

Inflation: Wholesale and Retail for June'14

Inflation, based on latest data eased at both the wholesale and retail level in June'14. While the Wholesale Price Index (WPI) for the month came in at 4 month lows, the Consumer Price Index (CPI) fell to its lowest level so far. In case of the WPI, prices rose 5.43% in June'14, marginally lower than the 6% increase of the previous month and slightly higher than the 5.16% increase from year ago levels. The CPI at 7.31% was nearly a percentage lower than that in the previous month and over 2.5% lower year ago levels.

This moderation in inflation levels is however being viewed with caution, given the risk to food prices on account of the prevailing weak monsoons. The added pressure on oil prices owing to geo-political tensions too could weigh on domestic price levels in coming times.

On its part, the government has enacted various measures to target food inflation in recent times such as clamping down on hoarders, fixing minimum export price for onions and potatoes and delisting of fruits and vegetable from APMC to name a few. While this may have helped control prices to an extent in June, going forward these measures could have limited impact on rising food prices as these do not effectively address the supply shortages aggravated by sub-normal monsoons.

Monsoons and Crop Sowing

The cumulative seasonal rainfall during 1 June- 9 Jul'14 has been 44% below normal and the kharif crop sowing this year has been sluggish. As of 11 July'14, the all india crop sowing stood at 256.61 lakh hectares, 51% lower than year ago levels (as per the latest data from the Ministry of Agriculture). The sowing pattern of the major kharif crops so far shows that there has been a significant drop in the sown area for oilseeds (84%), coarse cereals (63%), pulses (48%), cotton (51%) and rice (22%) when compared with year ago sowing levels (Table 1) .

Table 1: All India Crop Situation (lakh ha)

	11-Jul-14	12-Jul-13
Rice	86.4	110.07
Pulses	13.46	25.95
Coarse Cereals	35.33	96.58
Oilseeds	22.16	135.99
Sugarcane	46.1	48.4
Cotton	45.2	92.44
Total	256.16	517.65

**Source: Ministry of Agriculture, GoI*

Wholesale Price Index – June'14

- Primary articles (*wt of 20% in WPI*) inflation moderated to 6.8% from the 8.6% in the previous month and the 8.8% in the corresponding period last year, largely owing to the decline in prices of cereals, vegetable (excluding potato), oilseeds and fibers.
- Fuel prices (*wt of 15% in WPI*) rose to 9% in June'14 from 7.5% in June'13. It was however 1.5% lower when compared to the previous month. The increase in this component can be largely attributed to the increase in petrol prices (following the increase in global crude oil prices) which rose 9% in June'14 from negative 6.9% in June'13.
- Manufactured products (*wt of 65% in WPI*) witnessed a marginal increase of 0.72% (y/y) to 3.6%, driven by the price rise in metals.
- The increase in WPI –food articles during the month was largely due to increases in prices (y/y) of perishable items viz. potatoes (43%), fruits (21%) and milk (11%) prices.
- Potatoes and Fruits rose to their highest levels in 6 months
- Prices of sugar contracted further by 2% (y/y) during the month, helped by the bumper harvest of sugarcane.

Consumer Price Index – June'14

- The drop in CPI can be attributed to the steep decline in retail food inflation (y/y).
- The CPI food inflation (*wt of 59% in CPI*) recorded the lowest increase since Feb'12 at 7.9%. It was nearly 4% lower than year ago levels and 1.3% lower than that a month ago.
- Within the food articles, cereals recorded the steepest decline in prices during the month. Prices increased by 10% in June'14, compared to the 17.5% increase in June'13.
- Pulses, oils & fats, egg, fish & meat and sugar too witnessed a moderation in prices (y/y).
- Fruits, milk and condiments saw their price rise at a faster rate.

Outlook

The decline in inflation recorded in June'14 can be viewed as being temporary. The deficient monsoons could potentially push up food prices in the ensuing month. Added to this is the risk associated with a rise in fuel prices with the ongoing political tensions in the oil producing regions of West Asia. The hoped for easing of interest rates by the RBI is some time away. On the contrary, a rise in interest rates on account of a rise in price levels cannot be ruled out.

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