

## Retail Inflation March 2018

**Contact:**

**Madan Sabnavis**  
Chief Economist  
madan.Sabnavis@careratings.com  
91-11- 4533 3489

**Kavita Chacko**  
Senior Economist  
kavita.chacko@careratings.com  
91-22-6754 3687

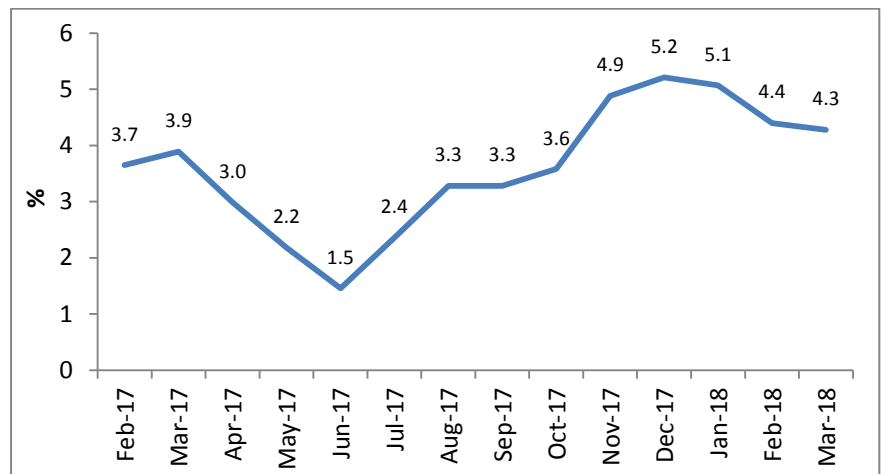
**Mradul Mishra (Media Contact)**  
mradul.mishra@careratings.com  
91-022-6754 3515

Consumer Price (CPI) based inflation declined to a 3 month low in Mar'18 to 4.28% from 4.40% in Feb'18 and 3.89% a year ago. CARE Ratings had projected retail inflation for March'18 to be 4.1%.

The decline in retail inflation during the month was driven by the fall food prices viz. vegetable. Despite the decline in food prices, the high base effect and the higher inflation in housing, clothing, health, transport, personal care and related services limited the moderation in CPI inflation. Core-inflation (non food and non-fuel) too rose in Mar'18. At 5.3%, it was at the highest level in nearly 4 years (Aug'14)

Retail inflation during 2017-18 declined to a 5 year low. It declined by 95 bps to 3.58% from 4.53% in 2016-17.

**Exhibit 1: Movement in CPI**



Source: MOSPI

In terms of segments wise price movements, food products, clothing and fuel have witnessed a moderation in growth in price levels in Mar'18. Housing inflation however continues to firm up. The increase in the same is largely a statistical effect of the HRA revision of the 7th pay commission. The impact of this is likely to prevail for the next 3-4 month.

Food inflation fell to a 5 month low in Mar'18. It has declined by 184 bps since Dec'17. The fall in food prices has been fairly broad based. Vegetable prices have seen a sharp drop from the escalation recorded in Nov'17 and Dec'17. Likewise, prices of pulses, sugar and spices continued decline. Prices of pulses have been falling since Dec'16, while that of spice have been sliding since the last 10 month.

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- Fuel and light inflation eased marginally to 5.7% in Mar'18 from 6.8% in the previous month.
- Inflation in clothing and footwear continues to be around 5% since Nov'17.
- Inflation in housing at 8.3% continued to remain at higher levels compared with 4.9% recorded in Mar'17.

**Table 1: Growth of CPI in Various Segments in FY18 (y-o-y %)**

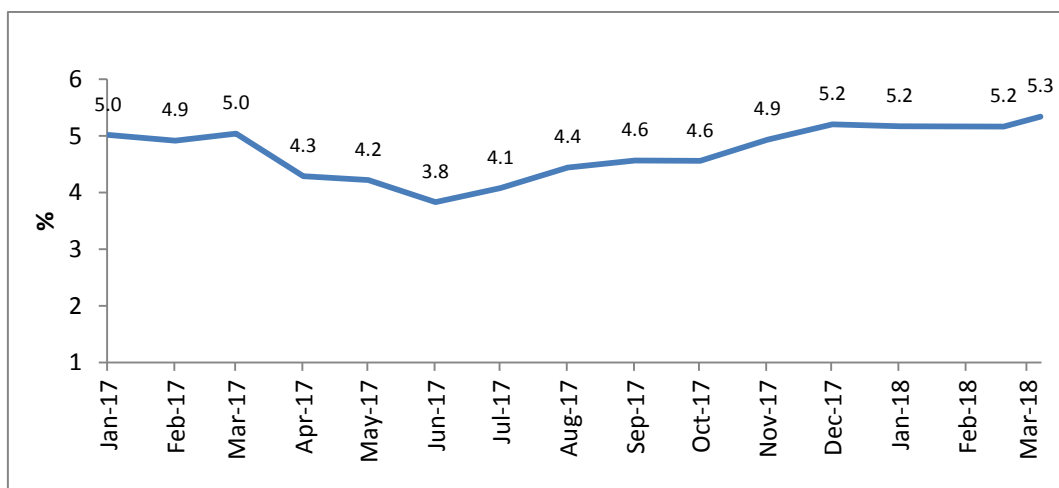
Component	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Overall Index	3	2.2	1.5	2.4	3.4	3.3	3.6	4.9	5.2	5.1	<b>4.4</b>	4.3
Food and Beverages	1.3	(-)0.2	(-)1.2	0.4	2	1.8	2.3	4.4	4.9	4.6	<b>3.4</b>	3.0
Fuel and Light	6.1	5.5	4.5	4.9	4.9	5.6	6.4	7.9	7.9	7.7	<b>6.8</b>	5.7
Pan, Tobacco and Intoxicants	6.1	6.2	5.6	6.4	6.9	7	6.9	7.8	7.7	7.6	<b>7.3</b>	7.8
Clothing and Footwear	4.6	4.4	4.2	4.2	4.6	4.7	4.8	5.0	4.8	4.9	<b>5.0</b>	4.9
Housing	4.9	4.8	4.7	4.9	5.6	6.1	6.7	7.4	8.3	8.3	<b>8.3</b>	8.3
Miscellaneous	4.3	3.8	3.3	3.3	3.9	3.8	3.5	3.6	3.8	3.8	<b>3.9</b>	4.2

Source: MOSPI

**Movement in Core (Non-food and non-fuel) Inflation**

Core inflation firmed up in Mar'18 to a 43 month high. The rise in core inflation was can be driven by housing and personal services inflation.

**Exhibit 2: Core Inflation (y - o - y %)**



Source: CARE Ratings Calculations

**CARE Ratings' View:**

Food inflation is likely to moderate further in the next 2-3 months but may be affected by the unseasonal rains witnessed recently. With monsoons expected to be normal, the moderation in food prices could be extended beyond June. However at the same time, the proposed rise in MSP of kharif crops, the firming of global crude oil prices, HRA increases by state governments and unfavourable weather conditions pose risks to price levels.

W3 expect inflation to be in the range 4.5% in the next 3-4 months and do not expect any change in policy rates by the RBI till Sept'18. In second half the inflation rate would increase and could touch the 5% mark. This movement can provoke a rate change from RBI.

**CORPORATE OFFICE:**

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

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