Economic Intelligence Cell
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Macro Insights

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CPI – at 25 month low

Retail inflation measured by CPI declined significantly to 4.25% in May 2023, compared to 4.70% in the previous month.

Highlights:

- *India's retail inflation in May'2023 was at 4.25 per cent, due to base effect and moderation in food inflation.*
- *This is the second month that CPI is below the 5 per cent mark and is closer to the RBI's median target of 4 per cent.*
- *The core inflation also moderated to 5.0 per cent in May.*
- *Urban inflation reduced to 4.27 per cent from 4.85 per cent in the previous month and rural inflation moderated to 4.17 per cent from 4.68 per cent in the earlier month.*
- *Food Price index moderated significantly to 2.91 per cent.*

Chart: Consumer Price Index - May'23

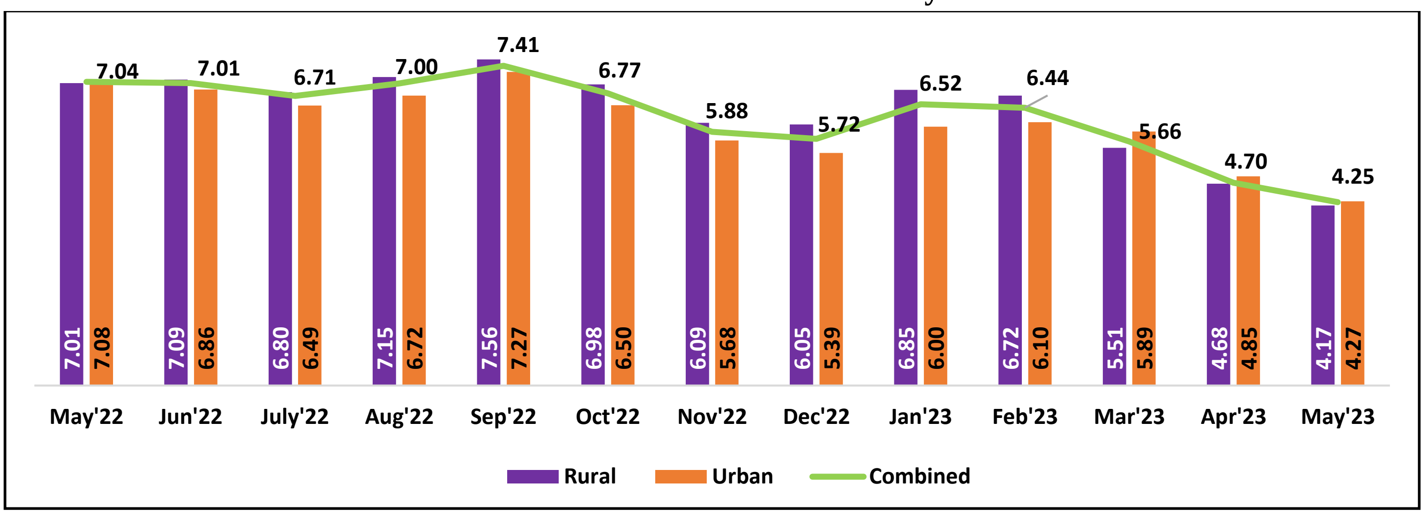

Table: Components of CPI

	Food and beverages		Pan, tobacco and intoxicants		Clothing and footwear		Housing		Fuel & Light		Miscellaneous		General	
Weight	45.86%		2.38%		6.53%		10.07%		6.84%		28.32%		100%	
	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year	Prev. Year	Current Year
Mar	7.47	**5.11**	2.98	**2.99**	9.40	**8.18**	3.38	**4.96**	7.52	**8.91**	7.02	**5.77**	6.95	**5.66**
Apr	8.10	**4.22**	2.70	**3.46**	9.85	**7.47**	3.47	**4.91**	10.67	**5.52**	8.03	**4.92**	7.79	**4.70**
May	7.84	**3.29**	1.15	**3.55**	8.85	**6.64**	3.65	**4.84**	9.54	**4.64**	6.82	**4.84**	7.04	**4.25**

Views:

- CPI for the month of May'23 is at 25 month low due to base effect and softening of food inflation.
- Food and beverages, which accounts for 45.86 per cent of CPI basket, moderated significantly to 3.29 per cent in May 2023 from 4.22 per cent in the previous month.
- Food Price index declined significantly to 2.91 per cent in May'2023.
- Inflation in cereals and milk remained stubbornly high at 12.6% and 8.9% respectively.
- Inflation in Housing, another major component of CPI, was a tad lower at 4.84 per cent in May 2023 from 4.91 per cent in April 2023.
- There is a substantial decline witnessed in Fuel & Light segment and Clothing & footwear segment from the previous month.
- Following are the latest inflation projections given by RBI in its Monetary Policy:

RBI Projection	Q1'FY24	Q2'FY24	Q3'FY24	Q4'FY24	FY24
CPI Inflation	4.6%	5.2%	5.4%	5.2%	5.1%

- The lower inflation print further vindicated the RBI's stance of pause in the recent concluded Monetary Policy. The substantial decline in core inflation and food prices signals that the RBI's 250 bps cumulative hike is playing out its part in reducing inflationary pressures in the economy.
- RBI is expected to continue with a long pause as inflation is expected to be in the tolerance band of RBI of 2 – 6% and is expected to be in the range of 4.5 – 5.0 per cent in current financial year.
- Going ahead, robust Rabi harvest augurs well for the food inflation. The cumulative rate hike by RBI of 250 bps also seems to impact the economy as there is broad based decline in the inflationary pressures across all segments. Though, uncertainties regarding monsoon due to El Nino effect, volatility in global crude oil prices and financial markets along with geopolitical uncertainties are the factors to be watchful for.

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