

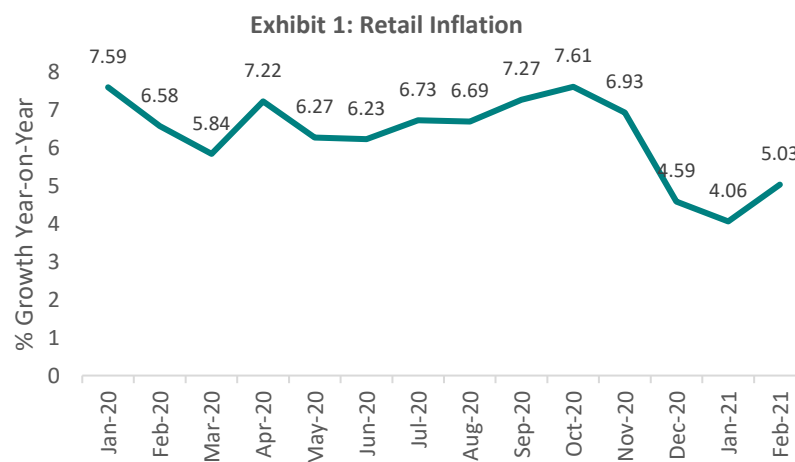
Retail Inflation: February '21

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India's headline inflation rebounded in February'21 and rose to a three-month high of 5.03%, driven by the sharp rise in food prices and elevated fuel prices. The rise in retail inflation in the month gone by has reversed the successive decline of the preceding two months and raises concerns over the re-emergence of price pressures given that the growth (year-on-year) in inflation has been over a high base (CPI of 6.6% in February'20).

CARE Ratings had projected CPI growth for the month to be 4.4%

There has been a broad-based increase in the price levels across the key segment of the CPI (consumer price index). Core inflation rose further to over a two and half year high. Also, the increase in price levels has been sharper in the urban areas. However, despite the rise, the retail inflation at the aggregate level was nearly 2% lower than that in November'20.



Source: MOSPI

- The rise in retail inflation during February'21 has been primarily on account of the rise in food prices which grew by 4.3% over a high base (9.5% growth of the February'20). Within the food basket prices have been high in the case of vegetables, fruits, edible oils, pulses and meat.
 - Prices of vegetable and fruits rose during the month. Fruits prices rose 6% (y-o-y) during the month and the rate of decline in vegetable prices of the past two month eased from -16% in January'21 to -6% in February'21. The disinflation in vegetable prices is primarily on account of the high statistical base effect (vegetable inflation of 32% increase in February'20). Supply shortages following unseasonal rains that led to crop damage viz. of onions have raised vegetable prices. Increased transportation cost too have been pushing up prices of vegetables and fruits.
 - Edible oil prices grew by a record 21% (y-o-y) owing to domestic and external factors. Increased domestic demand coupled with lower global and local supplies have driven prices higher.

- The price rise of 13% in case of pulses is due to lower output and supply constraints on account of adverse weather conditions (drought) in producing regions (in India and overseas markets)
- Meat prices increased by 11% (y-o-y) due to supply tightness caused by lower expansion during the period of Covid-19 restrictions
- Inflation in case of housing (3.2%) has been stable for the last four months.
- Inflation in case of fuel components rose by 3.5% in February'21 over the 6.4% growth in February'20. The rise in global energy prices coupled with the high domestic taxes has led to a sharp increase in fuel prices here.
- Inflation in Miscellaneous component rose to 6.8% following the moderation of the preceding two months. The increase was mainly on account of a rise in inflation in the transport and communication segment (11%) (due to rise in transport fuel prices) and personal care segment (7%).

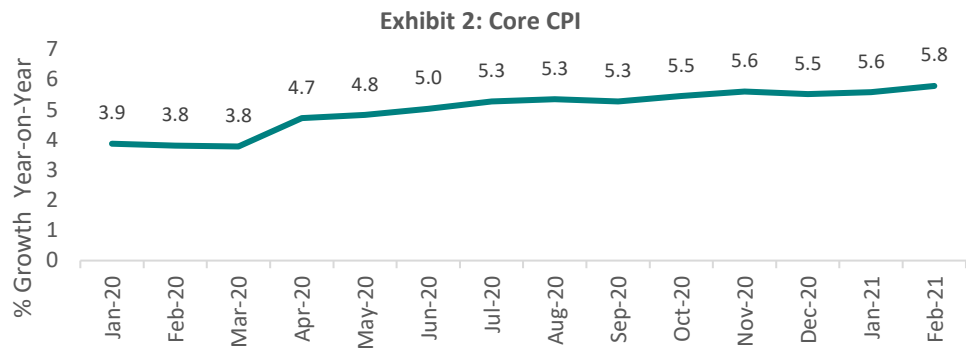
Table 1: Component wise retail inflation : % Growth Year-on-Year

