

Retail Inflation: May 2014

There was positive news as regards the retail inflation measured by the Consumer Price Index (CPI) for the month of May'14 which saw a marginal decline following two successive months of increase. **CPI for May'14 came in at 8.3% on a year-over-year basis. The figure comes almost in line with CARE's forecast of 8.4%.**

The table below captures the movement in CPI inflation over the past three months.

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

	March'14	April '14	May'14
Food, beverages and tobacco	9.10	9.66	9.40
Cereals and products	9.6	9.7	8.8
Pulses and products	4.5	5.1	5.4
Egg, fish and meat	9.5	9.4	10.1
Milk and milk products	11.0	11.4	11.3
Fruits	17.2	21.7	23.2
Vegetables	16.8	17.5	15.3
Sugar	-4.2	-1.6	-0.3
Fuel and light	6.29	5.96	5.1
Clothing, bedding and footwear	9.03	8.83	8.9
CPI	8.31	8.59	8.28

Source : MOSPI

There was some respite in inflation as evidenced in the CPI figures for various industries as two major segments i.e. food and fuel recorded a fall in price levels while the remaining segments that comprise the index recorded only a marginal rise.

Performance Review

After rising to 9.7% in April'14 (y-o-y), the **food, beverages and tobacco** segment recorded a moderation in their price levels with inflation for May'14 being recorded at 9.4%.

- Within the food segment cereals, vegetables, sugar and milk products saw a decline in prices (y-o-y). However, prices inched upwards in pulses and products, egg, fish and meat and fruits.
- In case of cereals, price increase moderated from 9.7% in April'14 (y-o-y) to 8.8% in May '14. Likewise, vegetable inflation fell from 17.5% to 15.3% over the same period.
- Inflation in milk and milk products was almost flat at 11.3% over the last two months.

- The maximum rise in prices was seen in fruits from 21.7% in April'14 (y-o-y) to 23.2% in May '14 (y-o-y).
- Sugar prices continued to be subdued at -0.3% (y-o-y) in the month gone by.

Fuel and light inflation declined from 6% in April '14 to 5.1% in May '14.

The **clothing, bedding and footwear** segment saw stable prices in the first two months of this fiscal.

CARE's View

- While the CPI figure for May'14 is encouraging, it would be premature to assume that inflation woes have been alleviated going ahead. Retail inflation is likely to remain contingent on the monsoon which given the current scenario has been so far 48% below its normal measure. **Hence, any subnormal monsoon will pressure agricultural produce which can seep through to food inflation.**
- The Government is yet to announce the administered prices for agricultural produce. The administered prices could have a bearing on the prices of these products.
- RBI signaled in its last policy announcement that it will continue with its measures to keep inflation on the disinflationary path. Hence, we expect that in the event of inflation re-emerging going ahead, RBI can be expected to resort to further tightening. However, if inflation remains under control, RBI's current status-quo position may remain unchanged.
- The government has stated that control of food prices would be its focus area. We could thus expect to see proactive measures on this front which could help cushion the impact of price increases in the advent of subnormal monsoons.

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