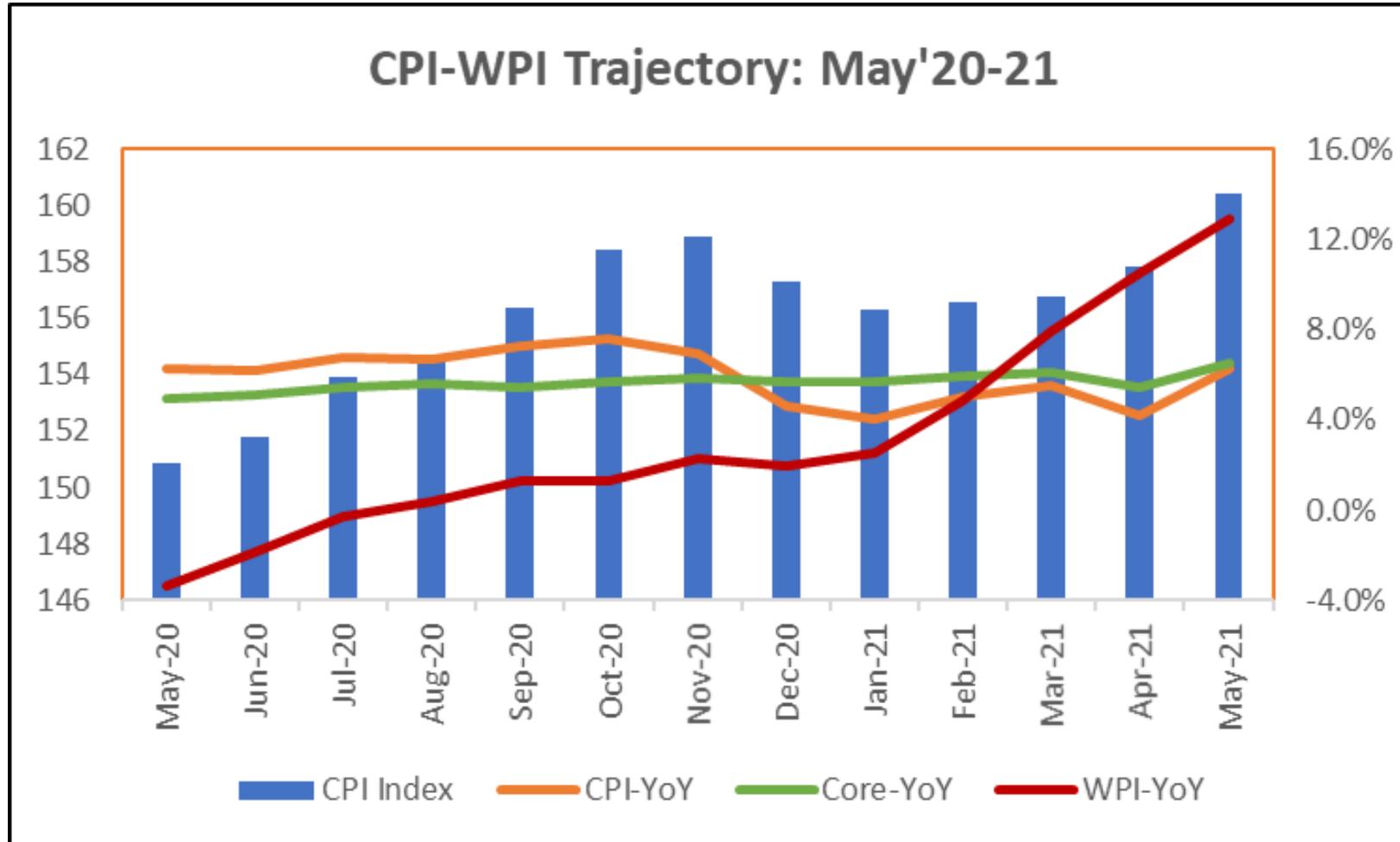




**CPI inflation unexpectedly, rose to 6.3% in May-21 from 4.2% in Apr-21**



## **All the sub-groups in the CPI Index have shown a sequential rise in May**

- Food inflation abruptly doubled to 5.2% from 2.6% in April-21 since the deflating impact of vegetable prices seen in previous month has been reversed with a sequential uptick of 2.6%.
- Some categories in the food basket such as meat and fish, edible oil, fruits and pulses continue to show high inflation both on a YOY and sequential basis, reflecting structural supply bottlenecks further aggravated by the fresh disruption by the second wave.
- Core inflation (excluding food and fuel and light) has perceptibly moved up from 5.4% to 6.5% on an annualised basis; this is driven by the pass through effect of increased manufacturing costs and higher retail fuel prices.

## **No immediate implications of higher CPI**

- No immediate response from RBI likely on the inflation front despite CPI print breaching RBI's target band of 2%-6% given the priority accorded to the revival of the growth impulses.
- We believe that the upward trajectory in CPI inflation will moderate over the next few months with the taper down of lockdown restrictions and supply constraints along with the favourable impact of a timely monsoon on vegetable and overall food prices.
- However, the government may need to take suitable measures to control persistent inflation in food products such as edible oils and pulses as well as retail fuels to mitigate any longer term structural risks to inflation.