

Retail Inflation – November 2020

14 December, 2020 Economics

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-6837 4433

Authors:

Kavita Chacko
Senior Economist
kavita.chacko@careratings.com
91-22-6837 4426

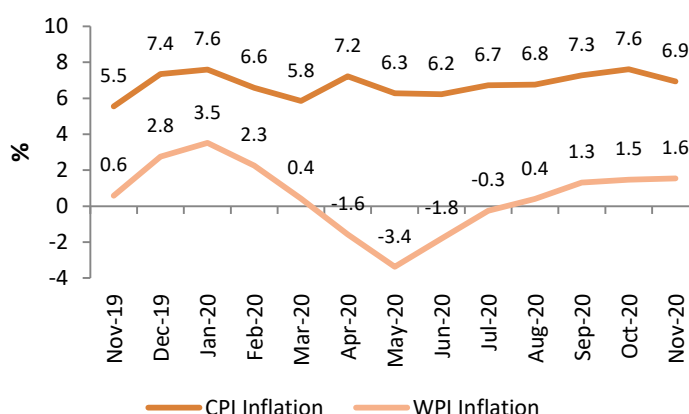
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6754 3573

There has been an easing in retail inflation in November'20, aided by the moderation in food inflation. Retail inflation for the month at 6.9% was in line with CARE Ratings forecast.

Despite the moderation, the inflation reading continues to be elevated and above the upper band of the RBI target range for retail inflation (6%), for the twelveth successive month.

There has been a buildup in price pressure at the wholesale level too. The wholesale inflation in November climbed to the highest level in nine months (to 1.6%).

Retail and Wholesale Inflation (% change Y-o-Y)



Source: MOSPI

Retail Inflation Movement

Disclaimer: This report is prepared by CARE Ratings Ltd. 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.

- The easing of the rate of growth in retail inflation in November can in part be also attributed the statistical (high) base effect (5.5% in November'19).
- The decline in retail inflation in November was not broadbased.
- Core inflation firmed up in November to the highest levels in over two year.
- Price pressure are higher in rural India. Rural inflation was higher than urban inflation in November and the gap between the two has widened to the highest level since March'20.
- Nearly all states have witnessed an increase in retail prices in November'20 v/s November'19. There has however been an easing in retail prices levels from October'20 across states.

Table 1: Component wise retail inflation (Y-o-Y % change)

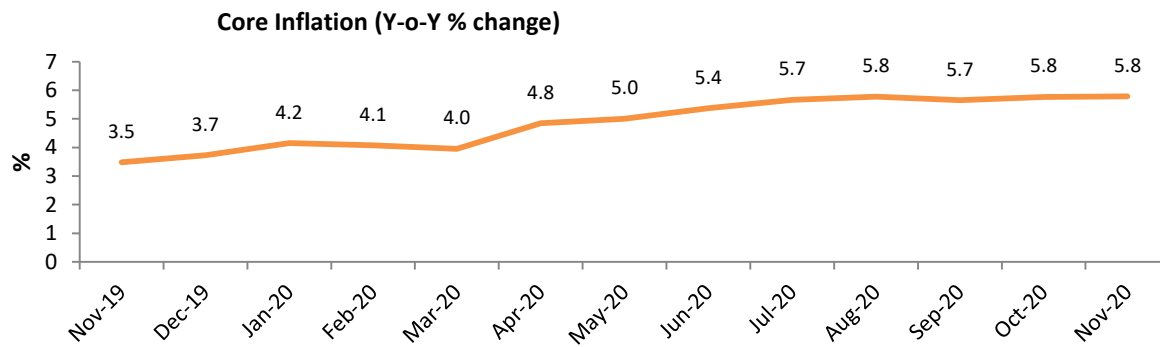
	Food and beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
Weight	45.86	2.38	6.53	10.07	6.84	28.32
Apr-20	10.5	5.9	3.5	3.9	2.9	5.4
May-20	8.4	6.3	3.4	3.7	1.6	5.8
Jun-20	7.9	11.3	2.7	3.6	0.5	6.1
Jul-20	8.5	10.5	2.5	3.3	2.7	6.9
Aug-20	8.3	11.2	2.8	3.1	3.2	7.0
Sep-20	9.8	12.3	3.7	4.6	1.5	7.1
Oct-20	10.2	10.7	3.2	3.3	2.3	6.9
Nov-20	8.8	10.4	3.3	3.2	1.9	6.9

Source: MOSPI

- Food prices (which have the highest weight in the CPI index at 45.86) witnessed the sharpest decline in the growth in price levels (by 1.3%) amongst the key component of the CPI in November'20 from October '20. Food inflation nevertheless was notably higher than year ago levels by 8.8%
 - Vegetable prices saw the sharpest decline in growth rates (by 6.9%) in November'20 v/s October'20. This decline can be attributed to the higher production reaching markets during the month. Despite the improvements were 16% higher than that in November'19 and can be attributed to the supply disruption consequent to the lockdown and unfavorable weather conditions (unseasonal rains) in the main producing regions of Maharashtra and Madhya Pradesh.
 - Double digit price increases continued to be recorded most segments of the food basket in November'20 from that in November'19 - meat and fish (17%), eggs (20%), pulses and oil & fats (18% each) and spices (11%).
- Miscellaneous segment inflation at 6.94% in November, reversed the moderation of the previous month and rose by 0.6%. Price increases in the transport and communication and the personal care segments (by over 11% each) pushed up overall price levels in the segment.
- Housing inflation moderated marginally by 0.1% in November'20 from the previous month.

