

April 13, 2021

Base effect drives inflation higher

CPI Inflation (March)

5.45% YoY

Key readings

- CPI Inflation rose to 5.45% in March 2021 compared to 5.03% in February 2021 due to a rise in few food items and a secular rise in non-food items. The unfavourable base effect also contributed to the rise in inflation data print
- The rise in inflation was primarily driven by food items like meat and fish, oils and fats pulses and non-alcoholic beverages. In non-food items, almost all items witnessed a marginal rise in data print except personal care and effects (gold prices)
- Food inflation rose to 4.94% in March against 3.87% in February. Within the food items, vegetables prices continue to witness de-growth with decline of 4.83% in March against 6.27% in the previous month. The inflation rate in food and beverages came in far higher at 5.24% compared to 4.25% in February
- Core inflation declined marginally to 5.8% in March compared to 5.9% in February. Within core inflation, transport and communication (petrol prices) and fuel and light (LPG prices) remain the major contributor to the rise while decline in gold prices prevented the higher rise in overall core inflation
- March was an aberration of sorts with respect to base effect. From April onwards, base effect again turns positive till November and would therefore aid the lower print, going forward
- In its April monetary policy meeting, RBI said that focus remains to “sustain growth on a durable basis and continue to mitigate the impact of Covid-19 on the economy”. With inflation likely to remain near the 5.0% mark over the next few months, RBI is likely to adopt accommodative stance

Looking deeper...

- **Focus shifts from food inflation to core inflation:** Core inflation has been sticky since June 2020 at around the 5.4-5.8% range with recent print moving slightly higher at around 5.8%. The rise recently was seen across its components, which is a cause of concern in the near term as global commodity prices remain elevated. Fall in gold prices, however, is providing some comfort
- **Food inflation: Not a cause of worry in near term.** Except few items, food inflation does not seem to be a cause for concern. Cereals and products inflation came at -0.69%, lowest since January 2015 (since new series). Currently higher inflation in items like meat and fish, eggs, pulses and products should decline, going forward. Base effect is also turning favourable again from April onwards
- The headline and core inflation data print was not available for April and May 2020 due to the Covid-19 pandemic. While the food inflation base effect is positive for these months, assessing core inflation and headline inflation would be a challenge

Headline CPI inflation rose to 5.5% primarily due to unfavourable base effect of last year and rise in few food items and secular rise in non-food items. While food inflation is not a concern, going forward, the rise in core inflation is a cause of concern given elevated global commodity prices

Overall with comfort on food inflation going forward, as of now the overall inflation trend is not worrisome from any change in RBI's liquidity stance perspective

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