

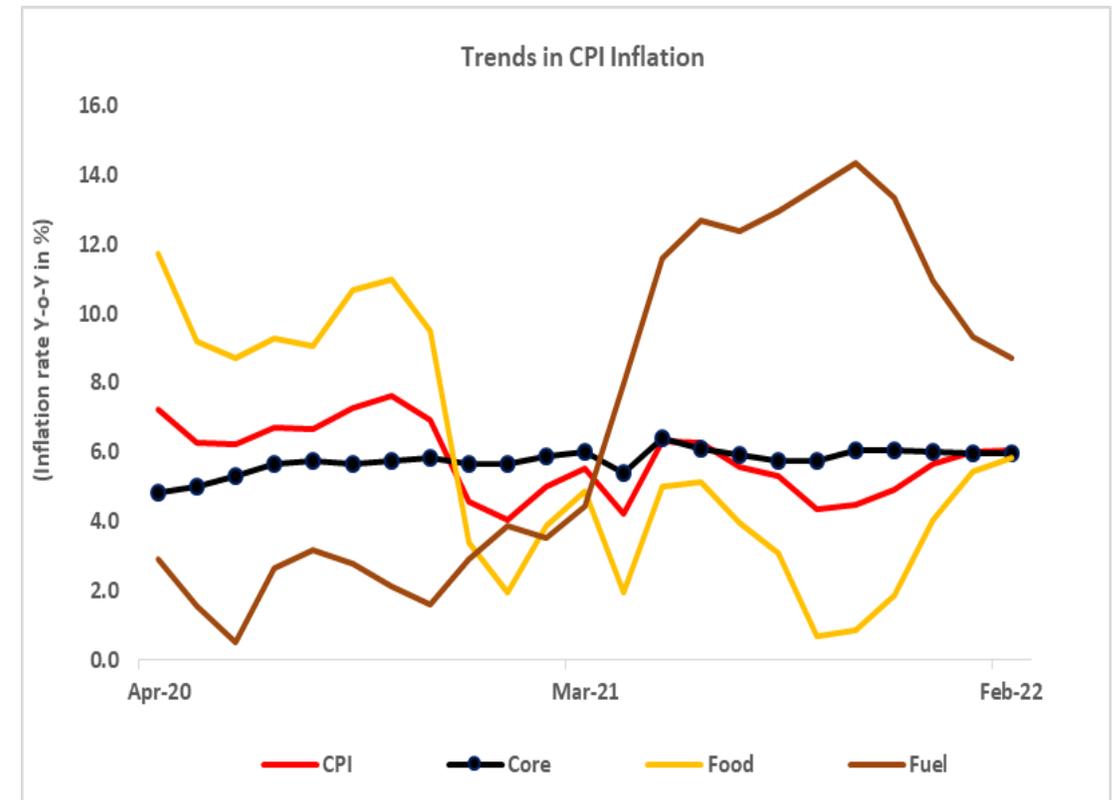
INFLATION REVIEW

March 2022



CPI inflation remained above the MPC's upper target of 6% for the second consecutive month in February 2022

- The CPI inflation rate increased marginally to 6.07% in February 2022 from 6.01% in January. The current level of inflation is the highest recorded in the last eight months and is also higher than the 5.03% in February 2021. The CPI inflation rate remained above the 6% mark for the second consecutive month is a cause for concern.
- The higher food inflation, at 5.85%, seems to be due to rising edible oil prices and continued supply bottlenecks. Both core (5.95%) and fuel inflation (8.73%) are also at elevated levels. With the escalation in the Ukrainian crisis, edible oil prices are likely to increase further in the coming months, and food prices are likely to show an upward trend.
- While both core inflation and fuel inflation softened marginally, they are still at elevated levels. Fuel inflation eased to 10.95% in December from 13.35% in November due to a fall in international crude oil prices, in addition to the cut in excise duties. Core inflation moderated to 6% from 6.1% during the same review period.

