

CPI inflation stood at 6.1 percent in June 2020

Month	Weight	Jun-19	Mar-20	Apr-20	Apr-20*	May-20	May-20*	Jun-20
General Index	100	3.2	5.8	na	7.2	na	6.3	6.1
Food and beverages	45.86	2.4	7.8	8.6	8.6	7.4	8.4	7.3
Pan, tobacco and intoxicants	2.38	4.2	4.7	na	5.9	na	6.3	9.7
Clothing & footwear	6.53	1.5	2.1	na	3.5	na	3.4	3.5
Housing	10.07	4.8	3.7	3.9	4.0	3.7	3.7	3.6
Fuel & light	6.84	2.2	6.6	2.9	2.9	1.4	1.6	2.7
Miscellaneous	28.32	4.5	4.4	na	5.4	na	5.8	5.7

*Indicated Imputed Index value

- ❖ Overall consumer price index (CPI) based inflation rate for June 2020 was released by the Central Statistics Office after a gap of two months (April/May 2020).
- ❖ Latest data for the month of June 2020 reported CPI based inflation at 6.1 percent as compared to 3.2 percent inflation reported in the same month previous year. June 2020 also marked the beginning of phased unlocking of the economy making wider data collection possible.
- ❖ The index values for April and May 2020 were also reported based on imputed methodology.
- ❖ In June 2020, elevated prices were reported mainly in miscellaneous; pan, tobacco and intoxicants and food and beverages segments of the index. However, other broad heads including clothing & footwear, housing and fuel & light segments witnessed moderate inflation rates during the month.
- ❖ Under miscellaneous segment, personal care & effects (12.4 percent), transport & communication (7.1 percent) and education (5.5 percent) recorded high inflation in June 2020. Under pan, tobacco & intoxicants head, significant increase in the tax component on liquor [as high as 70 percent in Delhi (now withdrawn)] and higher than anticipated sales majorly contributed to the increase in price levels during the month.

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

Month	Food	Cereals and products	Egg, fish and meat	Milk and products	Oils and fats	Fruits	Vegetables	Pulses and products	Sugar and condiments	Spices
Weight	39.06	9.67	4.04	6.61	3.56	2.89	6.04	2.38	1.36	2.50
Jun-19	2.3	1.3	8.3	0.7	0.7	-4.2	4.7	5.7	-0.1	1.6
Feb-20	10.8	5.2	9.9	6.1	7.7	4.0	31.6	16.6	4.2	8.8
Mar-20	8.8	5.3	8.8	6.5	7.5	3.6	18.6	15.9	3.9	9.8
Apr-20	11.7	7.8	-2.9	9.4	10.8	2.7	23.6	22.8	10.3	12.8
May-20	9.2	7.3	15.3	8.8	11.9	2.0	5.5	21.1	6.0	12.5
Jun-20	7.9	6.5	15.4	8.4	12.3	-0.7	1.9	16.7	4.4	11.7

The food segment continued to report elevated levels of inflation in the month of June 2020 majorly on the back of higher protein prices. Overall food segment witnessed an inflation rate of 7.9 percent in June 2020. Though this was lower than 9.2 percent inflation noted in May 2020, it remains above the comfort zone. Prices of protein based segments continued to surge during the month with eggs, fish and meat reporting an inflation rate of 15.4 percent and pulses and products reporting 16.7 percent inflation in June 2020. Overall protein index reported an inflation rate of 12.1 percent in June 2020.

