectations (our estimate was 5.84%). On a sequential basis, retail inflation rose 0.5% as against the 0.5% contraction of the preceding month.

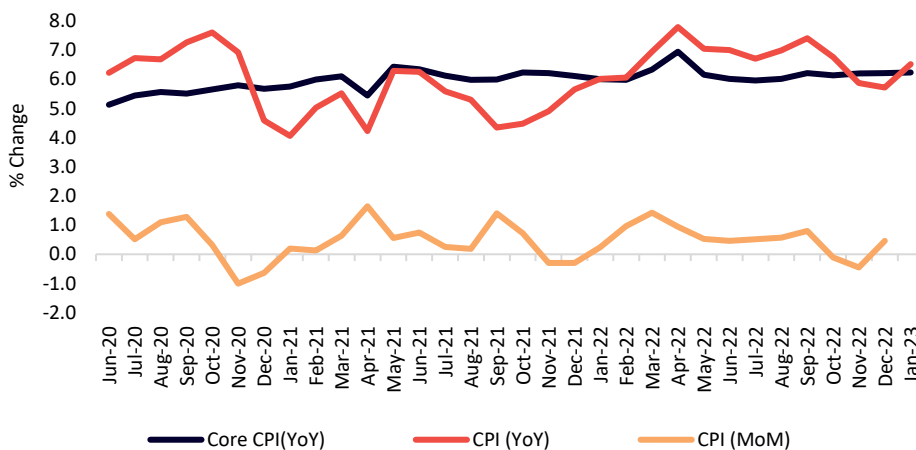
While there has been a broad-based increase in prices across the various segments of the consumer prices index (CPI) in January'23 from a year ago, the driver of overall headline inflation were the food and services segment. Core inflation remained sticky above 6%, indicative of the pervasive nature of price pressures. This also reflects the price rises being undertaken by various service providers. Core inflation has been around/ above the RBI target range for overall inflation (6%) since May'21.

Rural as well as Urban inflation inched up in January'23 on an annual as well as monthly basis. However, rural inflation continued to rule above urban inflation.

Kavita Chacko
Chief Economist
 kavita.chacko@nuvama.com

Date: February 13, 2023

Chart 1: Headline and Core Inflation



Source: MoSPI and Edelweiss Wealth Research

Segment-wise inflation

The rise in headline inflation has been driven by the rise in prices of food and services. The food component accounts for nearly 46% of consumer price index, while services has a share of 28%.

- Food inflation in January'23 rose at the sharpest rate in three months. On a YoY basis, food inflation came in at 6.2% as against the 4.6% reading of December'22. On a monthly basis, food prices rose 0.45%, reversing the sequential contraction of the preceding two months.
 - Barring vegetables, the other sub-component of the food index registered a YoY increase in January'23.
 - Vegetable prices, owing to seasonal factors contracted 12% on a YoY basis and was 3.8% lower than December'22.
 - There has been a notable increase from year ago in the prices of cereals (16.1%), protein items (meat and fish: 6%, egg:8.8%, pulses:4.3%) and milk (8.8%). Price increase of edible oil was limited to 1.4% (YoY).

- **The services segment** (miscellaneous index in CPI) rose 0.5% MoM/6.2% YoY. Personal care and effects (1.6% MoM/9.6% YoY), household goods and services (0.4% MoM/7.3% YoY), and health (0.7% MoM/6.4% YoY) registered higher rate on increase from that in December'23. The rise in prices here is reflective of the pass through of higher input cost amid strong demand in this segment.
- **Housing** inflation rose 4.62% YoY (v/s 4.47% in December'22). On a sequential basis it rose 0.82%.
- **Fuel & light** inflation (which includes electricity, LPG, kerosene, and other fuels) rose 11% YoY but contracted on a sequential basis (by -0.05%).
- **Core inflation** came in at 6.24% in January'23. On a sequential basis, it increased 0.5%. Core inflation remains uncomfortably high, reflecting the broad-based nature of price pressures. Core inflation has been around /above 6% since May'21.

Chart 2: Price Change in Key Segments



Source: MoSPI and Nuvama Wealth Research

Rural and Urban

Inflation in both rural and urban areas rose in January'23. Rural inflation however registered a larger increase (on a YoY basis)

In the 12 months to January'23, rural inflation rose 8.85% while urban inflation was up by 6.0%. On a sequential basis both rural and urban inflation rose by 0.40% and 0.46% respectively.

Rural inflation has been surpassing urban inflation on a sustained basis since January'22.

