

## Inflation: July 2014

Headline inflation eased for the second consecutive month in July'14 registering 5.2% growth compared with 5.4% recorded in the previous month and 5.9% in the corresponding period of the previous fiscal year. The moderation in inflation is largely attributed to the moderation in fuel prices. However, this decline in inflation needs to be viewed with caution in the ensuing months as inflationary pressures continue to emerge from rising food prices owing to subnormal monsoons in the current the year. Hence, despite decline in overall WPI inflation, RBI is expected to continue its focus on containing CPI inflation which remains on the higher side, before taking any further actions on key interest rates.

We have here compared inflation on a year-on-year basis, month-on-month basis as well as examined the build-up in price levels in the financial year so far.

### A. Yearly trend : Inflation across product groups

**Table 1: Inflation- July 2014**

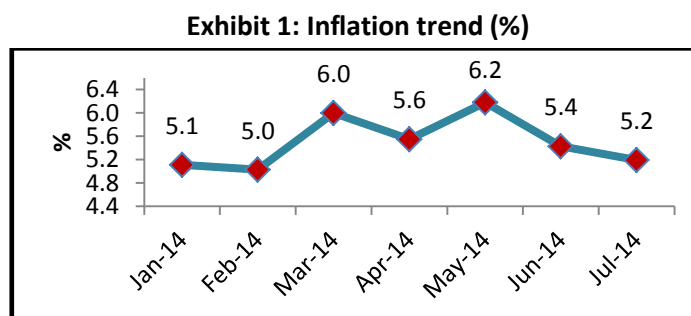
%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	9.7	6.8
<i>Food Articles</i>	12.3	8.4
Fuel & Power	11.4	7.4
Manufactured Products	2.6	3.7
<b>All Commodities</b>	<b>5.9</b>	<b>5.2</b>

*Source: MOSPI*

- WPI inflation for all commodities moderated to 5.2% in July'14 as against 5.9% in the corresponding month of pervious year.
  - **Primary articles** inflation moderated to 6.8% in July'14 from 9.7% in the corresponding month of the previous year largely owing to decline in food inflation.
  - Within Primary articles, **food inflation** slowed down to 8.4% for the fifth consecutive month compared with 12.3% in July'13 on account of a nascent recovery in monsoons during the month.
    - Decline in prices of **vegetables** (-1.3%) largely contributed to moderation in food inflation.
    - Growth in prices of **cereals** too witnessed a decline to 4.5% against 17.7% recorded last year.
      - Within cereals, **rice** (6.9% against 21.2%) and **wheat** (1.0% against 13.6%) witnessed moderation when compared with the corresponding month of the previous fiscal.

- **Pulses** recorded a growth of 3.3% against a negative growth of -7.4% in July'14
  - Price increase in **Egg, fish & Meat** also moderated from 12% in July'13 to 2.7% in July'14.
  - Prices of **Onions** witnessed a decline of -8.1% during the month when compared with a significant growth of 46.8% in the corresponding month of the previous year.
  - However, sharp increase in prices of **potatoes, fruits, and Milk** partly offset the fall in food inflation. On a year-on-year basis, potato prices recorded an increase of 46.4%, fruits 31.7% and the proteins complex by 10.5%.
- Moderation in prices within **Fuel and power** segment has also contributed to the easing inflation in July'14. Prices for the segment recorded a growth of 7.4% during the month compared with the 11.4% increase last year.
  - Lower growth in prices in this group was mainly due to lower growth in prices of High speed diesel at 12.6% from 26.3% in July'14.
- **Manufactured products** inflation inched up to 3.7% during the month against 2.6% in July'13. The increase in this component is largely driven by rise in metals (2.8% from -2.6%) and Iron and semis (6.1% from -8%).
  - Beverages, Tobacco & tobacco products inflation increased to 9.3% (5.8% in July'13), wood and wood products to 5.1% (3.2% -July'13), chemicals to 4% ( 3.4% July'13) and paper and paper products inflation increased by 6.2% (4.4- July'13).
  - It may also be noted that the prices in the cement & lime segment contracted considerably by -5.2% during the month against a positive growth of 1.2% in July'13.

## B. Monthly Trend : Inflation across product groups



Source: Ministry of Commerce & Industry

It is evident from the above the graph that the inflation during the first half of the year has been volatile. After touching a low of 5% in February'14 inflation peaked at 6.2% in May'14. However, since then inflation continues to show a downward trend. This easing of inflation in the past three month is mainly due to continuous moderation in prices of vegetables in the food basket and the fuel & power segment.

### C. Build up Inflation in current fiscal year

Build up inflation rate in the financial year so far (April –July'14) stood at 2.4% as against 3.2% in the corresponding period last year. This increase in build-up inflation has been contributed by primary articles (7.2%) particularly food articles (10.2%). Build up inflation for fuel & power declined to 0.2% as against 4.3% last year while manufacturing remained unchanged with a build-up inflation of 0.8%.

### Outlook

Easing of inflation for the second consecutive month is indicative of inflation moving on to a downward trajectory. However, it may be noted that the deficient monsoons though recovering could potentially push up the food prices. In addition to this, fluctuations in the prices of oil on account of geo- political concerns in the oil producing regions continue to pose an upward risk to inflation. ***Going ahead, the Reserve Bank of India is expected to continue to focus on containing retail inflation which still remains on the higher side. Hence, any rate cut is unlikely in the next monetary policy review meet on 30<sup>th</sup> September'14***

#### Contact:

**Madan Sabnavis**

**Economist**

*Madan.sabnavis@careratings.com*

91-022-67543489

**Jyoti Wadhvani**

**Associate Economist**

*jyoti.wadhvani@careratings.com*

91-022-61443518

#### **Disclaimer**

*This report is prepared by the Economics Division of Credit Analysis & Research Limited [CARE]. CARE has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE (including all divisions) has no financial liability whatsoever to the user of this report.*