

Inflation: May 2014

Inflation pressures for the country re-emerged in May, raising concerns that the moderation in prices seen in recent months could be rather short-lived. Inflation in May'14 measured by the wholesale price index (WPI) increased to 6% (y-o-y), largely driven by higher food and fuel prices. The WPI for the month was 0.8% higher than that in the previous month. This increase in price levels has been much higher than anticipated and brings to fore worries of faster and higher price rises in the coming months with monsoons anticipated to be below normal in the ongoing season and growing geo-political tensions both of which could have a bearing on domestic price levels.

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

A. Yearly trend : Inflation across product groups

Table 1: Inflation- May 2014

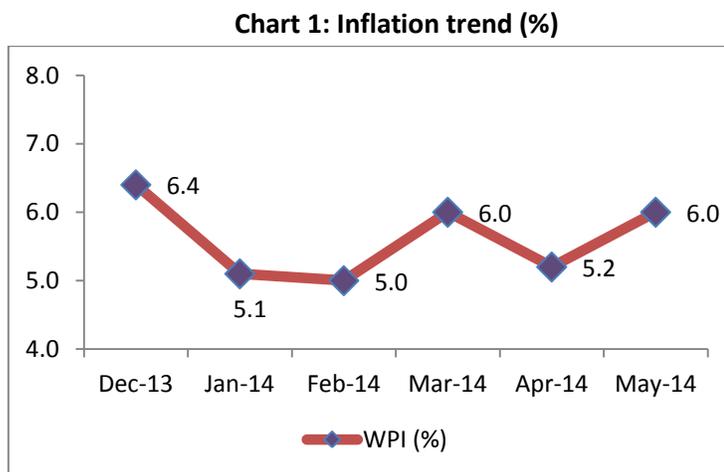
%	WPI (y-o-y)	
	FY14	FY15
Primary Articles	5.7	8.6
Food Articles	8.3	9.5
Fuel & Power	7.3	10.5
Manufactured Products	3.3	3.6
All Commodities	4.7	6.0

Source: MOSPI

- All commodities WPI stood at 6.0% in May'14 as against 4.7% in the corresponding month of pervious year.
 - **Primary articles** inflation increased to 8.6%, following a 4 month period of moderation in prices.
 - Within Primary articles, **food inflation** jumped to 9.5% as against 8.3% in May'13
 - The price increases in **potatoes, fruits, and the protein complex (egg, meat & fish)** largely accounted for the rise in food inflation during the month. On a year-on-year basis, potato prices rose 31%, fruits 19% and the proteins complex by 12.5%.
 - **Onion prices** witnessed negative growth of 2.8% during the month, compared to the 94% growth recorded for the corresponding month in the previous year.
 - **Cereals** too recorded a decline in the growth in prices to 7.7%, compared to the 16% increase in the same in May'13 and 8.3% increase in April'14.

- Within Cereals, inflation of **rice** declined to 12.8% (18.5% in May'13) and **wheat** to 3.6% (12.4% in May'13)
- **Pulses** registered a 0.8% growth in inflation as against 6.0% in May'13
- **The Fuel and power** segment have been the other major contributors to inflation in May'14. Prices for the segment grew 10.5% during the month compared with the 8.9% increase a month ago and 7.3% price rise in May'13.
 - Most of the increase in this category could be attributed to **Petrol** which rose 12.3% (y-o-y) and **High speed diesel** which rose by 14.2% (y-o-y).
- **Manufactured products** inflation was fairly steady at 3.6% in May'14, compared with the 3.3% increase in May'13.
 - Beverages, Tobacco & tobacco products inflation increased to 8.6% (6.7% in May'13), cotton textiles saw an increase to 7.1% (6.3% - May'13), wood and wood products to 7.9% (5.2%- May'13) and paper and paper products inflation increased by 6.5% (4.8% - May'13).

B. Monthly Trend : Inflation across product groups



After increasing since August'13, inflation moderated to 6.4% in the month of December'13 and continued to moderate for the next two months. However, the month of March'14 saw an increase in inflation to 6.0% which declined in the month of April'14. The month of May again shows signs of increase in inflation to the same level as that of March'14.

C. Build up Inflation in current fiscal year

Build up inflation rate in the financial year so far (April – May'14) stood at 0.78% as against 0.76% in the corresponding period last year. Most of this build up inflation has been contributed by primary articles (3.09%). Build up inflation for manufactured products declined to 0.26% as against 0.40% last year and fuel & power witnessed negative build up inflation of 0.98%.

CARE's View

WPI inflation of 6.0% for May 2014 has been highest since Dec'13 and can be taken as indicative of inflation moving onto to an upward trajectory in coming months. India's vulnerability to an increase in inflation in coming months has increased on account of higher oil prices with the escalation in geo-political tensions (the sectarian unrest in Iraq has led to oil prices rising to 9 month highs) and the subnormal monsoons thus far (48% below normal) faced by the country. High crude oil prices and subnormal monsoons could derail the nascent recovery of the Indian economy

RBI focus on inflation control could lead to a tightening of monetary policy as has been hinted by the central bank in its last monetary policy. Thus, a cut in interest rates is unlikely in the forthcoming monetary policy meet.

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