

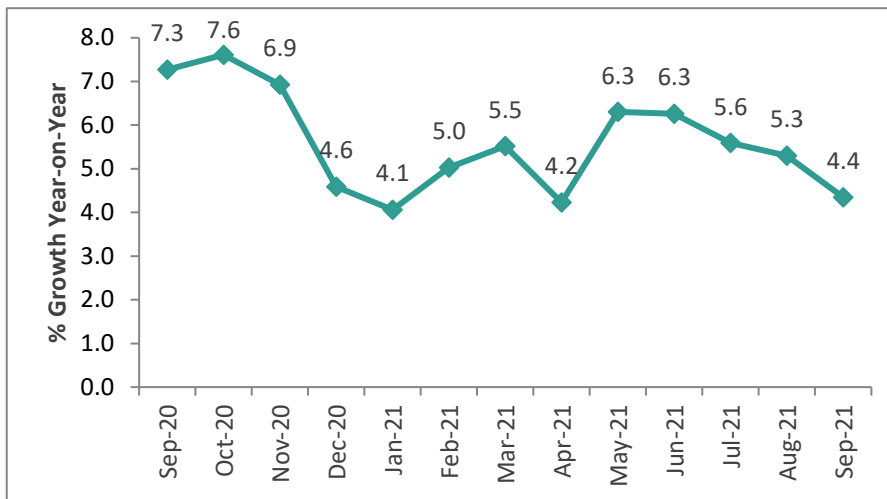
## Retail Inflation – September’21

October 12, 2021 | Economics

Retail inflation in India as measured by the consumer price index (CPI) eased further to 4.35% in September’21, it is close to CARE Ratings forecast of 4.3%. It was 95 basis points (bps) lower compared with 5.3% in August’21. The easing of inflation during the month is primarily on account of a high base effect (7.3% in September’20) and very low food inflation. Retail inflation was marginally higher by 0.18% over the previous month. Since July’21, retail inflation has been back within the RBI’s tolerance band of 4-6%, after having spiked in the preceding two months. Though price pressures have been building up in the fuel and services component, lower prices in the food & housing segments have helped contain the overall inflation.

Core inflation witnessed a slight uptick in September’21. It continues to remain sticky at elevated levels. Inflation in both rural as well as urban segments have eased during the month.

**Exhibit 1: Retail price inflation (YoY%)**



Source: MOSPI

### Component-wise inflation analysis

- **Food & Beverages inflation** comprising the highest weight of 45.86% in CPI, fell to a 29-month low of 1.61% in September’21 over a high base of 9.8% in September’20.
  - Deflationary trend in prices of **vegetables** continued for the 10<sup>th</sup> successive month. Deflation in vegetable prices widened to 22.5% in September from -11.7% in the previous month. However, the pick-up in vegetable prices has been masked by a favourable base effect.
  - Inflation in **edible oil** has been high at 34.2% in September’21. India’s high dependency on imports to meet its domestic requirements of edible oils and skyrocketing prices in the international markets is a major cause of concern. Lower import duties and imposition of stock limits on edible oils could temper price pressures to some extent.
  - Inflation in **pulses** fell to a 5-month low of 8.75% during the month over a fairly high base of 14.7% in the same month of the previous year.
  - Inflation in protein items like meat and fish (7.99%), eggs (7.06%) has softened during the month while inflation in milk (3.13%) has risen.
- **Housing inflation** was at 3.58% in September’21 compared with 3.9% in the previous month and 2.8% in the same month last year. Housing inflation has been range-bound within 3-4% over the past 12 months.

- **Fuel and light** segment witnessed double-digit year-on-year price growth for the fifth successive month. Inflation in this component was at 13.6% during the month, higher than 12.95% in August'21 and 2.8% in September last year. The hike in prices of petrol and diesel is likely push inflation higher in this segment.
- Inflation in the **miscellaneous component** was at 6.38% compared with 6.4% in the previous month and 6.9% in the corresponding month of the previous year.
  - Higher prices in **household goods and services** (5.9%), **recreation and amusement** (7.58%), **transport and communication** (9.53%) and **health** (7.74%) have been pushing inflation in this component higher.
  - Price pressures in the **health segment** were strong at 7.74% during the month. Elevated inflation in the health component continues to remain a cause of concern as it is likely to squeeze into the overall household spending.
  - **Inflation in transport and communication** segment was at 9.53% in September'21, lower than 10.2% in August'21 and 11.5% in September last year.

