

Higher Food Price Drives India's Retail Inflation To 4.81% In June

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India's retail inflation, as measured by the Consumer Price Index (CPI), climbed to 4.81 per cent in June, according to the data released on Wednesday by the Ministry of Statistics and Programme Implementation.

This was an increase over the previous month's number of 4.31 per cent. The June inflation rate, on the other hand, stayed within the Reserve Bank of India's (RBI) tolerance level of 4-6 per cent.

The Consumer Food Price Index (CFPI), a sub-index of the CPI rose 4.49 per cent in June, compared to 2.91 per cent in May.

Suvodeep Rakshit, Senior Economist at Kotak Institutional Equities said, "We see upside risks to CPI inflation over the next few months as monsoon-related risks on food prices play out."

"The spike in vegetable prices is set to push the CPI inflation to an uncomfortable 5.3-5.5 per cent in July 2023. We expect the vegetable price shock to result in the Q2 FY2024 CPI inflation exceeding the MPC's last forecast of 5.2 per cent," said Aditi Nayar, Chief Economist at Icra.

Amidst the ongoing excess rainfall in North India, the surge in the prices of perishables, particularly vegetables, is likely to harden the food inflation further in the immediate term, Nayar added.

According to the government data, rural inflation grew to 4.72 per cent, up from 4.17 per cent in May, while urban inflation rose to 4.96 per cent, up from 4.27 per cent in the same month.

Vijay Kalantri, Chairman of MVIRDC WTC Mumbai believes that the retail inflation will remain strong in the coming months as well in line with the RBI's projection of rise in CPI in the second and third quarters of FY24. The recent rise in vegetable prices and the unfavourable base effect of last year will also keep CPI inflation firm in the coming months, Kalantri said.

Suman Chowdhury, Chief Economist at Acuité Ratings & Research said that the government have been taking steps from time to time to cool down the prices of cereals, edible oil and pulses and similar steps are likely to be taken going forward.

At the same time, we believe that RBI will continue with its pause stance for an extended period possibly till Dec-23 to watch for such risks while also assessing the impact of the 250 bps rate hike on the economy, Chowdhury added.

Inflation rates varied significantly among individual categories. Vegetable inflation fell significantly in June, with prices falling by 0.93 per cent, compared to an 8.18 per cent drop in May. In contrast, fuel and light inflation fell marginally in June to 3.92 per cent from 4.64 per cent in May. Housing inflation also fell somewhat, to 4.56 per cent, down from 4.84 per cent the previous month.

Clothing and footwear inflation, on the other hand, increased marginally in June to 6.19 per cent, up from 6.64 per cent in May. The inflation rate for pulses, a staple food item, increased by 10.53 per cent in June, up from 6.56 per cent the previous month.
