

Retail Inflation February 2018

Retail inflation in Feb'18 at 4.4% eased from a month ago level of 5.07%. The comparable inflation rate last year was lower at 3.7%.

The CPI inflation for Feb'18 is closer to our estimate of 4.8% for this month (y-o-y).

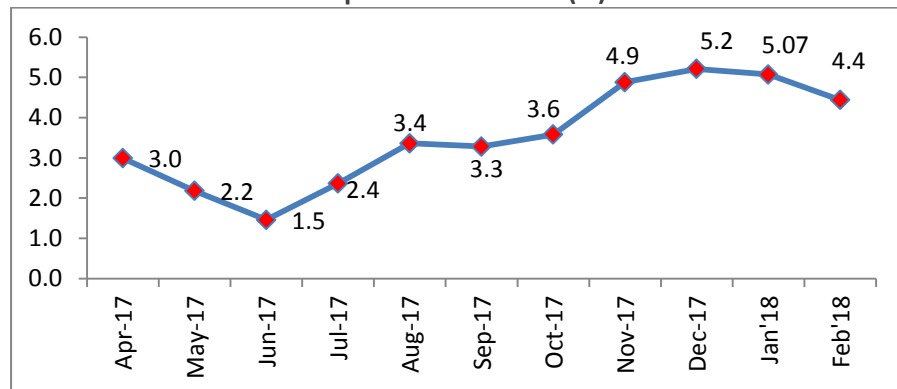
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Graph 1: CPI Inflation (%)



Source: MOSPI

Inflation in non-food items including fuel, housing and clothing & footwear continued to remain high. However, moderation in food prices including vegetables, pulses, fruits, sugar and cereals helped curtailed increase in inflation.

Food inflation declined during the month and registered a growth of 3.2% compared with 4.7% in the previous month. However, the food inflation increased compared with 2.01% in the corresponding period last year.

- Food and beverages recorded an inflation of 3.4% in Feb'18, lower than 4.6% in the previous month and higher than 2.4% in Feb'17.
- Inflation in vegetables reached 17.6% in Feb'18, much lower than 26.9% recorded in the previous month and higher than (-) 8.2% in Feb'17.
- Fruit prices grew by 4.8%, the lowest level witnessed in the last three months.
- Sugar prices witnessed a contraction of (-)0.3% in Feb'18 compared with 2.9% and 18.5% growth recorded in Jan'18 and Feb'17 respectively. This can be attributed to rising domestic sugar production.
- Inflation in pan and tobacco at 7.3% was marginally lower than 7.6% in Jan'18, however remained higher than 6.25% recorded in the corresponding period last year.

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- Inflation in fuel and light eased marginally from month ago level of 7.7%, but remained much higher than 3.9% witnessed in Feb'17.
- Inflation in clothing and footwear has remained in the range of about 4.5- 5% since August'17.
- Inflation in housing at 8.3% continued to remain at higher levels compared with 4.9% recorded in Feb'17.

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

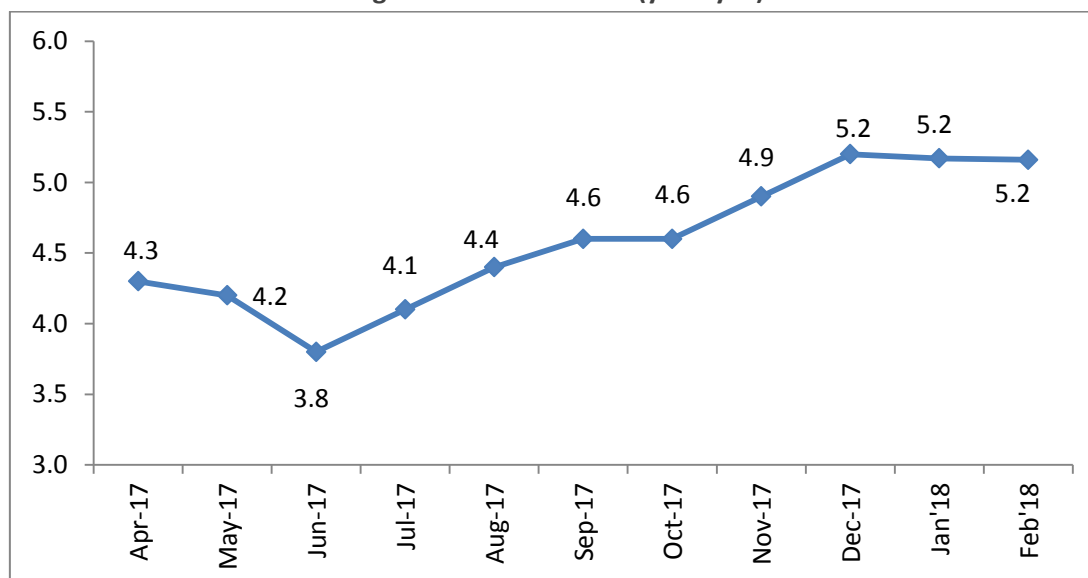
Component	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Feb
Overall Index	3	2.2	1.5	2.4	3.4	3.3	3.6	4.9	5.2	5.1	4.4	3.7
Food and Beverages	1.3	(-)0.2	(-)1.2	0.4	2	1.8	2.3	4.4	4.9	4.6	3.4	2.4
Fuel and Light	6.1	5.5	4.5	4.9	4.9	5.6	6.4	7.9	7.9	7.7	6.8	3.9
Pan, Tobacco and Intoxicants	6.1	6.2	5.6	6.4	6.9	7	6.9	7.8	7.7	7.6	7.3	6.3
Clothing and Footwear	4.6	4.4	4.2	4.2	4.6	4.7	4.8	5.0	4.8	4.9	5.0	4.4
Housing	4.9	4.8	4.7	4.9	5.6	6.1	6.7	7.4	8.3	8.3	8.3	4.9
Miscellaneous	4.3	3.8	3.3	3.3	3.9	3.8	3.5	3.6	3.8	3.8	3.9	4.8

Source: MOSPI

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

There has been a moderation in core inflation (Non- food and non-fuel) in the last three months, however it still remains above 5%.

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



Source: CARE Ratings Calculations

CARE Ratings' View:

Food prices are likely to remain moderate in the coming months owing to seasonal variations. However, upside risks to inflation could emerge from:

- Inflation in fuel led by the rise in global crude oil prices.
- Rise in housing index on account of the 7th pay commission.
- Demand side pressures building from fiscal deficit.
- Unfavourable weather conditions.
- MSP when announced could exert pressure on inflation.

CARE Ratings expects inflation to be around 5.0% by the end of the fiscal year. We do however not expect any rate change action in April 2018.

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