

Retail Inflation: September 2015

The retail inflation after reaching its lowest level of 3.7 % in August'15 has edged up. **Retail inflation stands at 4.41% for the month of September '15 close to CARE's forecasts of 4.5%.** This rise in inflation is not unexpected as it was projected that inflation is likely to go up once base effect of high inflation last year wears off in September.

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

Table 1: Snapshot of Retail Inflation in July'15, August'15 and September '15

%	Jul-15	Aug-15	Sep-15
Food, beverages	2.9	2.9	4.3
Cereals and products	1.1	1.2	1.4
Pulses and products	22.9	25.8	29.8
Meat and Fish	7.0	5.8	5.6
Milk and milk products	6.1	5.3	5.1
Fruits	1.5	1.0	0.9
Vegetables	-7.9	-6.4	0.0
Non-alcoholic beverages	4.4	4.4	4.3
Sugar and Confectionary	-12.3	-13.3	-12.9
Pan, tobacco and intoxicants	9.9	9.3	9.4
Clothing and footwear	5.9	5.8	6.0
Housing	4.4	4.7	4.7
Fuel and light	5.4	5.7	5.4
Miscellaneous	3.4	3.1	3.3
CPI	2.8	3.7	4.41

Source: MOSPI

Performance Review

The rise in inflation during the month of September'15 was broadly due to the continued rise in prices of the pulses pushing up food and beverages component and a marginal rise in clothing and footwear segment. Inflation in other segments like housing and fuel & light remained stable.

- Inflation in **food & beverages** was recorded at a higher rate of 4.3% as against 2.9% in August'15. This was largely due to a weak monsoon that adversely impacted the Kharif produce.
- Within the food & beverages basket, pulses & products led the inflation with prices rising by 29.26% in Sep'15 relative to 25.8% last month. Marginal increase was also seen in cereal & products with inflation recorded at 1.38%, higher from previous month's level of 1.2%. Although inflation in vegetables stands at 0%, however, it is higher than the Aug'15 (-6.4%). The rise in cereals is mainly attributed to the expectations of erratic monsoon.

- Other products under the food and beverages basket recorded a moderation in inflation. These included milk and milk products at 5.15 in Sep'15 as against 5.3% in Aug'15, meat and fish products at 5.6% this month relative to 5.85 in Aug'15 and fruits at 0.9% relative to 1.0% last month.
- Among other products, sugar and confectionary noted some increase although it remained negative at -12.91%, relative to 13.3% in Aug'15.
- **'Clothing and footwear'** segment registered a marginal price increase in September '15 when compared with the previous month. The inflation rate was recorded at 6.0% as against 5.8% in August'15
- Inflation in **'Housing'** segment remained virtually flat at 4.7% as against 4.7% during September'15.
- The **'Fuel and Light'** segment continued to fall on the back of falling international crude oil prices as it was recorded at 3.3% in September 2015 relative to 3.1% in Aug'15.

Trends

The consumer food inflation (CFPI) registered a significant rise during the month. The CFPI rose to much higher levels at 3.88% in September'15 as against 2.20% in Aug'15 and 2.15% in July'15. The increase in food prices is mainly the result of the deficient monsoons which adversely affected the agricultural output despite a higher sowing recorded this year.

CARE's View

- The fulfilling of IMD's prediction of a weaker monsoon which was deficient by 16% until last month has had severe impact on the food inflation numbers. Pulses have been worse affected leading to significantly high CFPI indices.
- The rise in inflation rate does not come in the way of Reserve Bank of India's target of keeping inflation below 6%. The RBI has cut repo rates to 6.75% in its September policy review eyeing the low inflation number of last month. It might further lower rates this year if inflation remains in comfortable territory of 6% until Jan'16 with the aim of boosting the economy.
- **CARE expects inflation to remain in the range of 5.0-5.5%** for the year as low base effect wears off and food price move in the upward direction.

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