

**Retail Inflation**

**October 2017**

Retail inflation in Oct'17 rose to a seven month high in October'17 with prices rising at a faster pace across segments. The consumer price index (CPI) rose to 3.58% in October'17, the highest level for FY18. The comparable inflation rate last year was 4.20%.

Retail inflation has risen by over 2% since June'17.

The CPI inflation for October '17 is greater than CARE Ratings' estimate of 3.4% for the month.

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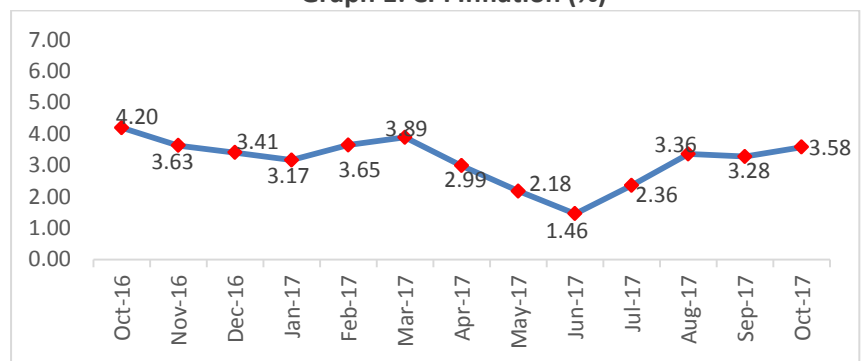
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**Graph 1: CPI Inflation (%)**



Source: MOSPI

- There has been a broad-based increase across all the components of the CPI index in October'17, barring the marginal decline in pan & tobacco and miscellaneous items

-Food prices rose to a 7 month high during the month, driven largely by the rise in prices of vegetables, fruits and milk. Food and Beverages recorded price growth of 2.26% (y-o-y) compared with 3.71% in the previous year.

-Vegetable prices rose by 7.5% in October'17 (y-o-y), a 15 month high (highest since Aug16). The uneven spread of monsoons and crop damages led to the price rise of vegetables.

- Fruit price rose by 5.1% in October'17, from 4.42% a year ago.

-Price rise in the clothing & footwear segment was at a 10 month high in October'17. At 4.76% in October'17, it was lower than the 5.24% in the comparable period last year. Inflation in Clothing and footwear increased for the 4<sup>th</sup> month in a row.

- Housing inflation rose to its highest level since May14 (40 month high). It came it at 6.68% in October'17 , higher than 5.15% in October'16. This is third month in a row that inflation in Housing has outstripped year ago levels. The inflation in this segment can be attributed to the 7<sup>th</sup> pay commission led increase in wages and incomes.

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- Inflation in fuel and light rose to 6.36% in October'17 which is significantly higher than the 2.9% recorded in October'16. This is partly due to the increase in international oil prices since last year.

- Inflation in Pulses remained negative, and slowed to (-) 23.13% on account of increased supply in the market. Pulses have seen a decline in prices every month since Dec'16. Spices contributed to the downward pressure on the CPI as inflation was recorded at (-)2.15% (y-o-y).

- Other items that contributed to the moderation in Food and Beverages include Sugar and Confectionary which recorded an inflation of 6.75% as compared to 23.6% in the previous year. However, inflation in vegetables picked up from (-)7.09% in Oct'16 to 7.47% in Oct'17.

- Inflation in pan and tobacco slowed for the first time since June'17 and was recorded at 6.91% (y-o-y) lower than year ago levels of 7.02%.

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

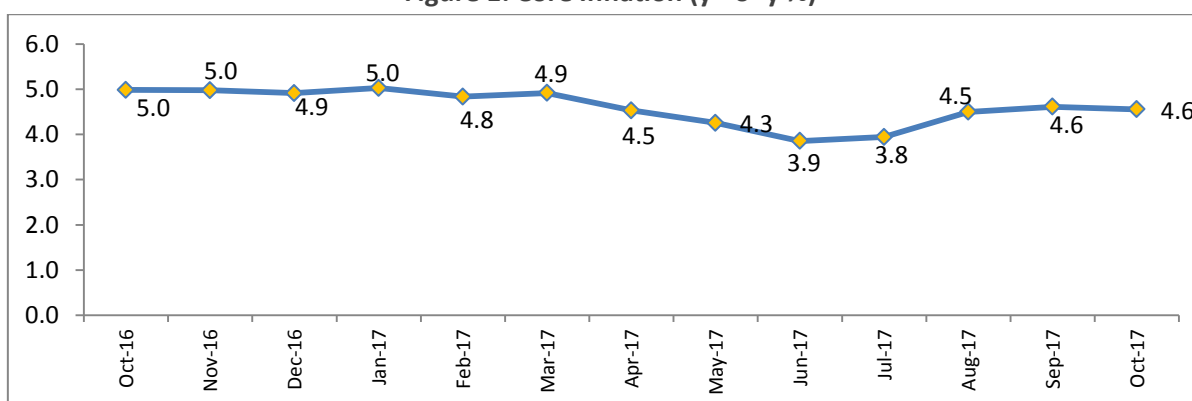
Component	April – 17	May – 17	June-17	July-17	Aug-17	Sep-17	Oct-17	Oct-16
Overall Index	2.99	2.18	1.46	2.36	3.36	3.28	<b>3.58</b>	<b>4.20</b>
Food and Beverages	1.29	(-)0.22	(-)1.17	0.43	1.96	1.76	<b>2.26</b>	<b>3.71</b>
Fuel and Light	6.13	5.46	4.46	4.86	4.94	5.56	<b>6.36*</b>	<b>2.90</b>
Pan, Tobacco and Intoxicants	6.05	6.17	5.62	6.39	6.85	6.95	<b>6.91</b>	<b>7.02</b>
Clothing and Footwear	4.58	4.41	4.17	4.22	4.58	4.65	<b>4.76</b>	<b>5.24</b>
Housing	4.86	4.84	4.70	4.91	5.58	6.1	<b>6.68</b>	<b>5.15</b>
Miscellaneous	4.25	3.81	3.29	3.28	3.85	3.83	<b>3.48</b>	<b>4.66</b>

\*Rounded-off

### Movement in Core (Non-food and non-fuel inflation)

Core inflation (Non- food and non-fuel) has been recorded at 4.6% and has remained stable as compared to the previous month. Core inflation touched a 6 month high in September'17 . There has however been a moderation in core inflation when compared with year ago levels. It was 4.9% in October'16. Core inflation has seen a notable increase from the low of 3.8% touched in June'17.

**Figure 1: Core Inflation (y - o - y %)**



**CARE Ratings' View:**

Upside risks to inflation could emerge from

- A rising trend in international oil prices may result in higher inflationary pressures in the coming months.
- The Housing index may continue to rise on account of the 7<sup>th</sup> pay commission.

At the same time,

- The downward revision of tax rates of 178 items prescribed under GST, particularly in the case of everyday items should soften inflationary pressures in the coming months.
- Rainfall received during the monsoon season was 5% below normal but remained quite satisfactory for most regions in the country. However, area under acreage of rice (reduced by 1.4%), pulses (reduced by 4%) and oilseeds (reduced by 9.6%) are lower as compared with 2016-17. The government has sufficient buffer stocks of wheat and rice to limit inflationary pressures.

***CARE Ratings expects inflation to be around 4.-4.5% by the end of the fiscal year. With inflation unlikely to see moderation during November'17, the RBI is likely to maintain status quo on interest rates during its December'17 meeting.***