

## Retail Inflation: April '21

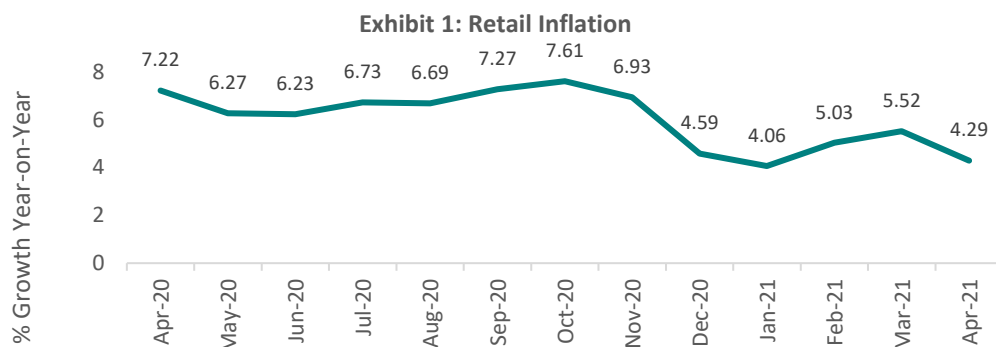
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India's headline inflation as measured by the consumer price index (CPI) moderated in April'21. The growth in inflation (year-on-year) for the month at 4.29%, was the lowest in three months. This decline has been facilitated by the favorable statistical base effect coupled with the fall in prices in food items viz. vegetables. At the same time, elevated level of prices in the certain food and non-food segments continue to exert upward pressure on headline inflation.

The inflation reading for April'21 has been lower than CARE Ratings projection of 5.1%

The retail inflation in April'21 has been closer to the lower band of the RBI inflation target (of 4% to 6%). Barring the fuel segment, price levels were lower/stable on year-on-year basis across the other sub-segments of the CPI. However, on a month-on-month basis, except for the fuel segment, all the sub-segments of the CPI witnessed a rise in prices.

Although core inflation moderated to ten-month lows in April, it nevertheless continues to be at high levels. Also, the increase in price levels has been sharper in the urban areas than in rural area.



Source: MOSPI

- Inflation in food & beverages declined to a twenty-two month low of 2.7% in April'21 (over the growth of 10.5% in April'20).
  - The decline in the overall food inflation was driven by vegetables.
  - Within the food basket, prices have been high in the case of meat & fish, eggs, fruits, edible oils, and pulses. Constrained supply, increased demand and higher transportation costs have been pressuring prices of food items.
  - Prices of vegetable eased with the seasonal arrival and the high base effect. Vegetable prices witnessed a year-on-year contraction of 14% in April'21 over the 24% growth in April'20.
  - Edible oil inflation has increased by a record 26% from year ago (11% in Apr'20). This is on account of increased domestic demand coupled with the higher cost of imports amid lower supplies in the major exporting nations.
  - The price rise in pulses by 8% (over the 23% growth in Apr'20) is driven by supply shortages in the producing regions within the country as well as the overseas markets due to adverse weather conditions (drought). Also, the political tensions in Myanmar, which is a key producer, have affected exports from the nation and pushed up global prices of pulses.

- Meat prices increased by 17% (y-o-y) due to increased consumption, lower production levels (on account of bird flu), supply constraints and rise in global feed prices.
- Housing inflation increased to a 12-month high of 3.7% in April.
- Inflation in fuel components rose by 8% in April'21 over the 3% growth in April'20. The rise in global energy prices coupled with the high domestic taxes has been pushing fuel prices upwards. The higher fuel prices have led to an increase in transportation costs that feeds into prices across segments.
- Inflation in Miscellaneous component at 6.2% in April'21 was at a three-month low.
  - The decline is mainly on account of a fall in price levels in transport & communication, recreation & amusement, education, household good & service and personal care segments.
  - Health Inflation rose to the highest level since Aug'19 and came in at 7.8%.

