

Retail Inflation: December 2015

Retail inflation is much in line with the market expectation for the month. It registered an increase of 5.6% for Dec'15 as against 5.4% in Nov'15 which is also closer to CAREs own forecast of 5.53%. The inflation at the retail level continues to be largely driven by the prices of pulses and other food products. In addition, the rise in prices of fuel owing to rupee depreciation is also mirrored in the index.

The table below depicts the movement in retail prices in the last few months-

Table 1: Snapshot of Retail Inflation

%	Jul-15	Aug-15	Sept-15	Oct-15	Nov-15	Dec'15
Food, beverages	2.8	2.9	4.3	5.3	6.1	6.3
Pan, tobacco and intoxicants	9.8	9.4	9.3	9.5	9.5	9.3
Cereals and products	1.1	1.2	1.4	1.5	1.7	2.1
Pulses and products	22.9	25.8	29.8	42.2	46.1	45.9
Meat and Fish	6.9	5.6	5.6	5.0	5.3	6.6
Milk and milk products	6.0	5.3	5.1	4.8	4.0	3.9
Fruits	1.5	0.9	0.9	2.0	2.1	0.6
Vegetables	-8.0	-6.3	0.1	2.4	4.0	4.6
Non-alcoholic beverages	4.4	4.5	4.2	4.3	4.6	4.5
Sugar and Confectionary	-12.3	-13.2	-12.9	-10.5	-8.6	-6.2
Clothing and footwear	5.9	5.9	5.9	5.6	5.8	5.7
Housing	4.4	4.7	4.7	4.9	5.0	5.1
Fuel and light	5.4	5.8	5.3	5.3	5.3	5.5
Miscellaneous	3.4	3.1	3.3	3.5	3.8	4.0
CPI	3.7	3.7	4.4	5.0	5.4	5.6

Source: MOSPI

Performance Review

The rise in inflation during the month of Dec'15 was broadly owing to the relative rise in prices of the food and beverages category and a marginal rise in Fuel and light segment as well as the inflation in the services sector following the hike in the services charges.

- Inflation in **food & beverages** was recorded at a higher rate of 6.3% which has gradually increased from 2.8% in Jul'15 over a period of time. This has mainly been the impact of deficient monsoons which have fed into the prices of these commodities.

- Within the food & beverages basket, items that registered higher inflation in Dec'15 relative to month ago levels included 'pulses & products' at 45.9% in Dec'15 against 46.1% in Nov'15 followed by 'meat & fish at 6.6% as against 5.3% and vegetables at 4.6% against 4%.
 - As per the data released by the ministry of agriculture as of 8th Jan'16 the sowing of rabi crops though has gathered pace it remains lower than last year. The area sown in FY16 as of 8th Jan'16 stood at 564.98 lakh hectares compared with 582.46 lakh hectares last year. However, the area sown under pulses is the same as that sown last year at 134.36 lakh hectares. Hence, it can be said that apart from the supply side constraints the rising demand in pulses is also pushing the prices.
- **'Clothing and footwear'** and housing segment remained virtually unchanged.
- Inflation in the 'Fuel and Light' segment recorded an increase 0.2% during the month despite the plunge in prices of Brent crude oil with prices averaging below \$40 mark at \$39.09 in Dec'15 as against \$45.09 per barrel in the previous month. The depreciation in the rupee has been the main factor offsetting the benefits of the same.

Consumer Food Price Inflation (CFPI)

The consumer food inflation registered continued to rise touching 6.4% for December'15 as against 6.1% over the previous month Nov'15 led by pulses, vegetables, meat and fish and cereals.

CARE's View

- With base effect having diminished and rabi sowing at unsatisfactory levels, the retail inflation is likely to continue in the same range with an upward bias in the coming months.
- Accordingly, RBI is expected to remain watchful in its forthcoming monetary policy.
- ***CPI inflation for the remaining months is estimated at 5.5%.***

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