

Retail Inflation: June '21

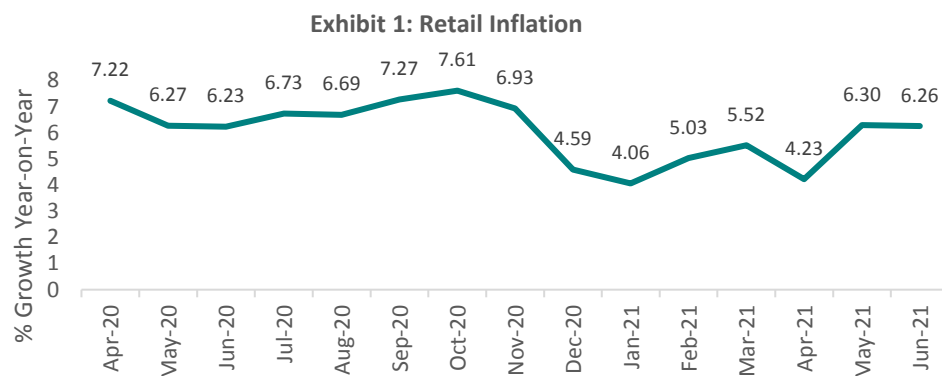
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India's headline inflation as measured by the consumer price index (CPI) has been fairly stable near month ago levels in June'21. The growth in inflation (year-on-year) for the month at 6.26% was once again over a fairly high base of 6.23% (June'20) and points to the build up of price pressures in the domestic economy. It was the second successive month where the inflation reading is above the upper band of the RBI's inflation target of 2% to 6%. The rise in headline inflation during the month was driven by the food, fuel and the service segment.

The inflation reading for June'21 has been largely in line with CARE Ratings projection of 6.3%

Although on a year-on-year basis, the rise in price levels in June'21 was fairly broad-based across the various segments of the CPI, there was a moderation in the rate of growth in prices on a month-on-month basis across all the segments.

Core inflation was sustained at elevated levels during the month, increasing on a month-on-month basis pointing towards the build up in price pressures in the domestic economy. Also, the increase in price levels in June has been sharper in the rural areas than in urban area.



Source: MOSPI

- Inflation in food & beverages rose to a seven-month high of 5.6% June'21 (over the 7.9% growth in June'20).
 - Food inflation in June was driven by edible oils, eggs, meat, pulses and fruits. Constrained supply, increased demand and higher transportation costs with rise in fuel costs have been pressuring prices of food items.
 - Vegetable prices witnessed a year-on-year contraction of 0.7% in June'21 over the 4% growth in June'20.
 - Edible oil inflation has increased by 35% from year ago (11.5% in June'20). Edible oil prices touched record highs in the overseas markets amid lower supplies in the main producing and exporting regions. This has pushed up prices of the commodity in the domestic markets given the reliance on imports.
 - The price rise in pulses by 10% (over the 18% growth in June'20) is driven by supply shortages in the producing regions (domestic and overseas) due to adverse weather conditions (drought), accompanied by rising demand. Supply bottlenecks have added to the price pressures.
 - Egg and meat prices rose by 19% and 4.8% (year-on-year) respectively. The rise in feed prices globally and higher operational costs (viz. fuel costs) along with lower production levels have pushed up prices of these commodities.
- Inflation in fuel components rose by 12.7% in June'21 over the 0.5% growth in June'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 cost that is getting embedded across segments.
- Price levels for the miscellaneous component grew by 7.3% in June'21 over the growth 6% in June'20. The higher growth here can be attributed to the easing of the lockdowns in various regions and the increase in demand for various services.

