

Retail Inflation: December 2014

Consumer Price Inflation (CPI) for the month of December 2014 came in below market expectations at 5% on a year-over-year basis. While CPI inflation did increase from 4.4% in the previous month, the fears of the phasing out of the high base effect were negated. **Core inflation (excluding food and fuel products) came in at 0.4% over the previous month.**

The table below captures the recent trend in CPI inflation over the last three months of FY15.

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

	October '14	November '14	December '14
Food, beverages and tobacco	5.7	3.5	5.0
Cereals and products	6.0	5.2	4.0
Pulses and products	7.5	7.5	7.2
Egg, fish and meat	6.3	6.5	5.2
Milk and milk products	10.8	10.2	9.6
Fruits	17.5	13.7	14.8
Vegetables	-1.5	-10.9	0.6
Non-alcoholic beverages	5.6	5.8	6.0
Sugar	0.4	-0.3	-0.8
Fuel and light	3.3	3.3	3.4
Clothing, bedding and footwear	7.5	7.0	6.5
CPI	5.5	4.4	5.0

Source: MOSPI

Performance Review

The food, beverages and tobacco segment of the CPI recorded a significant rise in inflation from 3.5% in November '14 to 5.0% in December '14. Inflation in fuel and light was almost flat at 3.4% while 'clothing, bedding and footwear' segment recorded a modest deceleration in consumer inflation.

- **Food, beverages and tobacco**

- 'Cereals and products', 'egg, fish and meat' and 'milk and milk products' underwent a marked slowdown in inflation.
- Inflation in 'pulses and products', 'non-alcoholic beverages' and 'sugar' was largely recorded at the same level as in the previous month indicating that prices have been virtually constant.
- 'Vegetables' and 'fruits' witnessed a significant increase from -10.9% to 9.6% and 13.7% to 14.8% respectively. The reversal of the high base effect appears to have had a bearing here.

Retail Inflation: November'14

For the second consecutive months, inflation in **'Fuel and light'** remained almost unchanged at 3.4%. The slide in global oil prices has impacted domestic prices positively.

Inflation in **'Clothing, bedding and footwear'** industry underwent slight moderation from 7% to 6.5% in December '14.

Consumer Food Price Inflation

Overall, the consumer food price inflation edged higher to 4.78% from the previous level of 3.33% in November '13 reiterating the impact of the weak monsoon recorded earlier in FY1 even as the base effect waned off.

CARE's View

Despite the low base effect in December '14, CIP inflation stands well within RBI's target of 8% by January 2015. This implies that prices are indeed cooling down. Further, there has also been some cushion from the global slide in oil prices. **Thus, we expect the RBI to cut the policy repo rate by at least 25 basis points in the next policy review to be held in early February '15.**

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