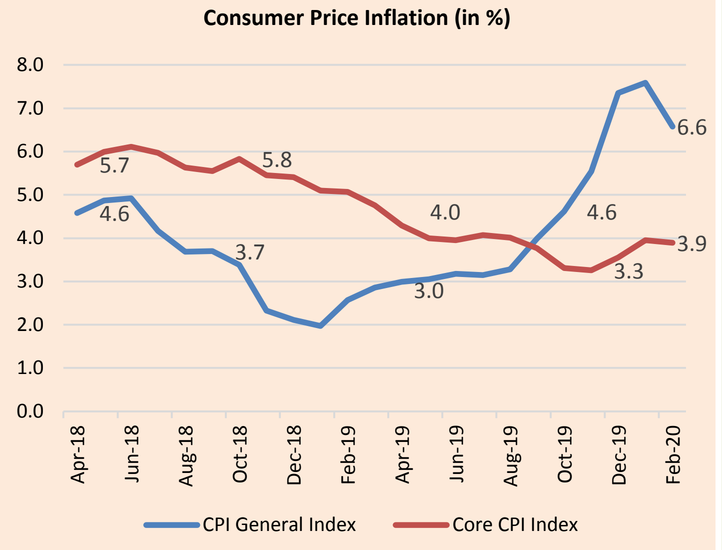
Economy Fact Sheet – Consumer Price Index
March 2020

CPI inflation moderates to 6.6 percent in February 2020

Trend in CPI Inflation



- After edging up for six consecutive months, the latest data for the month of February 2020 reported a softening in price levels
- The overall CPI based inflation rate was reported at 6.6 percent in February 2020 – vis-a-vis 7.6 percent inflation rate reported in January 2020 and 2.6 percent in February 2019
- The current fall comes on back of moderation noted in prices of food and beverages segments. Miscellaneous products segment comprising of services like - transport & communication and personal care & effects - also noted a marginal moderation in prices levels
- However, other broad heads –including clothing & footwear, housing & fuel & light segments witnessed inflation rates going up

CPI – Key Sub-segment (% change Y-o-Y)

Month	General Index	Food and beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
Weight	100	45.86	2.38	6.53	10.07	6.84	28.32
Feb-19	2.6	-0.1	5.5	2.7	5.1	1.2	6.0
Nov-19	5.5	8.7	3.3	1.3	4.5	-1.9	3.7
Dec-19	7.4	12.2	3.4	1.5	4.3	0.7	4.2
Jan-20	7.6	11.7	3.7	1.9	4.2	3.7	4.8
Feb-20	6.6	9.5	4.1	2.1	4.2	6.4	4.5

Source: Economic Outlook – CMIE

The Food & Beverage segment noted a fall in inflation for the second consecutive month in February 2020. The segment witnessed an inflation rate of 9.5 percent in February 2020, vis-a-vis 11.7 percent inflation noted in January 2020 and 12.2 percent in December 2019. The current moderation in the segment is backed by a decline in inflation seen in segments like fruits and vegetables. Vegetable prices increased by 31.6 percent in February 2020- which though remains above the comfort level of consumers – was much lower than 50.2 percent and 60.5 percent increase noted during the months of January 2020 and December 2019 respectively. Also, fruit prices registered an increase by 3.9 percent in February 2020, vis-a-vis 5.8 percent increased noted in January 2020.

Nonetheless, it may be noted that prices of protein rich food products continued to remain firm. However, the spread of coronavirus is adversely affecting the poultry farmers with people abstaining from buying such products. According to news reports, the poultry market is loosing about 150-200 crore every day.

CPI – Key Sub-segment of Food & Beverages (% change Y-o-Y)

Month	Cereals and products	Egg, fish and meat	Meat and fish	Egg	Milk and products	Oils and fats	Fruits	Vegetables	Pulses and products
Feb-19	1.3	5.4	5.9	0.9	0.9	1.3	-4.6	-7.7	-3.8
Nov-19	3.7	9.1	9.4	6.2	3.5	2.6	3.2	36.1	13.9
Dec-19	4.4	9.6	9.6	8.9	4.4	3.0	4.5	60.5	15.4
Jan-20	5.3	10.6	10.6	10.5	5.6	6.7	5.8	50.0	16.7
Feb-20	5.2	9.9	10.2	7.3	6.1	7.6	4.0	31.6	16.6