**Table 1: Component wise retail inflation (YoY%)**

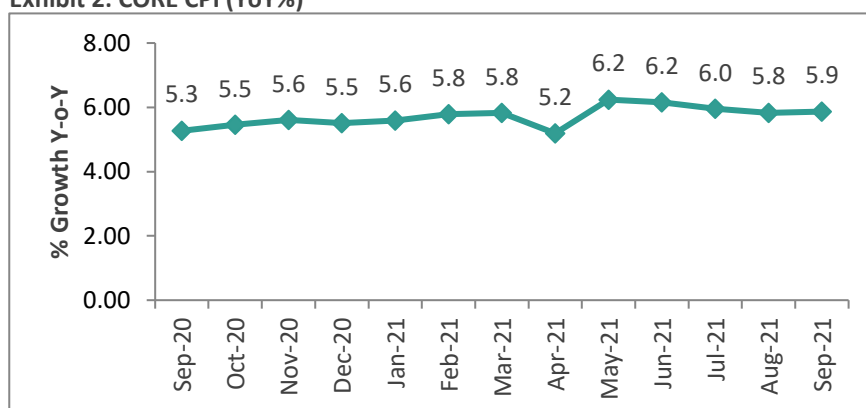
	Food and Beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Misc
<b>Weight</b>	<b>45.86</b>	<b>2.38</b>	<b>6.53</b>	<b>10.07</b>	<b>6.84</b>	<b>28.32</b>
Sep-20	9.8	10.7	3.0	2.8	2.8	6.9
Oct-20	10.1	10.6	3.1	3.3	2.1	6.9
Nov-20	8.9	10.4	3.4	3.2	1.6	7.0
Dec-20	3.9	10.7	3.5	3.2	2.9	6.6
Jan-21	2.7	10.9	3.8	3.3	3.9	6.5
Feb-21	4.3	10.7	4.2	3.2	3.5	6.8
Mar-21	5.2	9.9	4.4	3.5	4.4	7.0
Apr-21	2.6	9.0	3.5	3.7	8.0	6.1
May-21	5.2	10.0	5.3	3.9	11.9	7.3
Jun-21	5.6	4.0	6.1	3.8	12.6	7.2
Jul-21	4.5	4.7	6.4	3.9	12.4	6.7
Aug-21	3.8	4.0	6.8	3.9	13.0	6.4
Sep-21	1.6	4.2	7.2	3.6	13.6	6.4

Source: MOSPI

### Core CPI

The year-on-year growth in core inflation which constitutes the non-volatile components of the CPI has witnessed a slight uptick to 5.9% in September'21. This increase in core inflation can be attributed to the strengthening price pressures in the services component. Core inflation continues to remain sticky at elevated levels indicative of the lingering price pressures in the economy.

