

Retail Inflation for July'14

Retail inflation as measured by the Consumer Price Index (CPI) for July'14 at 7.96%, reversed the moderation in prices witnessed in the previous month. The latest price data has renewed inflation fears in the country following a temporary respite in June'14, when the price increases at 7.46% (revised from the initial 7.31%) was the lowest in 29 months.

Price levels in July'14 were primarily pushed up by the steep rise in the food component, viz. vegetable & fruit prices, attributed to the sub-normal monsoons being faced by the country in the on-going season and the consequent lower availability of supplies. ***The latest data on retail inflation is broadly in line with CARE forecast of 7.80% for the period.***

Consumer Price Index – July'14

- The retail food inflation recorded a steep rise of 9.61%, 1.2% higher than that in June'14. Food inflation is however seen to be lower than year ago levels of 9.64%
- The increase in vegetable prices was nearly double that of the previous month and has been the main contributor to food inflation for the month. The increase in the same in July'14 was 16.88% compared with the 8.73% in June'14.
- Fruits prices rose 22.48% in July'14, higher than the 20.64% increase in June'14
- Price increase in milk & milk products, condiments & spices and sugar too rose during the month.
- Cereals and protein products (egg, fish & meat) witnessed a moderation in price increase on a month-on-month basis.
- The fuel component of retail inflation recorded a moderation with prices rising by 4.47%, 0.1% lower than that in the previous month and 4% lower than that a year ago.

Monsoons and Crop Sowing

There has been an improvement in the rainfall condition in the country with higher rainfall in July reducing the rainfall deficit from 44% to 18% as of August 6th. Nevertheless, the progress & distribution of rainfall has been uneven. It is still not clear what could be the impact of this deficit as well as delayed entry of the monsoon on crop outcome.

The area sown under the kharif crop this year is 9% lower than that last year (August 8th). The sowing pattern of the major kharif crops so far shows that there has been a significant drop in the sown area for oilseeds (15%), coarse cereals (21%) and pulses (21%) compared with year ago sowing levels. Therefore, price pressures are likely to develop in these areas unless there is a turnaround in the next month i.e. August.

Outlook

1. Inflation uncertainty exists given that the monsoon outcome, though improving is still below-normal.
2. Under these conditions, inflationary expectations would tend to get embedded till the harvest season sets in.
3. Depending on the spread of rainfall, a clearer picture would emerge in September-October on the exact impact on output.
4. Therefore, RBI is likely to maintain a cautious stance in the next policy too.

Contact:

Madan Sabnavis

Chief Economist

madan.sabnavis@careratings.com

91-022-61443489

Kavita Chacko

Economist

kavita.chacko@careratings.com

91-022-61443593

Disclaimer

This report is prepared by the Economics Division of Credit Analysis & Research Limited [CARE]. CARE has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE (including all divisions) has no financial liability whatsoever to the user of this report.