

CPI inflation rises to a six-month high of 6.3 percent in May 2021

Month	Weight	May-20	Mar-21	Apr-21	May-21
General Index	100	6.3	5.5	4.2	6.3
Food & beverages	45.86	8.4	5.2	2.6	5.2
Pan, tobacco & intoxicants	2.38	6.3	9.9	9.0	10.0
Clothing & footwear	6.53	3.4	4.4	3.5	5.3
Housing	10.07	3.7	3.5	3.7	3.9
Fuel & light	6.84	1.6	4.4	8.0	11.6
Miscellaneous	28.32	5.8	7.0	6.1	7.5

- ❖ Latest data on consumer price index (CPI) based inflation rate was released by the Central Statistics Office earlier this week. During the month of May 2021, NSO collected prices from 99.7 percent villages and 97.7 percent urban markets.
- ❖ As per the release, CPI based inflation stood at a six-month high of 6.3 percent in May 2021. The corresponding number previous month was 4.2 percent. While price pressures were felt across segments, higher prices in food & beverages, clothing & footwear, fuel & light and miscellaneous segments were majorly responsible for the sharp increase in overall price levels during the month.
- ❖ Inflation in the food & beverages segment, which account for 46 percent of the CPI index, treaded upwards in the month of May and stood at 5.2 percent as compared to 2.6 percent inflation noted in the previous month. While cereals and vegetables price indices remained in the contractionary zone, other major food & beverage items such as oils & fats (30.8 percent), non-alcoholic beverages (15.1 percent), fruits (12.0 percent), eggs, fish & meat (9.6 percent) and pulses & products (9.4 percent) recorded elevated prices during the month.
- ❖ In addition, prices of packaged food items as well as spices also remained at higher levels in May 2021. While inflation in the former stood at 5.1 percent, the latter recorded an inflation rate of 6.9 percent 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
May-20	9.2	7.3	15.3	8.8	11.9	2.0	5.5	21.1	6.0	12.5
Jan-21	2.0	0.1	12.6	2.7	19.8	5.0	-15.8	13.3	-0.3	9.0
Feb-21	3.9	-0.4	11.4	2.6	20.9	6.0	-6.3	12.6	-0.7	8.0
Mar-21	4.9	-0.7	14.7	2.2	24.9	7.9	-5.0	13.3	-0.5	6.7
Apr-21	2.0	-3.0	16.1	-0.1	25.9	9.7	-14.5	7.5	-6.0	4.3
May-21	5.0	-1.4	9.6	0.6	30.8	12.0	-1.9	9.4	-1.4	6.9

- ❖ Inflation surged in the fuel & light segment on the back of rising international crude oil prices which is manifesting into higher domestic fuel prices. The fuel & light segment reported double digit inflation (11.6 percent) in the month of May which is the highest at least since June 2016.
- ❖ Clothing & footwear segment witnessed higher inflation levels (5.3 percent in May 2021 versus 3.5 percent in April 2021). Housing segment, too, registered a mild uptick in prices in the month of May 2021.
- ❖ Services inflation, as represented by the miscellaneous segment, remained at elevated levels in May 2021. Inflation in this segment was reported to be at a higher level of 7.5 percent in the month of May versus 6.1 percent inflation noted in the previous month.
- ❖ Core inflation in the month of May was reported at 6.6 percent as compared to 5.5 percent noted in the previous month. On a cumulative basis, core inflation swelled and was reported at 6.0 percent in April- May 2021-22 as compared to 4.8 percent inflation reported in the same period previous year.
- ❖ Increased prices of household essentials as well as higher energy costs has resulted in rise in inflation expectations. RBI's latest Household Inflation Expectations survey revealed rise in inflation expectations of consumers at current, three month ahead and one year ahead period. Moreover, perception of households on current inflationary levels witnessed a visible increase as per the latest survey results.

