

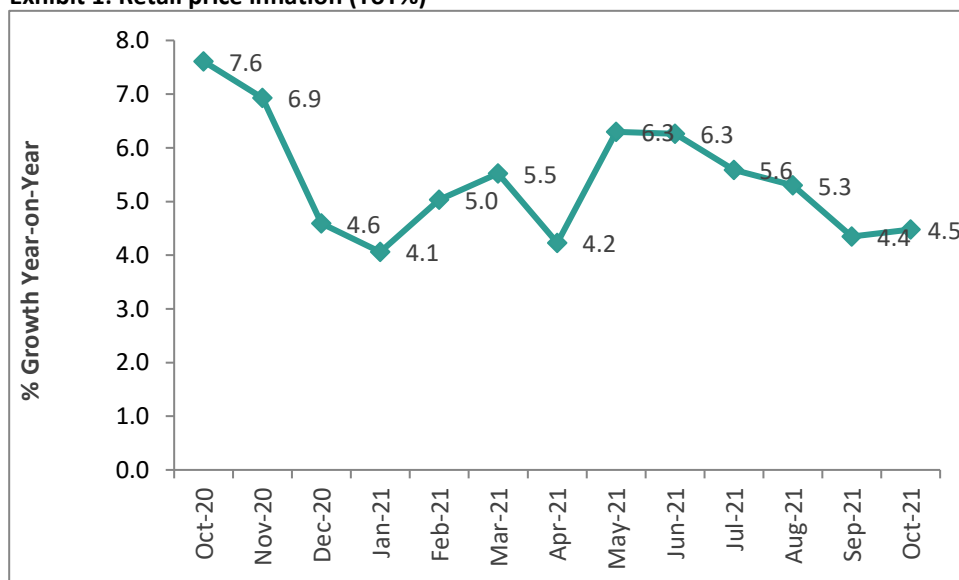
Retail Inflation- October'21

November 12, 2021 | Economics

In October'21, the pace of headline inflation (CPI) was largely stable at 4.5% compared with 4.4% in the previous month. On a sequential basis, retail price pressures have accelerated by 1.4%. CARE Ratings had estimated CPI based inflation at 3.8%. The largely stable retail inflation print during the month has been on account of fairly high base of last year (7.6% in October'20) and benign inflation in food articles. However, pick-up in prices of vegetables and elevated price levels in the miscellaneous and fuel segment pose an upside risk to the inflation level in the coming months

The Core CPI, which excludes the volatile components, has moved upwards to 6.1% from 5.9% in the previous month. It has remained sticky throughout the first seven months of FY22. Inflation has accelerated in the urban segments while it has eased to a 10-month low in the rural areas.

Exhibit 1: Retail price inflation (YoY%)



Source: MOSPI

Component-wise inflation analysis

- Inflation in the **food and beverages** component (which constitutes the highest weight of 45.86% in CPI) witnessed a slight uptick to 1.8% from 1.6% in September'21. This low inflation number has been facilitated by a favourable statistical base effect.
- **Vegetable prices** continue to exhibit deflationary trend for the 11th successive month at -19.4%. However, on a sequential basis prices of vegetables have picked up by 14.2% in October'21. This increase has been masked by the fairly high base of last year (22.1% in October'20).
- Prices of **fruits** rose to 4.9% during the month.
- Growth in prices of **edible oils** stood at 33.5% in October'21, higher than 15.2% in the corresponding month of the previous year. On a sequential basis, price growth in this component increased by 1.3%. Retail prices of edible oils have witnessed an upsurge over the past few months tracking the global trend amid lower production. However, the prices are likely to ease owing to measures implemented such as import duty cuts and imposition of stock limits.
- Inflation in **pulses** edged downward to 5.4% compared with 8.8% in the previous month. It accelerated by 0.7% over the previous month.
- Inflation in **meat and fish** was elevated at 7.1% in October'21 despite high base of 18.6% in the same month last year. **Egg** prices witnessed deflation of 1.4% in October'21 reversing the trend of elevated inflation on account of a high base of 21.7% in October last year.
- **Clothing inflation** is at 7.5% and with the expected increase in GST from January, there will be a further push given.
- Inflation in **housing** stood at 3.5% in October'21 compared with 3.6% in the previous month and 3.3% in the same month of the previous year.