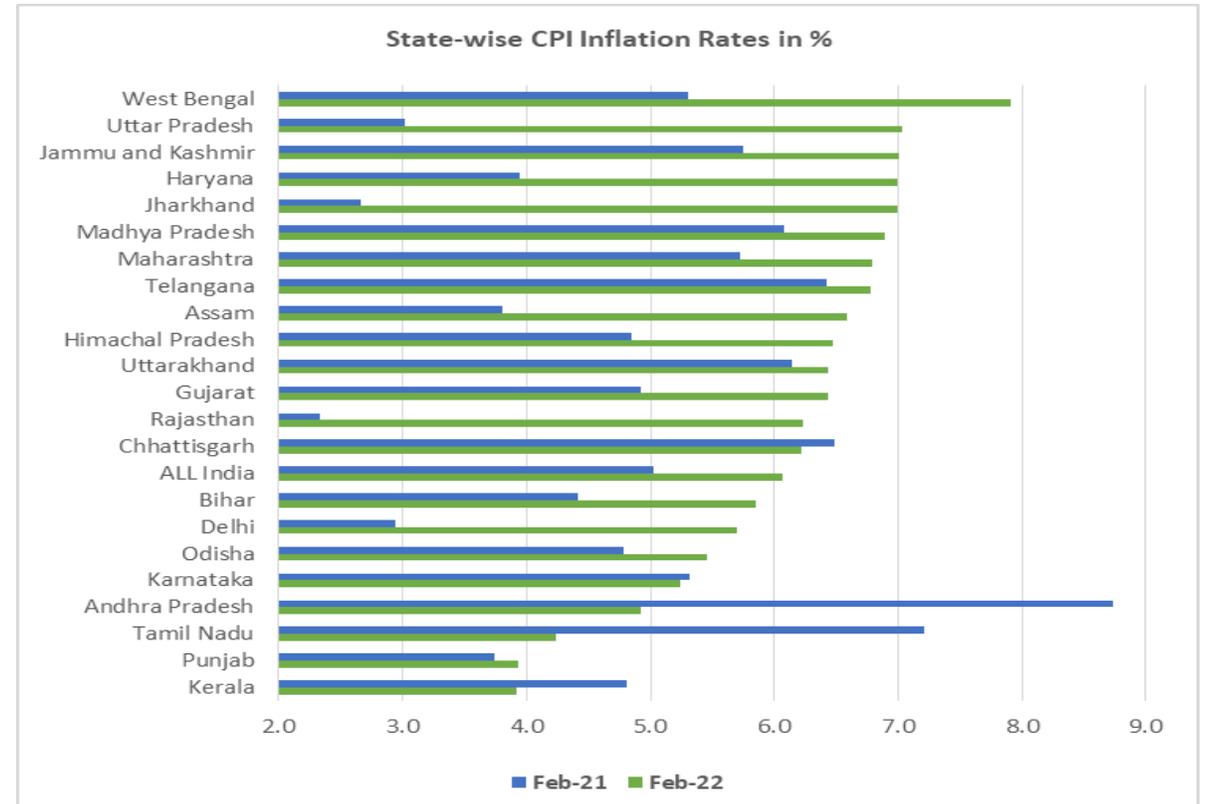


Note: Core inflation is calculated (excluding 'Food & Beverages', and 'Fuel & Light'), Data for the latest month is provisional.

Source: www.mospi.gov.in, BWR Research

Rising crude oil prices is a matter for concern; the government is likely to increase the prices of diesel and motor spirit soon