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

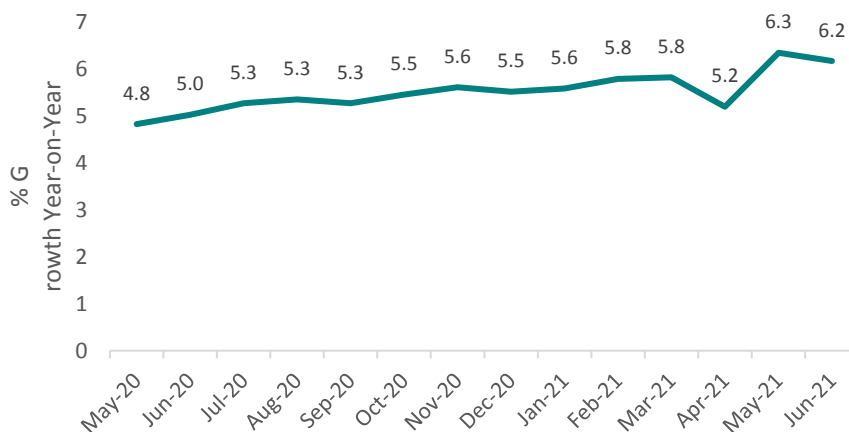
	Food and beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
Weight	45.86	2.38	6.53	10.07	6.84	28.32
Jun-20	7.9	11.3	2.7	3.5	0.5	6.1
Jul-20	8.5	10.5	2.8	3.3	2.7	6.8
Aug-20	8.3	11.2	2.8	3.1	3.1	7
Sep-20	9.8	10.7	3	2.8	2.8	6.9
Oct-20	10.1	10.6	3.1	3.3	2.1	6.9
Nov-20	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
May-21	5.2	10.0	5.3	3.9	11.6	7.3
Jun-21	5.6	4.0	6.2	3.7	12.7	7.3

Source: MOSPI

Core CPI

The year-on-year growth in core inflation eased marginally to 6.17% in June compared with 6.34% in May. The month-on-month growth reading however indicated a rise of 0.14%. Given that core inflation includes the non-volatile components of the CPI, the elevated levels of core inflation point towards the underlying prices pressures prevailing in the economy. Core inflation has been over 5.5% for the last eight months (since Nov’20) and has witnessed a near sustained increase over this period.

Exhibit 2: Core CPI

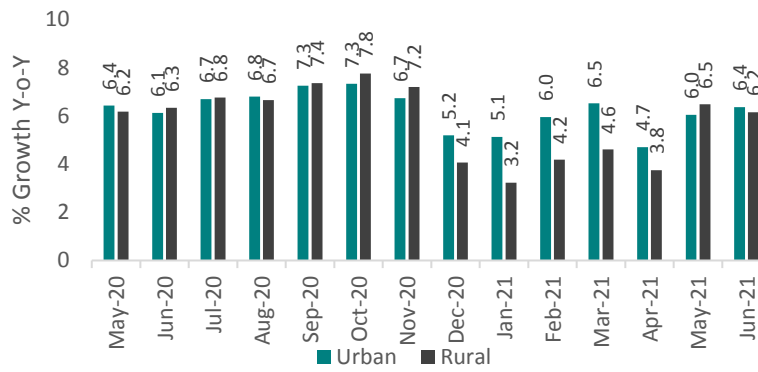


Source: MOSPI and CARE Ratings Calculation

Rural vs Urban Inflation

The annual growth in urban inflation outpaced rural inflation in June, reversing the trend of the preceding two months. Inflation in rural areas at 6.2% in June’21 (over June’20) was 0.2% less than that in urban regions. However, on a month-on-month basis, the increase in rural inflation at 2.2% was higher than the 1.1% rise in the urban areas. This can be taken as being reflective of the disruption on account of the reimposition of the pandemic restrictions being more pervasive in the rural areas.

Exhibit 3: Retail Inflation- Rural and Urban



Source: MOSPI

State-wise inflation

22 states, which have reported inflation for June'21 have been plotted in Exhibit 3 along with inflation in the corresponding month of last year.

- Twelve states have recorded inflation more than the all-India retail inflation for the month (6.26%).
- Amongst the states, Himachal Pradesh saw the highest retail inflation at 8.5% followed by Madhya Pradesh at 8.0%.
- Inflation has been over 7% in Tamil Nadu (7.5%), Jammu & Kashmir(7.4%) and, Telangana (7.4%)
- Inflation was amongst the lowest in the case of Assam (at 0.9%) and Jharkhand (4.4%).

CARE Ratings' View:

The pass through of higher global commodity prices, supply constraints and rising demand would pressure retail inflation in coming months. Higher fuel prices have gotten transmitted in a generalized manner through transport costs to other commodities. Furthermore, there could be a pickup in services inflation as the unlocking process and vaccination programme gathers momentum. Although, the headline inflation reading could benefit from the higher statistical base, we expect CPI inflation to rule around 6% for the next 2-3 months. The RBI however is unlikely to shift its accommodative monetary policy despite the build-up in inflation.

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