

Retail Inflation
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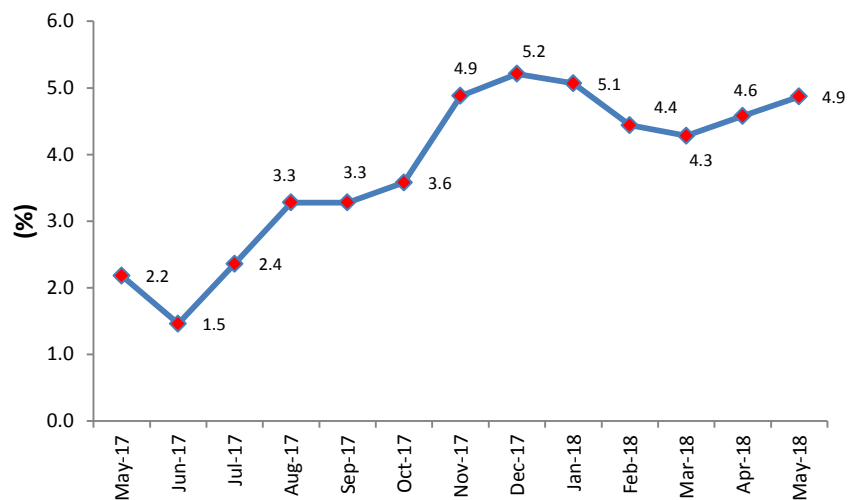
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Retail inflation as measured by the consumer price index (CPI) at 4.87% in May'18 is at a 4 month high and was 2.69% higher than that in May'17. The CPI inflation for the month was in line with CARE Rating's estimate for the same.

There was a broad-based increase in price levels across all the key segments of the CPI index and core inflation rose to a near 4 year (46 months) high of 6.2%.

Graph 1: CPI Inflation



Source: MOSPI

- Food inflation came in at 3.37% in May'18, a 3 month high and was driven by the rise in prices of vegetable and fruits. The increase in food inflation in May'18 can be attributed in part to the low base. Food inflation in May'17 was a low (-) 0.22%.

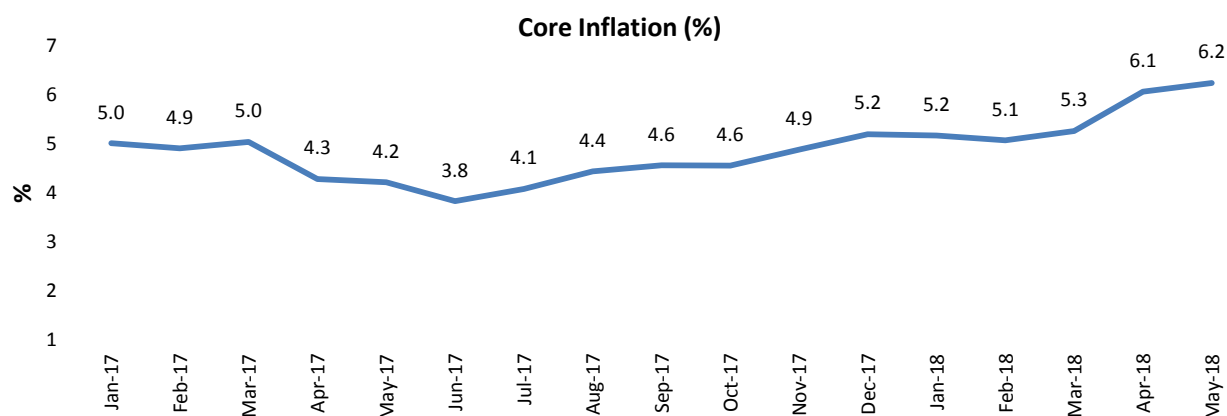
- Owing to excess supply, pulses (-11.57%) and sugar (-8.12%) continued to see contraction in prices level (yoy basis). The prices of pulses have contracted for the last 18 months while sugar prices have declined for the last 4 months in a row.

- Housing inflation has been ruling in the range of 8.2-8.5% since Dec'17. It however is nearly 70% higher than that in the previous year. The higher price movement in these segments is on account of the statistical base effect of the HRA implementation of the 7th pay commission. The impact of this is likely to start easing after 3-4 months

- Fuel price inflation came in at a 3 month high of 5.8% in May'18 and can be ascribed to the movement in global energy prices.

- The increases in inflation of education, health, transport & communication and personal care have also pushed up overall inflation.

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- Core inflation (excluding food & fuel) has seen a near sustained increase since Jul'17. The last 2 months saw a notable increase in core inflation.
- The core inflation has surpassed the upper bands of the RBI's target for CPI target and is an area of concern.

CPI May'18: The components that with over and less than 5% rise in price levels

>5%			<5%		
Components	Weights	Inflation (YoY)- %	Components	Weights	Inflation (YoY)-%
Fruits	2.89	12.33	Food and beverages	45.86	3.37
Vegetables	6.04	8.04	Pulses and products	2.38	-11.57
Pan tobacco and intoxicants	2.38	8	Sugar and confectionary	1.36	-8.12
Clothing and Footwear	6.53	5.47	Cereals	9.67	2.78
Housing	10.07	8.4	Meat and Fish	3.61	3.53
Fuel and Light	6.84	5.8	Milk & products	6.61	3.2
Miscellaneous	28.32	5.35	Oils & fats	3.56	2.46
Health	5.89	5.84	Spice	2.5	1.54
Transport & Communication	8.59	5.31	Non-alcoholic beverages	1.26	1.8
Education	4.46	5.42	Prepared meals & snacks	5.55	4.98
Personal care & effects	3.89	5.61			

CARE Ratings View

The sustained increase in inflation and building concerns over the same could prompt the RBI to undertake further monetary tightening in the coming months. Food inflation would be largely contingent on the progress and spread of the monsoons in the coming months. Inflation is likely to be pressured in the next 2 months and could see some easing from August'18 onwards provided global oil prices remain stable.