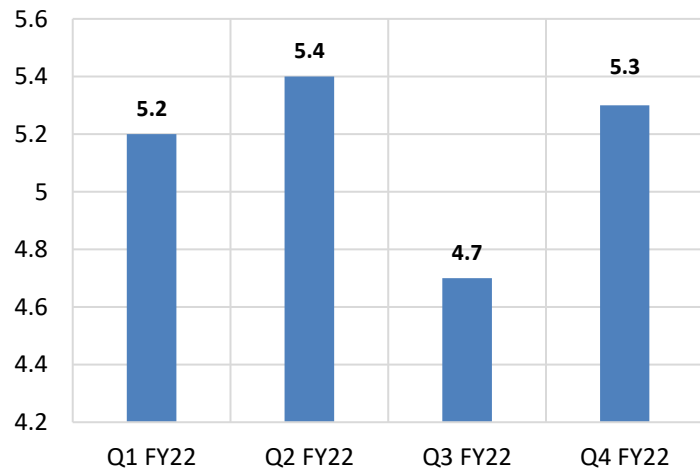
Households' Inflation Expectations Survey, April 2021- Expectations for General Prices: % of respondents

Month	Respondents expecting prices to increase in the three-month ahead period to			Respondents expecting prices to increase in the one-year ahead period to		
	More than current rate	Similar to current rate	Less than current rate	More than current rate	Similar to current rate	Less than current rate
May-20	56.0	23.5	5.8	57.1	23.8	4.7
Jul-20	52.2	26.0	5.3	55.9	24.3	4.4
Sep-20	53.9	22.5	5.2	59.6	20.4	4.7
Nov-20	55.4	23.6	4.4	59.5	22.9	4.1
Jan-21	56.0	22.4	5.3	62.9	21.2	3.9
Mar-21	58.4	24.1	4.1	63.4	21.4	3.8
May-21	58.5	21.2	4.0	62.4	20.3	4.2

Households' Inflation Expectations Survey, April 2021- Median Household Inflation Expectations

Month	Current perception of inflation rate (in %)	Inflation expectations three months ahead (in %)	Inflation expectations one year ahead (in %)
May-20	9.3	10.4	10.2
Jul-20	9.9	10.5	10.3
Sep-20	9.8	10.4	10.3
Nov-20	8.8	10.1	10.1
Jan-21	8.2	9.3	10.1
Mar-21	8.7	10.1	10.2
May-21	10.2	10.8	10.9

RBI's CPI Inflation Projection (% Y-o-Y)



Comments

Build up in inflationary pressures over the past few weeks has been a growing concern especially when demand conditions and economic growth have been hit once again due to the second wave of the coronavirus pandemic. This was also iterated by RBI while announcing the Bi-monthly Monetary Policy, June 2021. The Monetary Policy Committee's outlook on inflation trajectory was broadly in line with expectations and remains within the target band of RBI. Inflation is projected at 5.2% for Q1 2021-22 which is the same as forecasted in the April 2021 policy. However, the June policy statement forecasts inflation to firm up by about 20-30 basis points as compared to the April Policy for the remaining quarters of the fiscal year.

Record high production of food grains and availability of more than comfortable buffer stocks is expected to keep food inflation under check during the year. Moreover, forecast of a normal monsoon season this year bodes well for agricultural production this year as well. Furthermore, lower consumer sentiments are likely to keep a check on core inflation levels. Alongside, declining infection rates is leading to gradual ease in local restrictions which could also aid in resolving supply chain disruptions thereby easing inflationary pressures.

Nonetheless, higher international commodity prices (especially crude oil) poses a significant upside risks to inflation forecast. Increasing industrial and agricultural input costs as well as surge in metal prices is worrisome and the same was also cited by majority of the respondents in FICCI's latest Business Confidence Survey as well. This calls for coordinated adjustments in central and state cesses and duties to contain cost push pressures. Also, further improvements in supply side logistics will be required to ease prices of food items.

Source: MoSPI, RBI, CMIE, FICCI Research