

**CPI INFLATION AT 4-MONTH HIGH DUE TO FOOD PRICE INCREASE;  
INFLATION LIKELY TO COME DOWN TO 5.0% BY MAR'24**

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CPI inflation rose to 4-month high of 5.69% (slightly lower than our expectations of 5.98%) due to increase in food price inflation. Inflation in all the other components increased at a lower rate when compared to the previous month. The pick-up in inflation was driven by an unfavourable base effect of around 10 bps. The good thing is that CPI and Core CPI remain in equilibrium long run relationship with CPI adjusting towards the Core CPI, which has continued its downtrend from the last 12 months to reach 3.76% in Dec'23. The softening is visible across sub-groups such as clothing and footwear, household goods and services, recreation and amusement, pan tobacco and intoxicants, education and personal care and effects. The divergence of headline CPI from Core CPI, in place of convergence, is due to high food CPI in general, and fruits, vegetables, spices, and cereals CPI in particular. These prices are not expected to come down much but are expected to hold at nearly same level in Q4FY24. Once the aforesaid four item wise CPI comes under control, headline inflation will drastically reduce to come near the mid-point of RBI inflation target of 4%. We expect CPI inflation to come down to 5.0% by Mar'23.

Interestingly, the latest average modal prices in e-NAM mandis are higher than the MSP for FY24 for majority of crops. Even the mandi prices is higher than the MSP for most of the crops. Thus, it seems that the Government's efforts to increase MSP is now making a clear impact as MSP is now becoming a floor for prices at Physical/digital marketplace. We believe there is a structural change in pricing behavior.

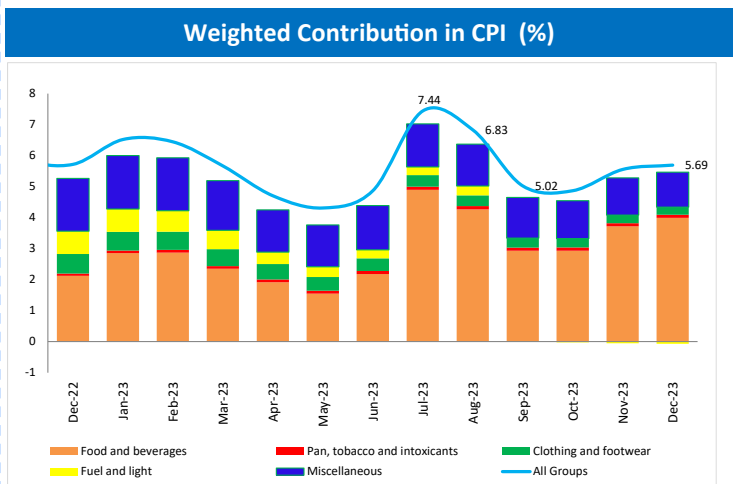
Amidst this transformation, banks have also started financing the entire agri value chain from entry level crop production. Agri loans by banks have increased by 15.4% yoy in FY23 from around 10% each in the past two years. In FY24, it has on an average increased by 17.3% till Nov'23.

The global food price outlook as given by FAO food price index presents a positive outlook with decreases in the price indices for sugar, vegetable oils and meat more than offsetting increases in dairy products and cereals. The index was 10.1% below its corresponding level one year ago. Even the international oil prices which had important bearing on our CPI declined. The general decline in global food prices is expected in the near future. However, the impact of disruption around Red Sea remains the main risk to inflation in general.

Meanwhile, the IIP growth data released today showed a deceleration to 2.4% yoy in Nov'23 from 11.6% in Oct'23. All the three sectors, mining, manufacturing and electricity registered lower growth. Capital goods (-1.1% yoy), consumer durables (-5.4 yoy) and consumer non-durables (-3.6% yoy) clocked negative growth in Dec'23. On the other hand, primary goods registered maximum growth of 8.4% yoy during the month.

