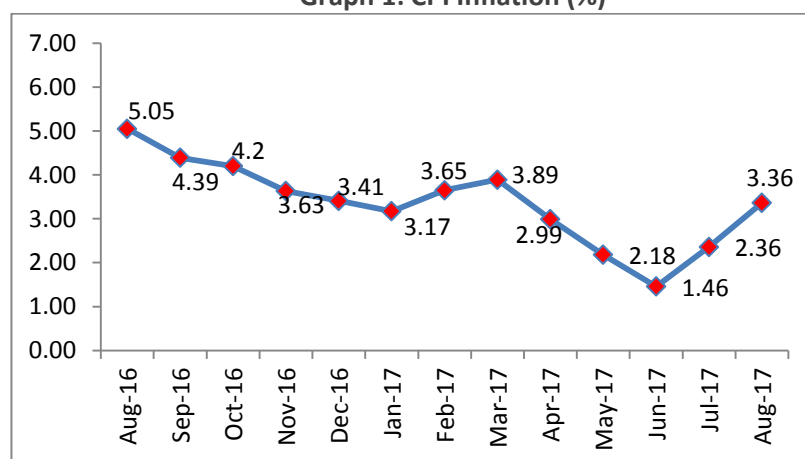


Retail Inflation August 2017

The Consumer Price Index (CPI) based inflation for India increased to 3.36% for the month of August'17 compared to 2.36% in July 2017, which was lower than 5.05% recorded in August '16.

CARE's estimate for retail inflation was 3.0% for this month.

Graph 1: CPI Inflation (%)



Source: MOSPI

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-All segments of the consumer price index (CPI) recorded positive growth during the month, the second month in a row.

- The rise in retail inflation can be attributed largely to the increase in food prices and a waning base effect.

-Food prices rose to a 5 month high in August'17. Barring eggs, pulses and spices, all the sub-segments of food group recorded a rise in price levels during the month.

-There was a sharp fall in prices in the case of Pulses (-) 24.43% on account of higher imports and excess supply from previous year.

- The rise in food prices were led by the rise in prices of vegetables and fruits, which rose by 6% and 5% respectively during the month.

-The sharp increase in vegetable prices has been largely on account of the increase in prices of tomatoes and onions

- Inflation in Clothing and Footwear rose to a 4 month high of 4.58%, while that of housing at 5.6% was the highest since Oct'14.

- Core (non-fuel and non – food) inflation has increased by 4.53% which is continuation of a rising trend since May 2017.

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

	Jul-17	Aug-17
Overall Index	2.36	3.36
Food and Beverages	0.43	1.96
Fuel and Light	5.79	4.94
Pan, Tobacco and Intoxicants	6.39	6.85
Clothing and footwear	4.22	4.58
Housing	4.98	5.58
Miscellaneous	3.28	3.85

Source: MOSPI

Going forward, price levels are likely to be pressured in the coming months on account of a fall in crop sowing area by 8.7 lakh hectares this year compared with year ago levels, with particularly sharp reductions in oilseeds (-) 9.6% and pulses (-) 3.91%, as shown in Table 2. Further, the uneven distribution of monsoons this year and the 5% deficit in monsoons so far this year could also weigh on agricultural output and prices.

Table 2: Acreage of Various Crops Sowed (lakh hectare) as of 8 September

Crop	Area sown in 2017-18	Area sown in 2016-17	Growth(%)
Rice	371.46	376.89	-1.44
Pulses	139.17	144.84	-3.91
Coarse Cereals	183.43	186.06	-1.41
Oilseeds	169.2	187.16	-9.60
Sugarcane	49.88	45.64	9.29
Total	1041.17	1049.87	-0.83

Source: MOSPI

CARE'S view:

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

- Fall in acreage of oilseeds and pulses.
- Unevenly distributed monsoon which could impact crop output .
- Impact of GST and farm loan waivers on prices.

With building inflationary pressures, we expect the RBI to maintain status –quo on policy rates in the October monetary policy meet. CARE expects inflation to be around 4.5-5% by the end of the fiscal year.

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