

## Retail Inflation

Retail inflation in Sept'17 was stable at 3.28% for the second month in a row. The comparable inflation rate last year was 4.39%. Retail inflation as measured by the consumer price index has risen by nearly 2% since June'17.

The CPI inflation for this month is below CARE's estimate for retail inflation this month was 3.5%.

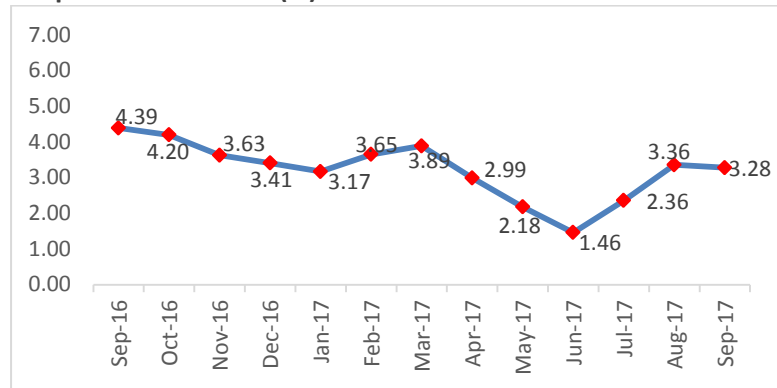
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**Graph 1: CPI Inflation (%)**



Source: MOSPI

Non-food inflation strengthened during the month. Core inflation which excludes food and fuel & light strengthened to a 6 month high of 4.6%. Food inflation moderated during the month. Food and Beverages saw a growth of 1.76% (y-o-y) compared with 1.96% recorded in the previous month.

Under food inflation, inflation in vegetables moderated to 3.92% compared with 5.97% in the previous month. Pulses still remained in the negative territory however, the inflation slowed to (-) 22.51% on account of increased supply in the market. Sugar, fruits and Cereals also supported the decline in inflation.

- Inflation in pan and tobacco has been increasing since the beginning of the financial year with June'17 being an exception. Currently, it stands at 6.95%, highest inflation among all the components in the CPI.
- Inflation in fuel and light rose to 5.56% compared with 4.94% recorded in August'17.
- Clothing and footwear segment marginally increased from 4.58% in Aug'17 to 4.65% in the current month.
- Inflation in housing has increased for a fourth month in a row to 6.1%.

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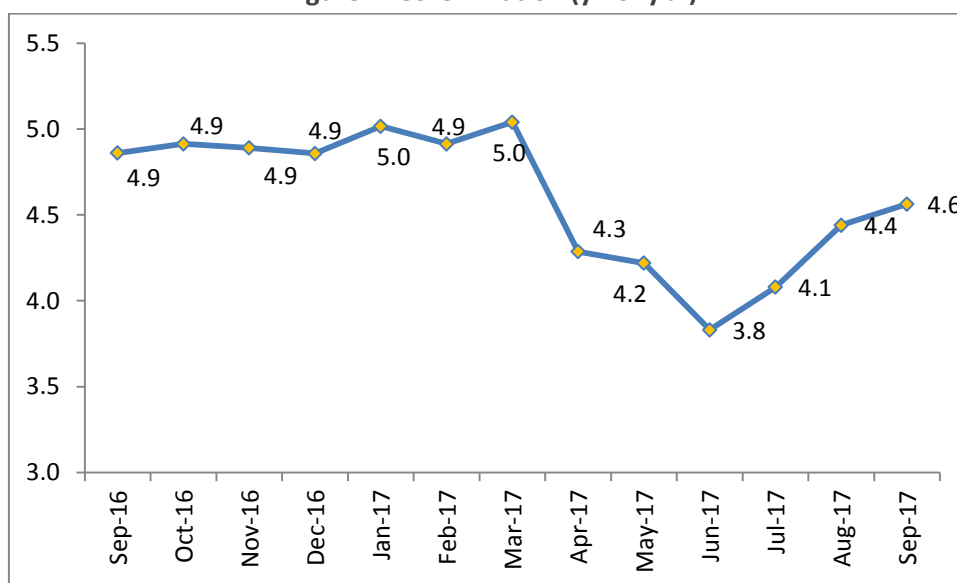
Table 1: Growth of CPI in Various Segments (y-o-y %)

Component	April – 17	May – 17	June-17	July-17	Aug-17	Sep-17
Overall Index	2.99	2.18	1.46	2.36	3.36	3.28
Food and Beverages	1.29	(-)0.22	(-)1.17	0.43	1.96	1.76
Fuel and Light	6.13	5.46	4.46	4.86	4.94	5.56
Pan, Tobacco and Intoxicants	6.05	6.17	5.62	6.39	6.85	6.95
Clothing and Footwear	4.58	4.41	4.17	4.22	4.58	4.65
Housing	4.86	4.84	4.70	4.91	5.58	6.1
Miscellaneous	4.25	3.81	3.29	3.28	3.85	3.83

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

- Core inflation (Non- food and non-fuel) has been witnessing an increasing trend since July'17 and has risen to 4.6% in the current month. However, it has not reached the levels witnessed in Mar'17 when it reached a peak of 5%.

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



### CARE's View:

Upside risks to inflation could emerge from the following major factors:

- Goods and Services Tax, farm loan waivers and Diwali bonuses for government employees may push prices higher.
- Housing index may witness an uptick on account of 7<sup>th</sup> pay commission implementation.
- 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.

-Higher imports of edible oils may create inflationary pressures due to reduced acreage of oilseeds. But benign international prices could buffer this movement in prices.

- Pressure on prices due to a higher MSP could lead to cost inflation.

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