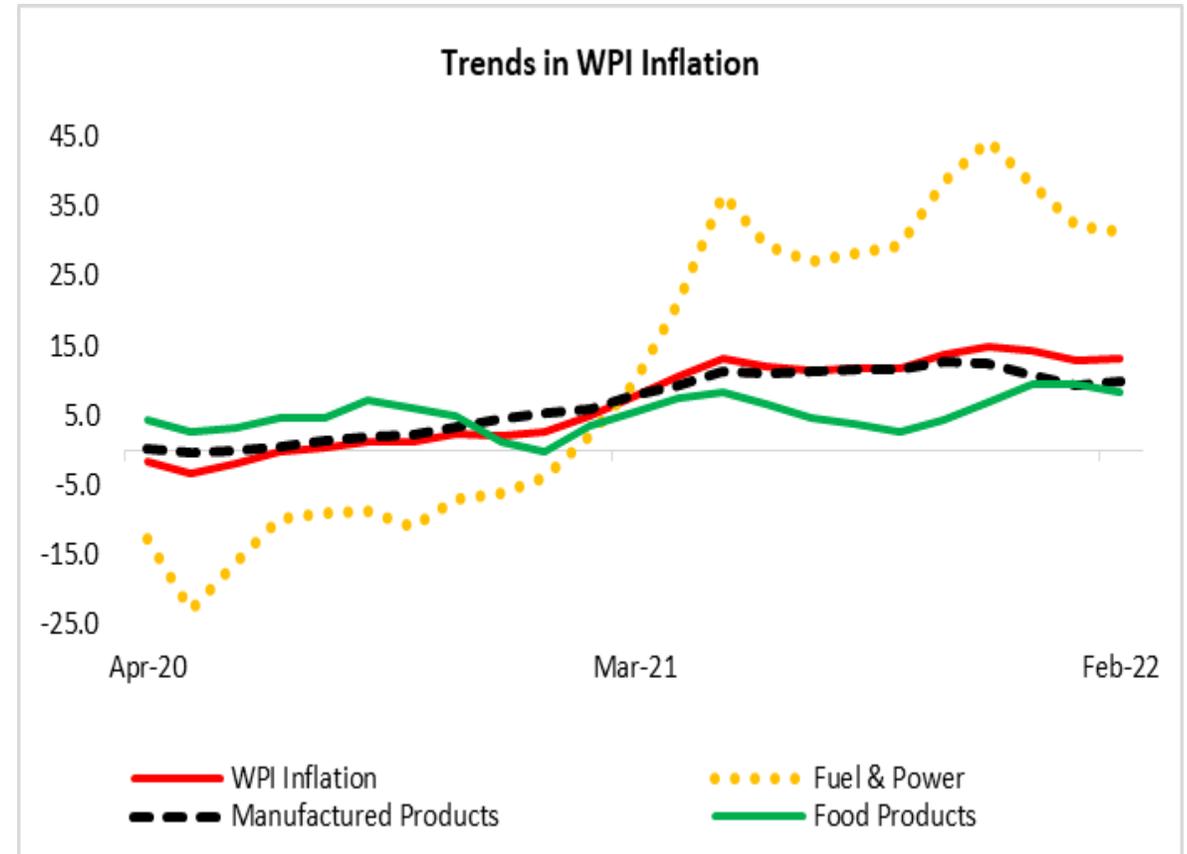
- Although fuel inflation moderated to 8.73% in February 2022 compared to 9.32% in the previous month, we expect a sharp increase in the prices of petroleum distillates, increasing the price index of both fuel and light, and transport and communications in the coming months.
- The prices of petroleum products have not been increased in view of the elections in five states. Now that the elections are over, the government is likely to increase the prices of diesel and motor spirit soon. The ongoing Russia-Ukraine war is likely to keep crude oil and gas prices at elevated levels. The disruption in crude oil supply from Russia and considerable uncertainty due to the war have already led to a sharp increase in oil prices, which are surging to record-high levels. This may further increase inflationary pressures.
- **Among the 299 items included in the CPI basket, 63 items have reported more than 10% inflation (y-o-y), constituting 15.6% of the total weight of the CPI index.**



Source: www.mospi.gov.in, BWR Research

WPI inflation surged to 13.11% in February 2022, reflecting elevated commodity prices

- Inflation in wholesale prices remained in double-digits for the eleventh consecutive month and rose to 13.11% in February 2022 after moderating slightly in January. Persistent cost push pressures due to an increase in raw material prices particularly arising out of imported commodities, and supply constraints, especially the non-availability of semiconductors, have pushed WPI inflation in the recent months. Rising crude oil prices continued to exert upward pressure despite excise duty cuts.
- Slight moderation in food items underpinned by an increase in manufacturing products.
- Food price inflation showed some moderation due to the fading base effect, coupled with a fall in the prices of onions and some vegetables, and pulses, compared to last year. Higher input costs kept the wholesale inflation in the manufacturing products group (64.32% weight in the WPI) higher. A rise in the prices of mineral oils, basic metals, chemicals and chemical products, crude petroleum and natural gas, food articles and non-food articles, among others, led overall inflation to remain high.



Source: eaindustry.nic.in, BWR Research

Time to start focusing on inflation from the next MPC meeting

- *For Q4FY22, we expect the CPI inflation level to exceed 6% as against the RBI's projections of 5.7%. Price levels are likely to remain sticky in the next few months despite the fading base effect, due to continued supply disruptions caused by the ongoing geopolitical developments and continued price increase in crude oil, edible oil and metal prices. In addition, the supply disruption in semiconductors is also likely to have adverse effects on both output and prices in the electronics and automobile industries.*
- *The RBI is now faced with Hobson's choice of pushing growth or controlling inflation. Although the escalation in prices is mainly due to supply disruptions, it will not be long before it can spill over to the demand side and force the RBI to give up its accommodative stance. We expect the RBI to revise the inflation forecast upwards for the next fiscal from its current estimate of 4.5% and start focusing on inflation from the next monetary policy committee meeting.*

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