**CPI INFLATION AT 5.69% IN DECEMBER 2023**

- ◆ India's retail inflation hit 4-month high of 5.69% (SBI Estimate: 5.98%) in December 2023, compared to 5.55% in November, due to the rise in food prices. Food and beverages inflation has increased to 8.70% in Dec'23 compared to 8.02% in Nov'23 and 4.58% in Dec'22. While, prices of intoxicants, clothing and footwear has declined marginally to 3.65% and 3.61% respectively.
- ◆ This pick-up was driven by an unfavourable base effect of around 10 bps. Food inflation (y-o-y) registered an increase of 68 bps, rising to 8.70% in Dec due to unfavourable base effect of 60 bps, though momentum growth is negative.



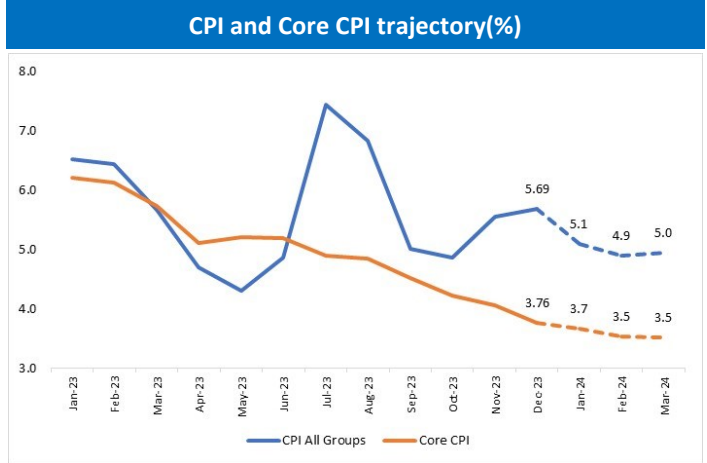
Source: SBI Research

**CPI AND CORE CPI EQUILIBRIUM RELATIONSHIP**

- ◆ CPI and Core CPI remain in equilibrium long run relationship with CPI adjusting towards the Core CPI.
- ◆ Core CPI continued its downtrend from the last 12 months and now reached below-4% mark and stood at 3.76% in Dec’23, softening across sub-groups such as clothing and footwear, household goods and services, recreation and amusement, pan tobacco and intoxicants, education and personal care and effects.
- ◆ Core CPI is on a downward trajectory since Jan’23, and is reduced by 2.5% since then. However, the divergence of headline CPI, in place of convergence, is due to high food CPI in general, and Fruits, vegetables, spices, and cereals CPI in particular.
- ◆ The illusion of high headline CPI despite the policy rate held at 6.5% over a year is due to these particular four particular items Fruits, vegetables, spices, and cereals, which are not expected to come down much, though are expected to hold at nearly same level in Q4FY24.
- ◆ Once the aforesaid four item wise CPI come under control, headline inflation will drastically reduce to RBI inflation target of 4%.

**FOOD PRICE INFLATION CONTINUES TO INCREASE**

- ◆ Weighted contribution of food and beverages (3.99%), particularly vegetables (1.52%) increased further during the month.
- ◆ The latest average modal prices in e-NAM mandis are higher than the MSP for FY24 for majority of crops. Only moong whole and cotton prices are significantly lower than the MSP prices. Even the mandi prices is higher than the MSP for most of the crops.
- ◆ Thus, it seems that the Government’s efforts to increase MSP is now making a clear impact as MSP is now becoming a floor for prices at Physical/digital marketplace. We believe there is a structural change in pricing behavior.
- ◆ Amidst this transformation, banks have also started financing the entire agri value chain from entry level crop production. Agri loans by banks have increased by 15.4% yoy in FY23 from around 10% each in the past two years. In FY24, it has on an average increased by 17.3% till Nov’23.



Source: SBI Research

Difference between E-Nam modal price and MSP (Rs/Quintal)				
Crops	MSP FY 24	e-Nam Price FY24 latest	Change (e-Nam-MSP) FY24	% change in (e-Nam-MSP)
<b>Kharif crops</b>				
Jowar	3225	3390	165	5
Bajra	2500	2566	66	3
Maize	2090	2058	-32	-2
Ragi	3846	3955	109	3
Arhar	7000	8235	1235	18
Moong whole	8558	7535	-1023	-12
Urad whole	6950	7678	728	10
Soyabean	4600	4523	-77	-2
Paddy Common	2203	4915	2712	123
Cotton	7020	6350	-670	-10
Sesamum	8635	13284	4649	54
<b>Rabi Crops</b>				
Wheat	2275	2397	122	5
Barley	1850	1886	36	2
Gram whole	5440	5574	134	2
Masur/Lentil	6425	6065	-360	-6

