

Retail Inflation January 2018

Retail inflation in Jan'18 at 5.07% eased marginally from a month ago level, however continued to remain at elevated levels. The comparable inflation rate last year was 3.17% in Jan'17.

The CPI inflation for Jan'17 is similar to our estimate of 5% for this month (y-o-y).

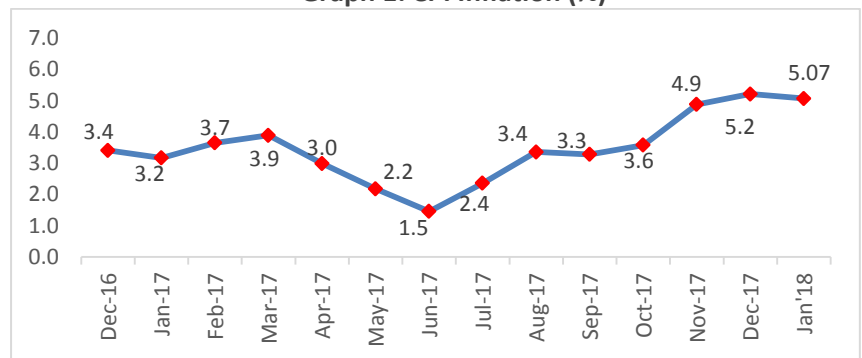
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Graph 1: CPI Inflation (%)



Source: MOSPI

Consumer inflation continued to be at elevated levels with inflation in non-food items including fuel, housing and clothing & footwear being high. However, softening of food prices viz vegetables, fruits, sugar, eggs and cereals helped curtailed increase in inflation.

Food inflation rose sharply during the month and registered a growth of 5.1% (y-o-y) as compared with 0.61% in Jan'17. However, the food inflation eased marginally compared with 4.96% in the previous month.

- Food and beverages recorded an inflation of 4.6%, marginally lower than 4.9% in Dec'17, however much higher than 1.4% in the comparable period last year.
- Inflation in vegetables reached 26.9%, much higher than (-)15.62% recorded in Jan'17 and lower than 29% witnessed in Dec'17.
- Fruit prices rose by 6.24% during the month compared with 6.6% growth recorded in Dec'17.
- Inflation in sugar at 2.8 % witnessed a moderation compared with 6.2% growth in the previous month on account of increased supplies.
- Egg prices remained at elevated levels on account of seasonal winter demand coupled with the shift in consumption from vegetable to eggs with the rise in prices of vegetables. Supply constraints also pushed up prices

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- Inflation in pan and tobacco at 7.6% in Jan'18 was marginally lower than 7.7% in Dec'17, however remained higher than 6.4% recorded in Jan'17.
- Inflation in fuel and light moderated marginally from month ago levels of 7.9% but remained higher than the 3.3% recorded in Jan'17. This can be partly attributed to rise in International crude oil prices. The rise in prices is likely to continue given no excise duty cuts announced by the Government in the Budget FY18.
- Inflation in clothing and footwear increased marginally by 4.9% in Jan'18 compared with 4.8% growth recorded in the previous month.
- Inflation in housing at 8.3% continued to remain at higher levels.

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

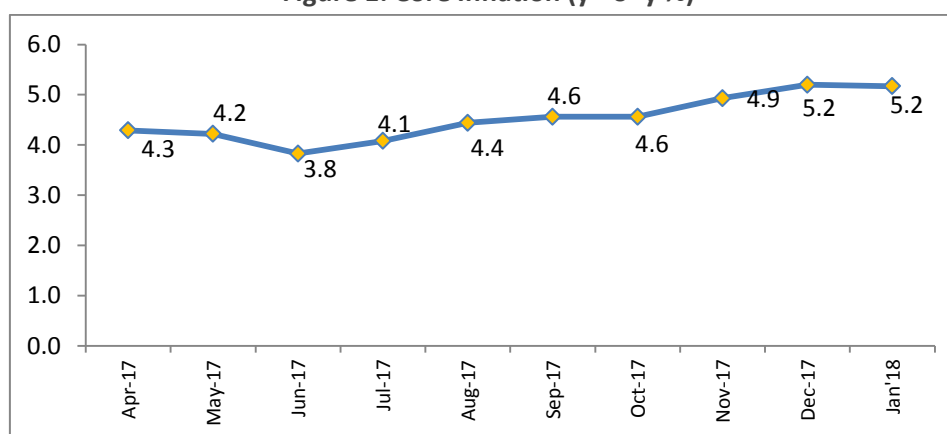
Component	April'17	May'17	June'17	July'17	Aug'17	Sep'17	Oct'17	Nov'17	Dec'17	Jan'18	Jan'17
Overall Index	3.0	2.2	1.5	2.4	3.4	3.3	3.6	4.9	5.2	5.1	3.2
Food and Beverages	1.3	(-)0.2	(-)1.2	0.4	2.0	1.8	2.3	4.4	4.9	4.6	1.4
Fuel and Light	6.1	5.5	4.5	4.9	4.9	5.6	6.4	7.9	7.9	7.7	3.3
Pan, Tobacco and Intoxicants	6.1	6.2	5.6	6.4	6.9	7.0	6.9	7.8	7.7	7.6	6.4
Clothing and Footwear	4.6	4.4	4.2	4.2	4.6	4.7	4.8	5.0	4.8	4.9	4.7
Housing	4.9	4.8	4.7	4.9	5.6	6.1	6.7	7.4	8.3	8.3	5.0
Miscellaneous	4.3	3.8	3.3	3.3	3.9	3.8	3.5	3.6	3.8	3.8	5.0

Source: MOSPI

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

Core inflation (Non- food and non-fuel) at 5.17% witnessed a moderation compared with 5.20% recorded in Dec'17

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



Source: CARE Ratings Calculations

CARE Ratings' View:

Upside risks to inflation could emanate from the following factors:

- Fuel inflation led by the rise in global crude oil prices.
- Likely fiscal slippages (even FY19 will be under such pressure).
- Housing inflation at elevated levels. This is more of a statistical phenomenon on account of 7th pay commission revisions.
- Increase in custom duties on certain items as announced in Budget FY19 will impact inflation in FY19.
- The proposed upward revision in MSP could exert pressure on prices of certain food items (in FY19). However, the gradual normalisation in vegetable supplies is likely to soften vegetable prices going forward.

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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