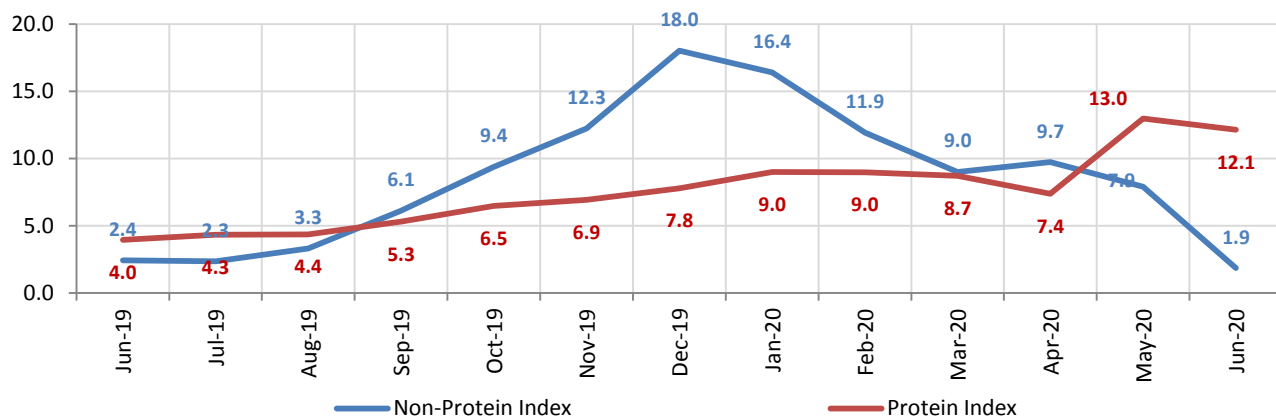
With the pandemic raising apprehensions about animal meat, a sharp fall in demand was witnessed starting March 2020 which caused huge losses to poultry farmers and business. While the demand is now surging once again, poultry farmers resistance to purchase chicks from hatcheries has led to a sharp widening of demand supply gap, thereby leading to surge in prices. On the other hand, higher retail prices of pulses can be largely attributed to the supply chain bottlenecks and labor shortage.

Likewise, milk consumption also noted muted demand with the lockdown coming into effect. With most eateries closed down, consumption fell by double digits thereby leading to huge losses to dairy farmers.

Conversely, non-protein index recorded an inflation rate of 1.9 percent in the month of June 2020. Prices of fruits and vegetables have noted significant moderation. However, oils & fats and spices & condiments recorded elevated retail prices in June 2020.

Source: CMIE, Various press articles

Protein & Non Protein Index Price Movement (% YoY)

