

Retail Inflation: September 2014

Retail inflation as measured by the Consumer Price Index (CPI) was recorded much below market expectations at 6.46% on a year-over-year basis for the month of September '14. The high base effect from corresponding figures last year (9.84% in Sep '13) played a major role in the downward slide in prices. This was thereby the second consecutive month where retail inflation remained downward bound. For the six-month period, CPI inflation averaged 7.7% compared with 9.6% last year.

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 %)

| | July '14 | August '14 | September '14 |
|---------------------------------------|-------------|-------------|---------------|
| Food, beverages and tobacco | 9.16 | 9.16 | 7.56 |
| Cereals and products | 7.5 | 7.4 | 6.4 |
| Pulses and products | 5.9 | 6.9 | 7.2 |
| Egg, fish and meat | 7.7 | 7.7 | 6.4 |
| Milk and milk products | 11.3 | 11.7 | 11.1 |
| Fruits | 22.5 | 24.3 | 22.4 |
| Vegetables | 16.9 | 15.2 | 8.6 |
| Non-alcoholic beverages | 6.35 | 6.24 | 6.1 |
| Sugar | 0.8 | 1.2 | 0.6 |
| Fuel and light | 4.47 | 4.15 | 3.45 |
| Clothing, bedding and footwear | 8.73 | 8.53 | 7.59 |
| CPI | 7.96 | 7.73 | 6.46 |

Source: MOSPI

Performance Review

There has been a slowdown in prices across all segments. However, this huge fall 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 7.4% in August '14 to 6.42% in September '14.
- 'Fruits' recorded a marked slowdown in price rise to 22.4% in Sep '14 from the earlier level of 24.3% in the previous month.
 - Prices of 'vegetables' fell steeply as inflation was recorded dramatically lower at 8.59% in Sep '14 vis-à-vis 15.2% in Aug '14. Clearly, the disturbed monsoon this year had no bearing on prices in the month gone by.

Retail Inflation: September '14

- 'Milk and milk products' and 'non-alcoholic beverages' witnessed a modest fall in prices.
- Inflation in 'pulses and products' was seen to increase to 7.18% from the previous level of 6.9% in August '14.

Fuel and light inflation declined significantly to 3.45% in Sep '14 from 4.15% in the previous month. The decline in fuel prices was anticipated as global crude prices have undergone a significant moderation from the earlier held higher levels owing to the supply glut in the oil market internationally. This has impacted domestic fuel prices positively.

Inflation in '**Clothing, bedding and footwear**' industry underwent slight deceleration to 7.59% from 8.53% in the previous month. This could be on account of a relatively lower consumer demand prevalent during the monsoon period. This segment is likely to pick up as the festive season sets in.

Consumer Food Price Inflation

Data on the Consumer Food Price inflation (CFPI) suggested ample respite as it declined to 7.67% in September '14 from 9.35% in the previous month. Note, this figure also stands distinctly lower compared with the 11.75% CFPI in September '13.

CARE's View

- The distinct moderation in CPI inflation 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 will be available in October and November too.
- 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.

Our view is that while these are positive signs, RBI would observe these movements in October and November before taking a call on interest rates.

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