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

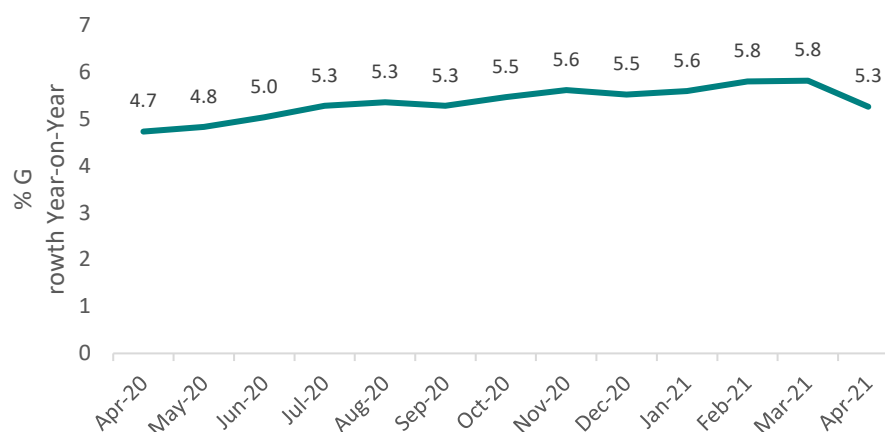
	Food and beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
Weight	45.86	2.38	6.53	10.07	6.84	28.32
Apr-20	10.5	5.9	3.5	3.9	2.9	5.4
May-20	8.4	6.3	3.4	3.7	1.6	5.8
Jun-20	7.9	11.3	2.7	3.5	0.5	6.1
Jul-20	8.5	10.5	2.8	3.3	2.7	6.8
Aug-20	8.3	11.2	2.8	3.1	3.1	7
Sep-20	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
Mar-21	5.2	9.8	4.4	3.5	4.5	6.9
Apr-21	2.7	9.0	3.5	3.7	7.9	6.2

Source: MOSPI

### Core CPI

Core inflation eased to a ten-month low of 5.25% in April. Despite the moderation, core inflation continues to be at elevated levels and points towards the input price pressures.

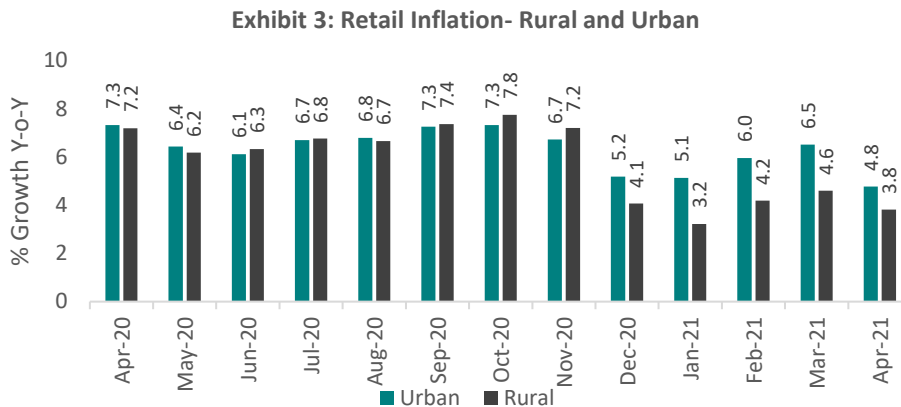
**Exhibit 2: Core CPI**



Source: MOSPI and CARE Ratings Calculation

## Rural vs Urban Inflation

The gap between the year-on-year increase in rural (at 3.8%) and urban (4.8%) retail inflation narrowed in April'21 and can be attributed to the higher base effect of April'20(exhibit 3). On a month-on-month basis, both urban and rural inflation has risen with the increase in the former at 0.8% being higher than the later which moved up by 0.6%. Urban inflation has been outpacing rural inflation since December'20.



Source: MOSPI

### CARE Ratings' View:

Inflation has come lower this time due to a sharp fall in vegetables inflation. If this segment is excluded, headline inflation would be 5.6%. Although the headline inflation reading could benefit from the higher base of year ago in the coming 2-3 months, the underlying price pressures are expected to prevail. The spread of the pandemic and fresh curbs across the country has once again led to supply chain disruptions, impacting prices across segments. Seasonal factor would be pushing up price of vegetables and lead to higher inflation. Also, global commodity prices have been firming, feeding into input costs. In addition to this, transportation and logistics costs would be sustained at elevated levels. These upside side risks to inflation limit the ability of the RBI to lower interest rates further.

We expect CPI inflation to rule above 5% for the next 2-3 months.

#### Contact:

**Madan Sabnavis**

**Author: Kavita Chacko**

**Mradul Mishra**

Chief Economist

Senior Economist

(Media Contact)

madan.sabnavis@careratings.com

kavita.chacko@careratings.com

mradul.mishra@careratings.com

+91-22-6837 4433

+91-22-6837 4426

+91-22-6754 3573

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#### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