	Food and beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
Weight	45.86	2.38	6.53	10.07	6.84	28.32
Jan-20	11.7	3.7	1.9	4.2	3.7	4.8
Feb-20	9.5	4.1	2.1	4.2	6.4	4.5
Mar-20	7.8	4.7	2.1	3.7	6.6	4.4
Apr-20	10.5	5.9	3.5	3.9	2.9	5.4
May-20	8.4	6.3	3.4	3.7	1.6	5.8
Jun-20	7.9	11.3	2.7	3.5	0.5	6.1
Jul-20	8.5	10.5	2.8	3.3	2.7	6.8
Aug-20	8.3	11.2	2.8	3.1	3.1	7
Sep-20	9.8	10.7	3	2.8	2.8	6.9
Oct-20	10.1	10.6	3.1	3.3	2.1	6.9
Nov-20	8.8	10.4	3.3	3.2	1.9	6.9
Dec-20	3.9	10.7	3.5	3.2	3	6.6
Jan-21	2.7	10.9	3.8	3.2	3.9	6.5
Feb-21	4.3	10.7	4.2	3.2	3.5	6.8

Source: MOSPI

Core CPI

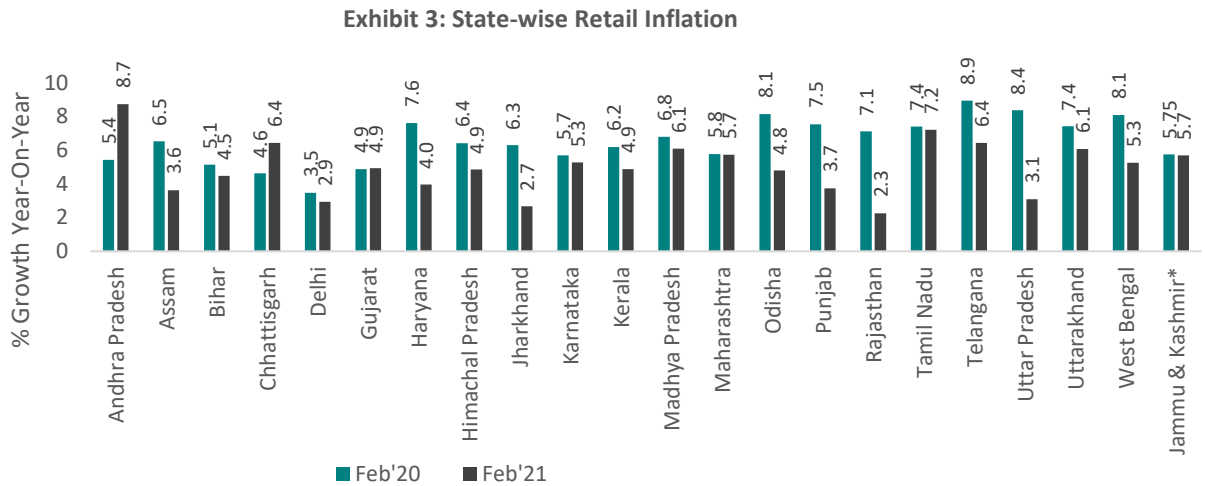
Core inflation firmed up and rose to a 31-months high in February'21. The non-food and non-fuel component of the CPI have been sustained at elevated levels, reflective of the underlying price pressures in the country.



Source: MOSPI and CARE Ratings Calculation

State-wise inflation

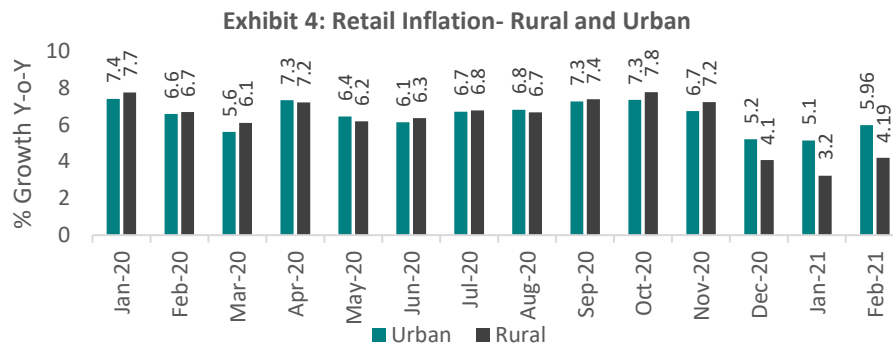
22 states, which have reported inflation for February'21 have been plotted in Exhibit 3 along with inflation in the corresponding month last year. Ten states have recorded inflation more than the all-India retail inflation for the month (5.03%). Amongst the states, Andhra Pradesh saw the highest retail inflation at 8.7% followed by Tamil Nadu at 7.2%. Inflation was the lowest in the case of Rajasthan at 2.3%



Source: MOSPI

Rural vs Urban Inflation

The gap between rural and urban retail inflation has widened in the month of February'21 with urban inflation at 5.96% compared with rural inflation at 4.19%. Urban inflation has been outpacing rural inflation since December'20.



Source: MOSPI

CARE Ratings' View:

Prices pressures are likely to prevail in the coming months given the rise in global prices across commodities and the rise in food prices. Also, the non-food and non-fuel (core inflation) is likely to remain at elevated levels. The rise in inflation could come in the way of economic recovery and can pose a challenge to the RBI in maintaining an accommodative policy stance.

We do not foresee a rate cut by the RBI in the forthcoming monetary policy meet.

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