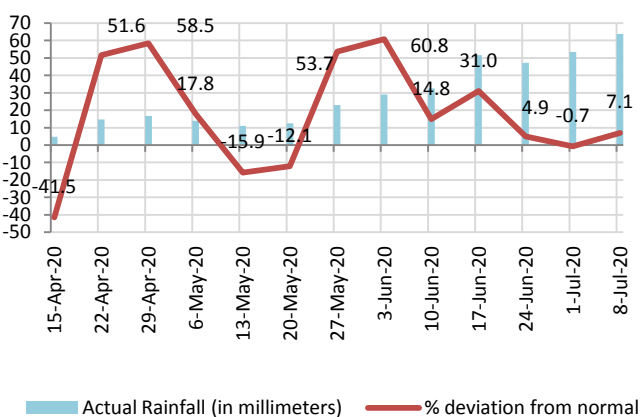


Retail Prices of Essential Commodities

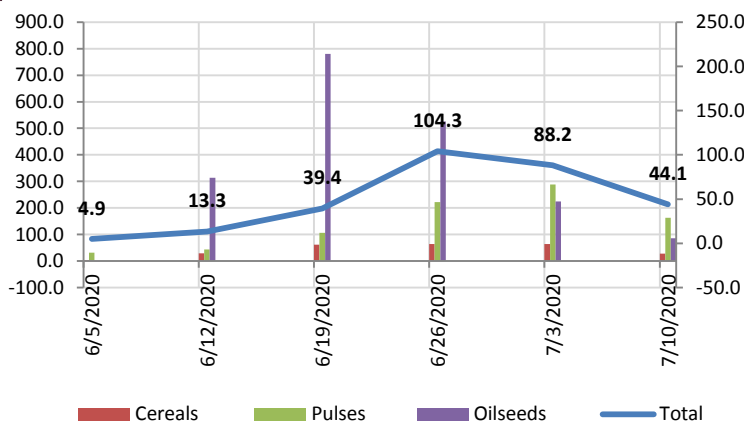
Week ended	Rice	Wheat	Gram dal	Tur/Arhar dal	Moong dal	Masoor dal	Sugar	Milk	Mustard oil (Packed)	Tea loose	Salt pack	Potato	Onion	Tomato
	Rs./kg	Rs./kg	Rs./kg	Rs./kg	Rs./kg	Rs./kg	Rs./kg	Rs./litre	Rs./kg	Rs./kg	Rs./kg	Rs./kg	Rs./kg	Rs./kg
21-Mar-20	33.1	28.7	64.8	86.7	98.2	67.3	39.4	46.3	115.9	219	15.8	22.1	30.4	20.8
28-Mar-20	32.4	28.4	65	87.5	98.5	67.4	39.2	46.5	115.7	216	15.9	24.6	31.8	24.5
18-Apr-20	34.3	29.3	69.2	95.2	109.4	73.5	40.4	46.5	118.2	220.2	16.2	26.6	28.7	22.8
25-Apr-20	34.5	29.1	69.3	96	111.2	74.6	40.4	46.8	118.4	220.5	16.2	26.4	26	22.1
2-May-20	34	29.1	68.8	95.8	111.3	75.7	40.3	47.3	118	218	16	25.7	24.3	21.4
23-May-20	34.1	29.3	68.2	94.6	111.3	76.9	40	47.2	118.7	220.1	16.1	25.6	21.2	19.3
30-May-20	34	29.3	67.5	93.9	111.1	76.8	39.9	47.3	118.4	217.1	16.1	25.7	20.8	19.1
20-Jun-20	34.4	28.4	66.4	93.1	109.6	77.5	40	47.5	120.4	221.9	16.4	27.6	21.2	23.9
27-Jun-20	34.4	28.2	66.5	93	108.4	77	40.2	47.5	120.7	221.2	16.4	27.8	21.6	29.1
4-Jul-20	34.3	28.3	66.8	93.2	108.5	77.4	40.4	47.5	121	221.7	16.4	28.8	21.7	38.6
11-Jul-20	34.2	27.3	67.1	92.9	108.7	79	40.6	48.4	119	224.8	15.9	30	22.6	47

The retail prices of essential commodities spiked in the weeks after the nationwide lockdown was imposed. The table above is indicative of the upward price movement in most commodities mid April 2020 onwards. Latest data indicated that retail prices of daily use commodities including rice, gram dal, moong dal, masoor dal, sugar, milk, tea loose, potatoes and tomatoes have remained at higher levels in the week ending July 11, 2020 despite easing of transportation, logistics and several other areas that were impacted by the lockdown. The sharpest increase in retail prices was seen across pulses, milk, potatoes, tomatoes, tea loose and mustard oil since the time when the lockdown was imposed in the month of March 2020. The extent of percentage increase in prices of these commodities ranges from 2.6 percent (tea loose) to a whopping 126 percent (tomatoes).

Monsoon Progression



Kharif Sowing (% YoY)



Source: CMIE

Food prices have been fluctuating with an upward bias. Restrictions in movement of goods, lack of labor for harvest and post harvest activities and crops lost to unseasonal rains generated supply shocks that were felt across mandis as well as retail markets / outlets in the country.

However, the country is successfully opening up its economic activities and Unlock 2.0 is now underway with a wider ambit of relaxations. This coupled with a larger area under production and predictions of a good monsoon season this year is likely to give the agriculture sector a boost this fiscal. As on July 10, 2020, the actual area under khariff sowing increased by 44.1 percent y-o-y after touching a peak in the last week of June. Oilseeds and pulses have witnessed a steady increase in sowing over the past few days.

Likelihood of a good monsoon (and consequently a strong agriculture supported growth) is only improving with cumulative actual rainfall across India reporting nearly 22 percent growth in the first week of July 2020 over the same period previous year. This bodes well given that close to 60 percent of Indian farms are dependant on monsoon rains for irrigation.

Comments

With good monsoons being expected this fiscal year, agriculture produce and food supplies are likely to be in abundance which will be a boon for inflation. Also, industries depending on agriculture produce as their basic/ major raw material could witness some reductions in input cost as ample supplies come into the market. Fuel prices, although rising, are likely to remain within India's comfort levels this year as global demand for crude oil is expected to remain subdued.

Furthermore, domestic demand conditions continue to remain weak which also indicates lower inflationary pressures in the months ahead. FICCI, in its latest Economic Outlook Survey, has forecasted CPI inflation at 4.8 percent at the end of Q2 2020-21 and at 4.4 percent for the current fiscal year.