

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)

Mr. Sankhanath Bandyopadhyay
(Economist)

ECONOMIC DIGEST

DECLINE IN INFLATION SHOWS OPTIMISM

(January 2023)

The US CPI (all items index) declines to 6.5% in Dec'22 compared to 7.1% in Nov'22. From the following table, it can be observed that most of the declines are visible in Gasoline (-9.4%), Fuel Oil (-16.6%), Energy Commodities (-9.4%) during Dec'22. The food index increased 0.3 percent in Dec2022 following a 0.5-percent increase in Nov 2022.

Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

Items	Oct22	Nov22	Dec22
Food	0.6	0.5	0.3
Energy	1.8	-1.6	-4.5
Gasoline	4.0	-2.0	-9.4
Fuel Oil	19.8	1.7	-16.6
Energy Commodities	4.4	-2.0	-9.4
Energy Services	-1.2	-1.1	1.5
All items less food and energy	0.3	0.2	0.3
Commodities less food and energy commodities	-0.4	-0.5	-0.3
New vehicles	0.4	0.0	-0.1
Used cars and trucks	-2.4	-2.9	-2.5
Apparel	-0.7	0.2	0.5
Medical care Commodities	0.0	0.2	0.1

Services (less energy services)	0.5	0.4	0.5
Shelter	0.8	0.6	0.8
Transportation Services	0.8	-0.1	0.2
Medical care services	-0.6	-0.7	0.1
All items	0.4	0.1	-0.1

Source: US Bureau of Labour Statistics

The decline in the gasoline prices in Dec'22 is particularly impressive, while in Nov'22 it declined 2%. The decline offsets the increase in shelter (+0.8%).

It is interesting to note that while Headline inflation shows softening trend majorly due to decline in energy prices, the core inflation remains at 0.3%, majorly due to the sustained price increase momentum of the shelter index. The apparel and services indexes have also shown strong momentum.

Some other indexes that have shown uptick are:

- Index for household furnishings and operations rose by 0.3%
- Index for motor vehicle insurance rose 0.6%
- Index for recreation increased 0.2 percent.
- The education index increased 0.3 percent.
- The medical care index rose 0.1 percent in December, after declining in the previous 2 months. The index for hospital services increased 1.7 percent over the month. The physicians' services index and the prescription drugs index both rose 0.1 percent in December. (Possibly due to extra health concerns due to China's Covid worsening Covid situation).

A column in NYT (Dec'22)¹ by Isabella Simonetti points out that the prices of both West Texas Intermediate and Brent crude, the global benchmark, have fallen more than 20 percent since late August'22, as Covid-19 lockdowns in China reduced demand.

According to the EIA² less gasoline has been consumed in the United States during the second quarter of 2022 and early July'22 than during the same period in 2021.

¹ <https://www.nytimes.com/2022/12/08/business/energy-environment/gasoline-prices.html>

² <https://www.eia.gov/todayinenergy/detail.php?id=53060>

Indian CPI in Dec'22

The CPI in Dec'22 has declined to 5.72% compared to 5.88% in Nov'22.

YOY inflation rates show cereals, eggs, milk, spices etc. show high inflation.

High Inflation	Low Inflation
Cereals (13.79%)	Vegetables(-15.08%)
Egg (6.91%)	Oils & Fats(0.53%)
Milk(8.51%)	Sugar & Confectionary(0.66%)
Spices(20.35%)	Transport & Communications (4.88%)
Household Goods & Services(7.43%)	Fruits (2%)
Health (6.15%)	Non-alcoholic beverages(4.14%)
Personal care & effects (8.12%)	Pulses & Products (3.89%)
Recreation & amusement (5.17%)	Housing (4.47%)
Fuel & light(10.97%)	
Clothing & footwear(9.58%)	

Statewise, Telangana, Madhya Pradesh, Haryana, Andhra Pradesh, Punjab, Rajasthan, Uttar Pradesh, Uttarakhand show YOY inflation rate cross 6% benchmark.

Previous

CPI inflation decelerated to 5.88% in Nov'22 as compared to 6.77% in Oct'22. The decline was largely due to decline in vegetable prices which plunged from 7.8% in Oct to -8.1% in Nov. This large decline is due to arrival of winter vegetables. Core CPI, on the other hand increased marginally to 6.01% due to increase in transport and communication CPI. For the last six months core CPI is sticky around 6%.

	CPI	Rural	Urban
Nov	5.88	6.09	5.68
Oct	6.77	6.98	6.50
Sept	7.41	7.56	7.27
Aug	7.00	7.15	6.72
July	6.71	6.80	6.49
June	7.01	7.09	6.92
May	7.04	7.08	7.08

	CPI	Rural	Urban	Cereals&products	Meat&Fish	Egg	Milk&Products	Oils&Fats	Fruits	Vegetables	Pulses
Nov	5.88	6.09	5.68	12.96	3.87	4.86	8.16	-0.63	2.62	-8.08	3.15
Oct	6.77	6.98	6.50	12.08	3.08	-0.18	7.69	-2.15	5.2	7.77	2.78
Sept	7.41	7.56	7.27	11.53	2.55	-1.79	7.13	0.37	5.68	18.05	3.05
Aug	7.00	7.15	6.72	9.57	0.98	-4.57	6.39	4.62	7.39	13.23	2.52

Source: MOSPI

Outlook

The decline in inflation trend both in US and India indicates softening to some extent due to policy lag effects, however decline is largely in subdued energy and food inflation where core inflation remains still sticky showing services inflation is high, some components like health and personal care have increased due to concerns related to Covid. Further, costs of education and some other services-related components have increased. However, such subdued inflation provides leeway for pause and subsequent softening of monetary policies.