

## Retail Inflation: May 2015

Reversing the downward trend of the last three straight months, retail inflation underwent a pick-up in May '15 as it came in at 5.01% under CARE's estimate of 5.1% for the month of May '15 and higher than 4.87% in April '15. However, this remains below the 5.25% retail inflation recorded in the month of March '15. An increase in 'Fuel and light' inflation on account of a global increase in oil prices was the key driver of the price rise in the month gone by.

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

**Table 1: Snapshot of Retail Inflation in March '15 and Feb '15**

%	March '15	April '15	May '15
<b>Food, beverages</b>	<b>6.2</b>	<b>5.4</b>	<b>5.13</b>
<b>Pan, tobacco and intoxicants</b>	<b>9.2</b>	<b>9.2</b>	<b>9.5</b>
Cereals and products	2.3	2.2	2.0
Pulses and products	11.5	12.5	16.6
Meat and Fish	5.1	5.5	5.4
Milk and milk products	8.4	8.2	7.4
Fruits	7.4	5.1	3.8
Vegetables	11.3	6.6	4.6
Non-alcoholic beverages	4.7	4.7	4.8
Sugar and Confectionary	-2.6	-6.0	-7.3
<b>Clothing and footwear</b>	<b>6.3</b>	<b>6.2</b>	<b>6.1</b>
<b>Housing</b>	<b>4.8</b>	<b>4.7</b>	<b>4.6</b>
<b>Fuel and light</b>	<b>5.1</b>	<b>5.6</b>	<b>5.96</b>
<b>Miscellaneous</b>	<b>3.0</b>	<b>3.3</b>	<b>3.85</b>
<b>CPI</b>	<b>5.25</b>	<b>4.87</b>	<b>5.01</b>

Source: MOSPI

### Performance Review

**While broadly consumer inflation across the various segments was little changed, it was the higher inflation in the 'fuel and light' component which fed into the rise in the figure for May '15 relative to April '15.**

- Inflation in '**food and beverages**' continued to moderate in May '15 albeit at a diminishing rate compared with the slowdown in April '15. The impact of the unseasonal rains in the country in the month of February '15 and March '15 is potentially not as destructive as was feared at the time.

- Within the 'food and beverages' basket, a marked slowdown in retail inflation was recorded in the products of 'Milk and milk products' from 8.2% in the previous month to 7.4% in May '15, 'Vegetables' from 6.6% in April '15 to 4.6% in May '15.
  - 'Sugar' also recorded a continued fall in inflation at -7.3% in the month gone by relative to -6% in the previous month.
  - Retail inflation in 'Pulses and products' recorded a significant increase from 12.5% in April '15 to 16.6% in May '15.
  - However, consumer prices for 'cereals and products' and 'Non-alcoholic beverages' remained virtually flat at an inflation of 2% and 4.8% respectively.
- '**Clothing and footwear**' industry witnessed an almost flat rate of price increase in May '15 compared with a month ago levels as retail inflation was recorded at 6.1% in May '15 as against 6.2% in April '15.
- Retail inflation in the '**Housing**' sector also came in only marginally under the previous month's inflation at 4.6% (4.7% in April '15) implying that a pick-up in this sector is not yet underway given the consistent albeit gradual lowering of inflation.
- '**Fuel and Light**' segment recorded the maximum hike in inflation on the back of higher crude oil price relative to month ago levels with Brent average rising from \$60.4/barrel in April '15 to \$65.6/barrel on an average in May '15.

### **Consumer Food Price Inflation**

There has been a consistent downward movement in the consumer food price inflation which moderated further to 4.8% in the month of May '15 from 5.1% in April '15. The same stood at 8.9% in May '15. Thus, this slowdown could be attributed to the presence of a relatively higher base effect from a year ago levels.

### **CARE's View**

- Pressure on prices is expected to persist going ahead owing to the forecast of a weaker monsoon this year. This will in turn have a bearing on agricultural commodity prices in the months to come.
- Further, global oil prices have recorded some resurgence and threats to imported inflation by way of an oil price hike remains to be a threat.
- Hence, we expect RBI to hold on to the repo rate at the existing level of 7.25%. A cut in the rate is likely only in H2 FY16 contingent on inflation treading the expected path.

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