Chart 3: Annual Change - Urban and Rural Inflation

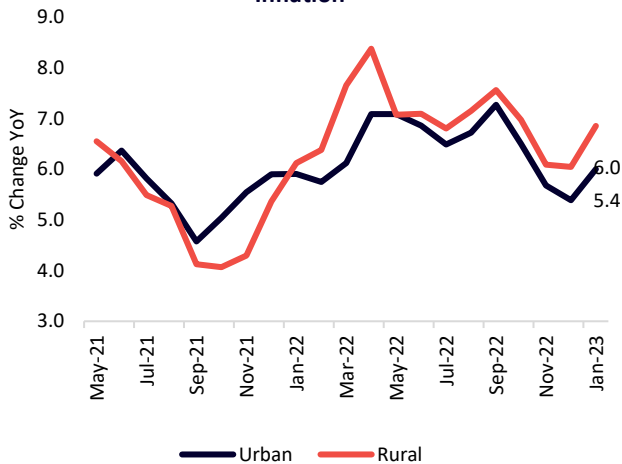
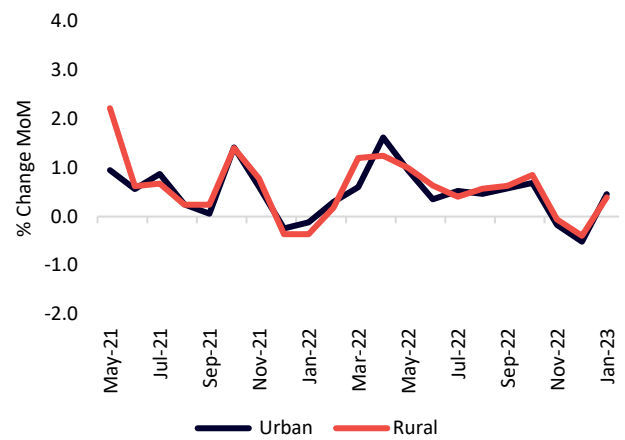


Chart 4: Monthly Change - Urban and Rural Inflation



Source: MoSPI and Nuvama Wealth Research

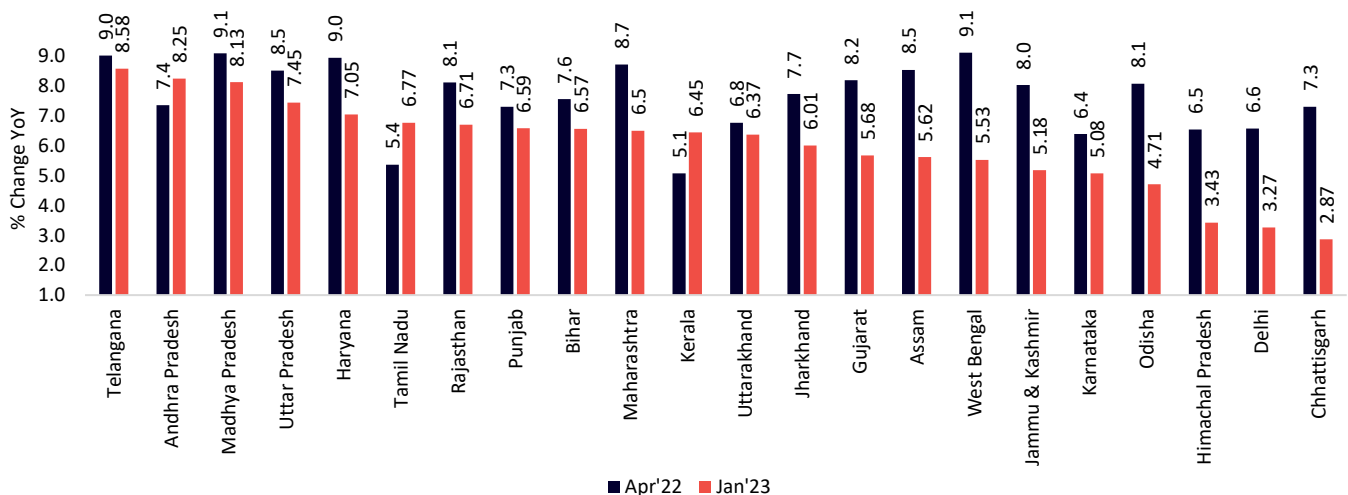
State-wise

Inflation in 9 of the 22 states (for which is available) had inflation above the national average (of 6.52%) in January'23. The inflation reading for states for the month ranged between 2.87% to 8.58%.

Inflation was above the national average for the larger states viz. Telangana, Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Haryana and Tamil Nadu among others (Chart 5). Inflation was the lowest for Chhattisgarh (2.87%) and highest in Telangana (8.58%).

Barring Andhra Pradesh, Tamil Nadu and Kerala retail inflation in January'23 moderated from that in April'22 in the other states (for which provisional data is available).

Chart 5: Statewise Inflation



Source: MoSPI and Nuvama Wealth Research

Our View

With headline inflation once again surpassing the upper range of the RBI target and core inflation staying at elevated levels, there is unlikely to be a let up in the RBI's tight monetary policy. Price pressures are likely to prevail for the remainder of the fiscal year with headline inflation hovering around 6%. Another rate hike, albeit limited to 25 bps cannot be ruled out at the RBI's next policy meet in early April'23.

Nuvama Wealth and Investment Limited, Edelweiss House, Windsor Ln, Kolivery Village, MMRDA Area, Kalina, Santacruz East,
Mumbai, Maharashtra 400098

Sandeep Raina

Head of Fundamental Research

sandeep.raina@nuvama.com

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