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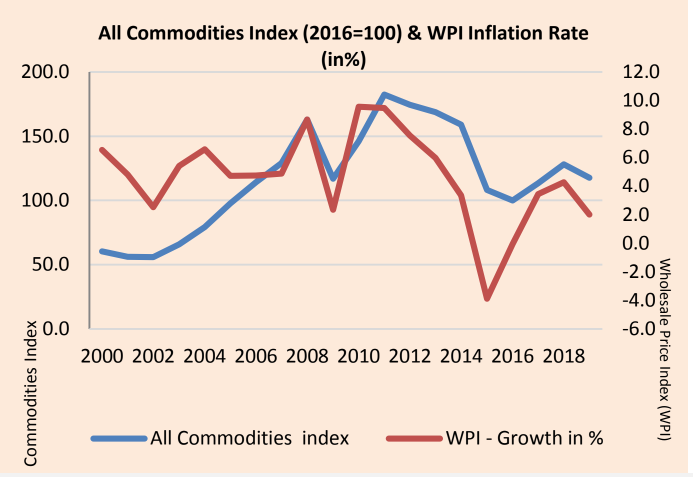
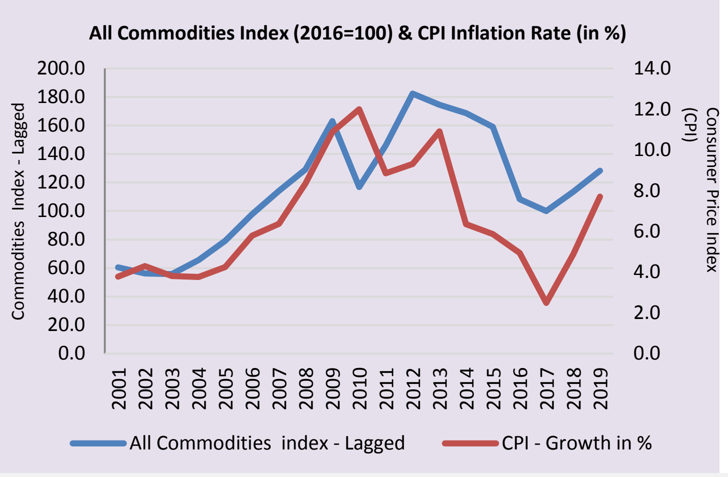
Central Bank should emphasize on growth considerations….Inflation in India driven by Global Commodity Prices & Supply side Bottlenecks..





India's inflation trajectory is really driven largely by global commodity price movements, as one would expect in a largely open economy. Food-related supply shocks also have a large bearing on inflation. The wholesale price index (WPI) inflation for India mirrors the global commodity index, and the CPI inflation also matches it with a one-year lag (see charts). The decline in inflation came about because global commodity prices fell in 2014-15.

Inflation remained low between 2000 and 2006 without any inflation-targeting regime, because global commodity prices were subdued. But after global commodity prices rose, inflation also rose in India, remaining high — until 2014, as part of the global commodity cycle. If global commodity prices drive inflation, then mechanically targeting inflation through monetary policy can be ineffective. In India's case, in 2014-18, the real repo rate was kept at 250-300 bps, much higher than was necessary. This hurt growth, drove up the real exchange rate by attracting portfolio inflows, hurt export growth and weakened the goals of 'Make in India'

Source: Growth, and not inflation is India's real problem, Economic Times, Dr Ajay Chhibber, Chief Economic Advisor, FICCI

Comments

The latest data point for inflation has noted moderation which comes in as a welcome reprieve. The prices of vegetables seem to be coming down on back of improved supplies. Production in most vegetable producing States has been good aided by favourable climatic conditions and the yields have been good too. Staples like onions and tomatoes have noted a dip in prices. Potato prices, however, are expected to go up due to crop damage and hailstorms in some of the major cultivating areas. In fact, mandi prices of some other staples like rice, arhar, maize, channa also indicate a moderation in price levels. Moreover, with the massive decline in crude oil witnessed earlier this month, the overall inflation outlook seems benign.

At this juncture, kick-starting growth remains a challenge and the outbreak of coronavirus is further dampening the spirits. The supply shock due to the coronavirus spread is across sectors and will impact the already weak demand. The Central Bank should undertake a cut in the repo rate in its forthcoming monetary policy to be announced in the first week of April 2020. We are happy to note the Governor's statement citing that there is further policy space for considering a cut in the repo rate and hope to see action on that front soon.