- **Fuel** components continued to witness double-digit price growth for the 6th successive month rising to 14.4% in October'21. The unrelenting increase in global energy prices coupled with elevated domestic taxes on fuel have contributed to sustained double-digit inflation in this component. The recent cut in excise duty and additional reductions in state taxes could offer some relief to the consumers.
- Price levels for the **miscellaneous component** rose to a 4-month high of 6.8% in October'21, higher than 6.4% in the previous month. Price pressures in this component have been rigid over the past few months on account of a rebound in economic activities. The main drives of inflation in the miscellaneous component were **household goods and services** (6.2%), **health** (7.6%), **recreation** (6.9%), **transport and communication** (10.9%). Inflation for personal care products and household goods is likely to witness higher inflation as most producers have announced that they will be increasing prices to offset the increase in costs.

Table 1: Component wise retail inflation (YoY%)

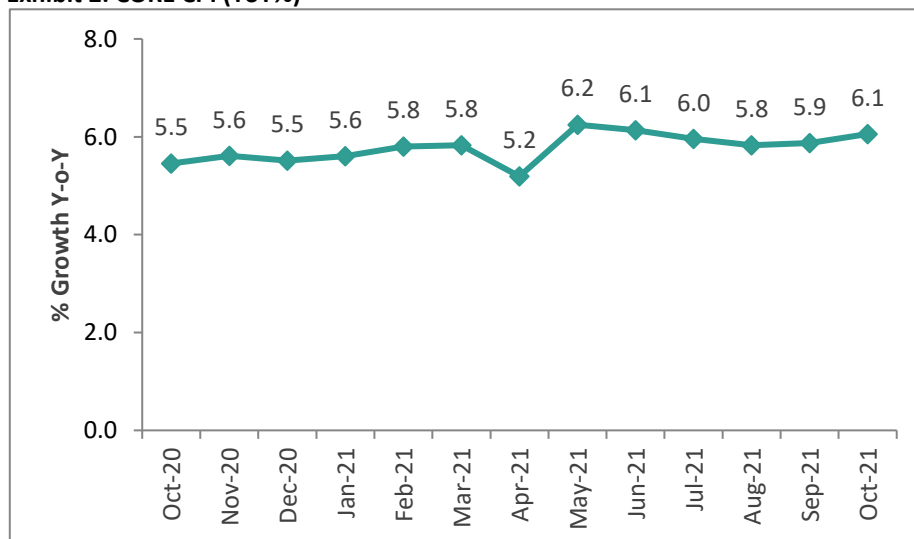
	Food and Beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
Weight	45.86	2.38	6.53	10.07	6.84	28.32
Oct-20	10.1	10.6	3.1	3.3	2.1	6.9
Nov-20	8.9	10.4	3.4	3.2	1.6	7.0
Dec-20	3.9	10.7	3.5	3.2	2.9	6.6
Jan-21	2.7	10.9	3.8	3.3	3.9	6.5
Feb-21	4.3	10.7	4.2	3.2	3.5	6.8
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	3.7	4.0	6.8	3.9	13.0	6.4
Sep-21	1.6	4.2	7.2	3.6	13.6	6.4
Oct-21	1.8	4.3	7.5	3.5	14.4	6.8

Source: MOSPI

Core CPI

Core inflation (which excludes volatile components such as food and energy prices) increased to 6.1% from 5.9% in the previous month. During the first seven months of FY22, core inflation has remained range-bound within 5.2-6.2%.

Exhibit 2: CORE CPI (YoY%)