Source: Agrimarknet, E-nam, SBI Research, MSP-Minimum Support Price, E-Nam-modal price, green colour: MSP < e-Nam

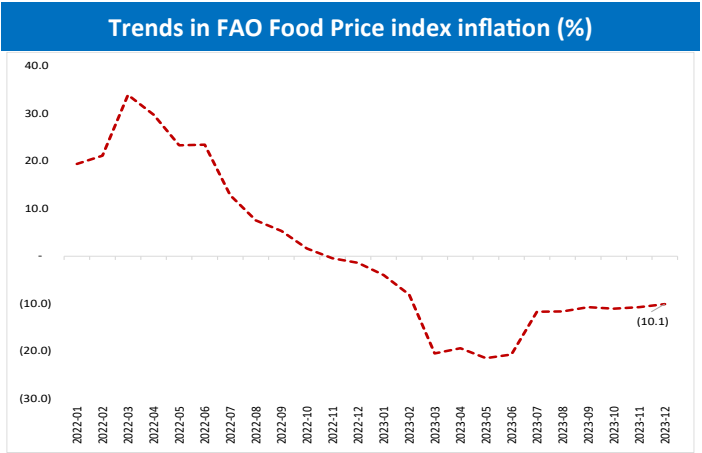
**GLOBAL FOOD INFLATION OUTLOOK**

- ◆ The FAO Food Price Index (FFPI) stood at 118.5 points in December 2023, down 1.8 points (1.5 per cent) from its November level, as decreases in the price indices for sugar, vegetable oils and meat more than offset increases in dairy products and cereals. The index was 10.1 percent below its corresponding level one year ago.
- ◆ Wheat prices which are important from food security point of view, after falling for four consecutive months, increased in December, supported by weather-related logistical disruptions in some major exporters and tensions in the Black Sea amidst solid demand.

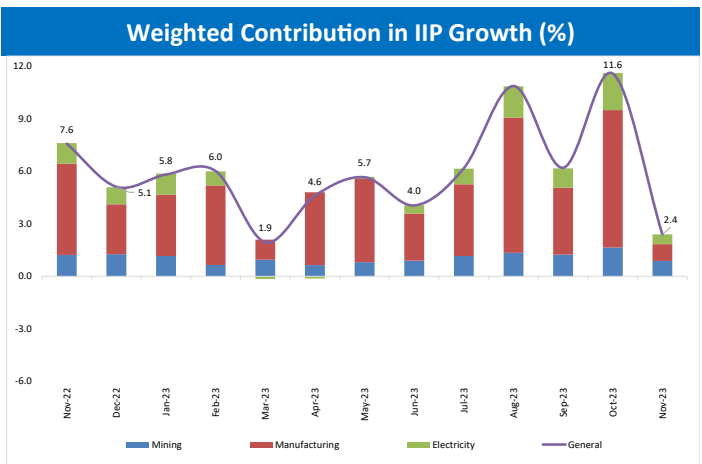
- ◆ The international oil prices which had important bearing on CPI also declined. The decline reflected lower world prices across palm, soy, rapeseed and sunflower seed oils, underpinned by subdued purchases from major importers, despite the seasonally lower outputs in leading producing countries. Meanwhile, world soy oil prices dropped by more than 3 percent from November as a result of a slowdown in demand from the biodiesel sector, as well as improving weather conditions in parts of the main growing regions in Brazil.
- ◆ The general decline in food prices is expected in the near future. However the impact of disruption around Red Sea remains the main risk to inflation in general.

**INDEX OF INDUSTRIAL PRODUCTION**

- ◆ The IIP growth decelerated to 2.4% yoy in Nov'23 from 11.6% in Oct'23. All the three sectors, mining, manufacturing and electricity registered lower growth.
- ◆ As per Use-based classification, capital goods (-1.1% yoy), consumer durables (-5.4 yoy) and consumer non-durables (-3.6% yoy) clocked negative growth in Dec'23. On the other hand, primary goods registered maximum growth of 8.4% yoy during the month.



Source: SBI Research



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