

Retail Inflation: August 2014

Retail inflation measured by the Consumer Price Index (CPI) for August '14 has displayed a slight moderation to 7.8% from the previous level of 7.96% in July '14. CPI inflation appears to be within RBI's comfort range of 8%. On a good note, food inflation remained virtually flat at 9.4% in August'14 relative to the previous month, however it remains higher than that in June '14 (7.97%)

The table below captures the movement in retail inflation over the last three months to get a sense of the recent trend in retail inflation and its components.

Table 1: Movement in Retail inflation over the last three months (y-o-y %)

	June'14	July '14	August'14
Food, beverages and tobacco	7.9	9.16	9.16
Cereals and products	7.6	7.5	7.4
Pulses and products	5.2	5.9	6.9
Egg, fish and meat	8.3	7.7	7.7
Milk and milk products	11.1	11.3	11.7
Fruits	20.6	22.5	24.3
Vegetables	8.7	16.9	15.2
Non-alcoholic beverages	6.31	6.35	6.24
Sugar	-0.3	0.8	1.2
Fuel and light	4.58	4.47	4.15
Clothing, bedding and footwear	8.65	8.73	8.53
CPI	7.31	7.96	7.8

Source: MOSPI

Performance Review

There has been only a marginal improvement across the major heads of retail inflation.

- **Food, beverages and tobacco** recorded a flat rate of inflation at 9.16% compared with the previous month. However, it still remains significantly higher than the corresponding rate in June '14.

Segments with upward movement:

- Within the food, beverages and tobacco segment, 'fruits' recorded the maximum rise in prices as inflation inched higher from 22.5% in July '14 to 24.3% in August '14.
- There was a rise in prices of 'pulses and products' (5.9% in July '14 to 6.9% in August'14 y-o-y% basis) and sugar as its price rose at a faster rate of 1.2%. Prices of sugar have been on the upswing over the last three months increasing from a negative rate in June '14 to 1.2% in August '14.

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Segments with almost flat inflation:

- Noticeably, inflation was almost unchanged in the segments of cereal and products at 7.5% (7.4% in July '14), 'egg, fish and meat' at 7.7% (unchanged from the previous month), 'milk and milk products' at 11.7% (11.3% in July '14)

Segments with moderation in inflation:

- There was a marked slowdown in 'vegetable' inflation as the figure slid down to 15.2% in August '14 from the previous level of 16.9%.
- 'Non-alcoholic beverages' also moderated slightly to 6.2% from 6.4%.

Following the slowdown in global crude prices, domestic 'fuel and light inflation' declined significantly from 4.47% in July '14 to 4.15% in August '14. This is the fifth consecutive month declining inflation.

Clothing, bedding and footwear vertical also recorded a receding inflation of 8.53% compared with 8.75% in July '14 and 8.65% in June '14.

CARE's View

While the moderation in CPI is a good sign, threats to inflation continue to prevail primarily as global geopolitical tensions remain elevated. ***Going ahead, CPI is estimated to remain within the range of 7-8% in the current fiscal. We do not expect RBI to change its stance in the upcoming credit policy announcement later this month and thereby repo rate is likely to remain unchanged.***

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