

Retail Inflation: April 2014

Retail inflation as measured by the Consumer Price Index (CPI) in the first month of fiscal '15 inched up for the second month in a row as it was recorded at 8.59% vis-à-vis 8.3% in March '14. This figure comes slightly ahead of CARE's own forecast of 8.4% for April '14. However, this escalation does not come as a surprise as vegetable, fruits and milk and milk products prices marked an increase in the previous month. However, core inflation was 7.1% in April '14 compared with 8% in April '13.

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 %)

	February '14	March '14	April '14
Food, beverages and tobacco	8.57	9.10	9.66
Cereals and products	9.9	9.6	9.7
Pulses and products	3.5	4.5	5.0
Egg, fish and meat	9.7	9.5	9.4
Milk and milk products	10.4	11.0	11.4
Fruits	15.8	17.2	21.7
Vegetables	14.0	16.8	17.5
Sugar	-5.5	-4.1	-1.5
Fuel and light	6.13	6.29	5.95
Clothing, bedding and footwear	9.22	9.03	8.83
CPI	8.10	8.31	8.59

The marginal fall in retail inflation in the segments of 'Fuel and light' and 'Clothing, bedding and footwear' was not enough to offset the rise in inflation in 'Food, beverages and tobacco'.

Key drivers of price rise in April '15

After having slowed down towards the end of FY14, inflation is on the rise since April '14 driven by rising prices in the food, beverages and tobacco sector under the CPI.

- Vegetable prices witnessed an increase from 16.8% in March '14 to 17.5% in April '14.
- Fruits were the major contributor towards higher inflation in the month gone by as prices rose by 21.7% compared with 17.2% in March '14 and 15.8% in February '15. This was expected as fruit prices historically tend uphill as the summer season sets in the country. Given the relatively lower production and high demand this time of the year pressure does build on prices.
- Pulses and products also recorded significant increase in inflation rate from 4.5% in the previous month to 5% in April '14.
- Inflation in milk and milk products grew modestly by 11.4% vis-à-vis 11% in March '14.

Inflation in **Fuel and light** witnessed a marked moderation at 5.95% in April '14 after rising in March '14 (6.29% compared with 6.13% in February '14). This may be partly attributed to the decision taken not to increase diesel prices till the Elections were completed.

Clothing, bedding and footwear industry also saw a significant and continued slowdown in retail prices as inflation was measured at 8.83% in April '14 compared with 9.03% in the previous month.

CARE's View

Going ahead, given the major threat to inflation in the form of the El Nino effect, it seems largely probable that inflation figures, particularly inflation in agricultural produce will continue to remain elevated. Fuel prices would be stable and the prices of other non-food-fuel products would tend to be guided by global factors as well as domestic demand conditions. Hence, CARE expects monetary policy to remain tight as RBI maintains its target of around 7.5% CPI inflation by January 2015.

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