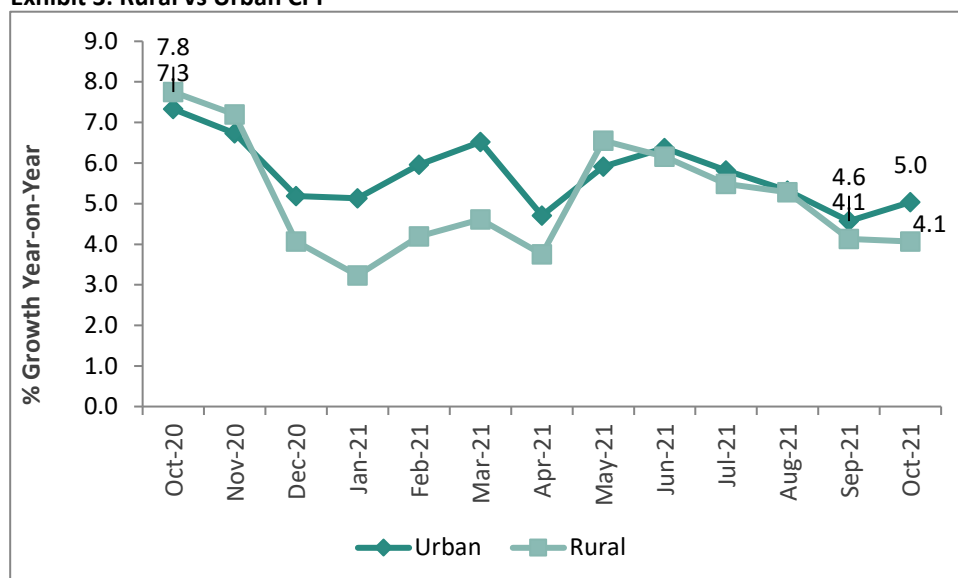


Source: MOSPI and CARE Ratings Calculation

Rural vs Urban Inflation

In October'20 rural inflation stood at 7.8%, 50 basis points higher than 7.3% in the urban areas. This trend has been reversed with urban inflation outpacing rural inflation by a narrow margin over the last 11 months (except in May'21). In October'21 urban inflation was pegged at 5%, 90 basis points higher compared with 4.1% in the rural areas. Inflation in urban areas has inched up while rural inflation was recorded at the lowest level since December'20.

Exhibit 3: Rural vs Urban CPI



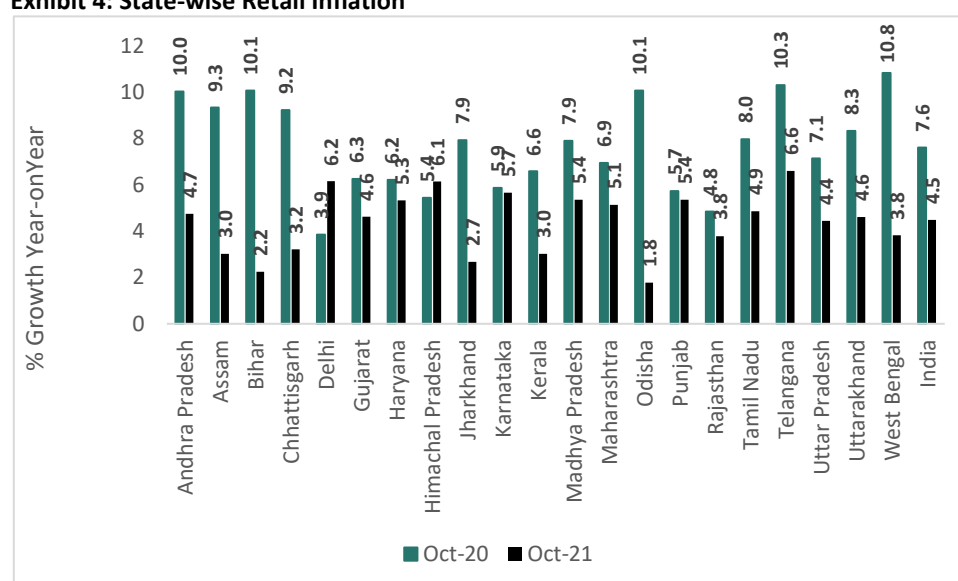
Source: MOSPI

State-wise inflation

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

- Inflation in 12 out of 21 states has exceeded the all-India retail inflation for the month (4.5%).
- Amongst the states, Telangana recorded the highest inflation of 6.6% followed by Delhi with 6.2% inflation while price growth was the lowest in Odisha (1.8%) followed by Bihar (2.2%).
- Inflation has breached the 6% mark in 3 out of 21 states.

Exhibit 4: State-wise Retail Inflation



Source: MOSPI

CARE Ratings' View:

Benign inflation in the food segment and a fairly high base of last year has contributed to a retail inflation print of 4.5% in October'21. Measures such as cut in excise duty on fuel, imposition of stock limits and waiver of basic import duty on edible oils are expected to restrict domestic inflation despite soaring prices of fuel and edible oils in the global markets. The inflation in the services sector is likely to remain elevated as momentum in vaccination continues and mobility rebounds to the pre-pandemic level.

We expect inflation to remain pressurized post November when the base effect will diminish, and the CPI change will be above 5%.

Contact:

Madan Sabnavis

Author: Akanksha Bhende

Mradul Mishra

Chief Economist

Associate Economist

Media Relations

madan.sabnavis@careratings.com

akanksha.bhende@careratings.com

mradul.mishra@careratings.com

+91-22-6837 4433

+91-22-6837 4400

+91-22-6837 4424

Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

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 :

