

Retail Inflation: November 2014

Retail inflation as measured by the Consumer Price Index (CPI) was at a 4.4% on a year-over-year basis for the month of November'14. The high base effect from corresponding figures last year (11.2% in November'13) played a major role in the downward slide in prices. The all-time low growth of 4.4% came over an all-time high growth of 11.2% last year. This was thereby the fourth consecutive month where retail inflation remained downward bound.

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 %)

	September '14	October '14	November'14
Food, beverages and tobacco	7.6	5.7	3.5
Cereals and products	6.4	6.0	5.2
Pulses and products	7.2	7.5	7.5
Egg, fish and meat	6.2	6.3	6.5
Milk and milk products	11.0	10.8	10.2
Fruits	22.3	17.5	13.7
Vegetables	8.6	-1.5	-10.9
Non-alcoholic beverages	6.1	5.6	5.8
Sugar	0.6	0.4	-0.3
Fuel and light	3.4	3.3	3.3
Clothing, bedding and footwear	7.6	7.5	7.0
CPI	6.5	5.5	4.4

Source: MOSPI

Performance Review

There has been a slowdown in prices across all segments. However, the decline in retail inflation is largely attributed to the lower inflation particularly in food, beverages and tobacco.

- **Food, beverages and tobacco**

Certain segments witnessed a rather sharp slowdown in prices:

- 'Cereals and products' fell from an inflation of 6.0% in October'14 to 5.2% in November'14.
- 'Fruits' recorded a marked slowdown in price rise to 13.7% in November'14 from the earlier level of 17.5% in the previous month.
 - Vegetables witnessed negative inflation of 10.9% in November'14.
- 'Milk and milk products' witnessed a modest fall in prices while 'Non – alcoholic beverages' witnessed increase in prices.
- Inflation in 'pulses and products' remained at the same level as previous month

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Fuel and light inflation remained at 3.3% for the month of November'14. The significant decline in the crude oil prices does not get reflected as the government has also been simultaneously increasing the duty rates thus keeping the market price of petrol and diesel unchanged.

Inflation in '**Clothing, bedding and footwear**' industry underwent slight deceleration to 7.0% from 7.5% in the previous month. This could be on account of a relatively lower consumer demand prevalent.

Consumer Food Price Inflation

Data on the Consumer Food Price inflation (CFPI) suggested major respite as it declined to 3.2% in November'14 from 5.6% in the previous month. Note, this figure also stands distinctly lower compared with the 15.2% CFPI in November'13.

CARE's View

- The distinct moderation in CPI inflation to 4.4% is admittedly a good sign for the economy; however this has been on the back of a high base effect last year. Hence, the signs of decline in inflation should be interpreted with caution. However, this cushion would not be available in the coming months.
- Based on an unchanged index for December at 145.5, the CPI inflation number would come at 5.4% - a revival in inflation.
- While food inflation has registered a slowdown, the impact of this year's sub-normal and regionally skewed monsoon is likely to show from next month onwards. The kharif output has been lower, which will get reflected in higher food prices.
- It would be a tough call for the RBI in February - on one hand IIP numbers have registered a negative growth while on the other hand inflation numbers are likely to increase in the coming months. While there could be strong case for rate cut, the final inflation number will be the clinching factor.

Contact:

Madan Sabnavis
Chief Economist

madan.sabnavis@careratings.com
91-022-67543489

Anuja Jaripatke
Associate Economist

anuja.jaripatke@careratings.com
91-022-61443515

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