**Exhibit 2: CORE CPI (YoY%)**

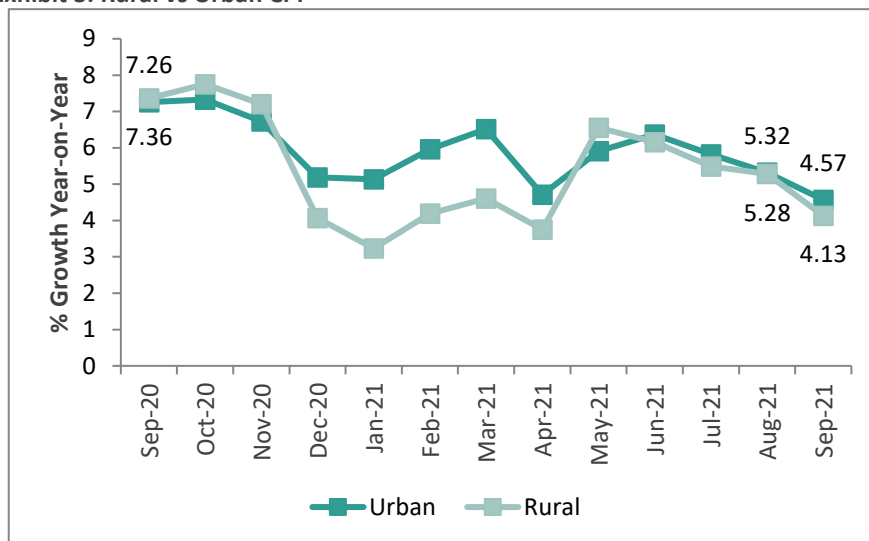


Source: MOSPI and CARE Ratings Calculation

### Rural vs Urban Inflation

Inflationary pressures in both rural as well as urban areas have been showing signs of easing on account of a high base effect of September'20. Inflation in the **rural areas** declined to a 5-month low of 4.1% in September'21. It stood at 5.3% in August'21 and 7.4% in September'20. Likewise, **urban** inflation too was at a 5-month low of 4.6% in September'21 vis-à-vis 5.3% in the previous month and 7.3% in the corresponding month of the previous year. The gap between rural and urban inflation widened by 44 bps with inflation in urban areas outpacing that in the rural areas. Inflation in the urban and rural areas has risen on a month-on-month basis by 0.06% and 0.24% respectively.

**Exhibit 3: Rural vs Urban CPI**



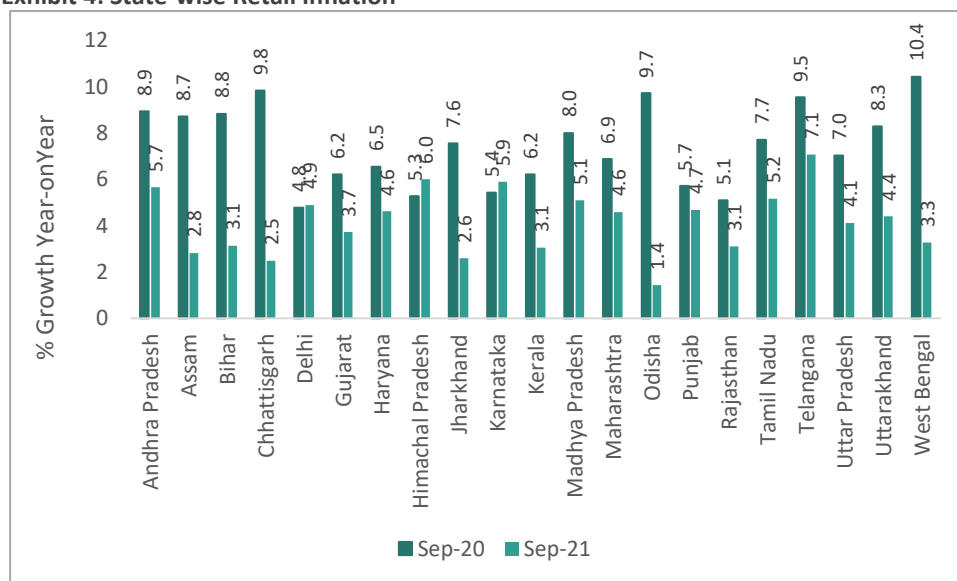
Source: MOSPI

### State-wise inflation

**Exhibit 4** depicts the state-wise comparison of year-on-year growth in retail inflation reported in 21 states in September'21 V/s that in the same month last year.

- 10 out of 21 states have reported an inflation higher than the all-India retail inflation for the month (4.4%).
- Highest retail inflation has been reported in Telangana (7.1%), Himachal Pradesh (6%) and Andhra Pradesh (5.7%).
- Inflation was the lowest in Odisha (1.4%), Chhattisgarh (2.5%) and Assam (2.8%).
- Inflation has breached the 6% mark in Telangana whereas in all other states it is lower than 6%

**Exhibit 4: State-wise Retail Inflation**



Source: MOSPI

### CARE Ratings' View:

The Reserve Bank of India (RBI) at its fourth bi-monthly monetary policy meeting for FY22 concluded on 8th October 2021, maintained the repo rate at a record low of 4% and continued with its accommodative policy stance. RBI reiterated its emphasis on growth and economic revival. The FY22 retail inflation projection was revised downwards to 5.3% from 5.7%.

Going ahead, higher prices of edible oils, metals and crude oil in the international markets is likely to pressure domestic retail inflation. The passthrough of high international oil prices to the transport sector could indirectly impact other commodity prices. Food inflation is expected to be benign on the back of deflation in vegetable prices, good kharif output and adequate buffer stock of food grains. Retail inflation reading over the coming months could benefit from a helpful base and lower food inflation.

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