Core Inflation

Core inflation (which excludes the food & beverages and the fuel & light group having a combined weight of 52.7 in the CPI) inched up, albeit marginally, by 0.02% in November'20, taking it to an over two year high. The firming up of core inflation is reflective of the broad based nature of the prevailing price pressures

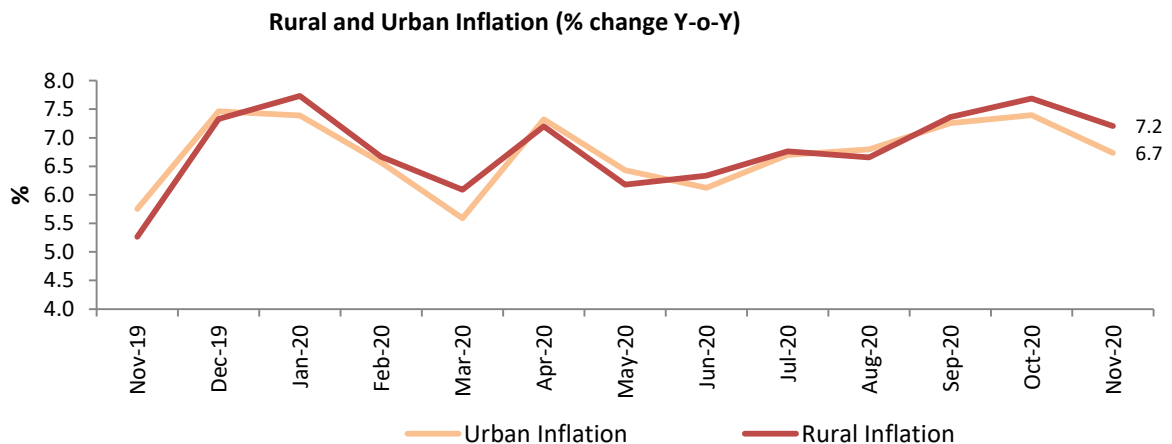


Source: MOSPI

Rural and Urban Inflation

There has been a moderation in retail inflation in the rural as well as urban areas in November'20, with the decline in urban inflation being higher. Urban retail inflation dropped to a four months low during the month. This decline can in part be ascribed to a higher base (5.8% in November'19).

The gap between rural and urban inflation has been widening since the last three months and at 0.5% in November'20 it is the highest since March'20. This is indicative of the price pressures prevailing in rural India.

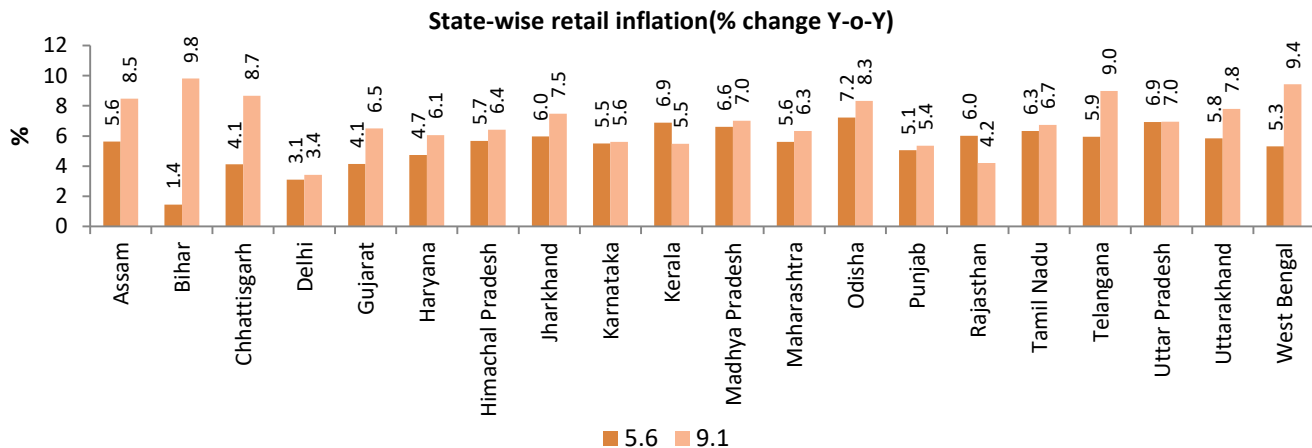


Source: MOSPI

Statewise Inflation

The majority of states have witnessed an increase in the growth rate of retail prices in November'20 from November'19. Of the 21 states who have reported changes in retail inflation for November'20, only 2 states i.e. Rajasthan(-1.8%) and Kerala (-1.4%) have seen a decline in the growth rate of prices on a year-on-year basis. Price levels were relatively stable in Uttar Pradesh (y-o-y). Among the states, the sharpest increase in price levels has been in the case of Bihar at 8.5% in November'20 over November'19.

With the exception of Gujarat (0.1% increase) and Himachal Pradesh (1.1% increase), the growth in retail inflation has declined across states in November'20 from that in October'20.



Outlook

The supply side issues viz. in case of agricultural commodities could ease, albeit gradually, with the resumption of activity across regions. Also, the higher output, with increased crop productivity, coming into the markets could help cool prices of agricultural produce to an extent. At the same time, the firming of global commodity prices and the increase in logistics costs would put added pressure on price levels across segments. In addition there are concerns that the ongoing farmers agitation would impact prices of agricultural commodities. Despite the upside risk, the statistical high base effect over the next few months could lead to a moderation in inflation rate. We expect retail inflation to move towards 5.5% by March'21.

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457
 E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  /company/CARE Ratings
 /company/CARE Ratings