

### CPI inflation moderates to 5.6 percent in July 2021

Month	Weight	Jul-20	May-21	Jun-21	Jul-21
General Index	100	6.7	6.3	6.3	5.6
Food & beverages	45.86	8.5	5.2	5.6	4.5
Pan, tobacco & intoxicants	2.38	10.5	10.0	4.0	4.7
Clothing & footwear	6.53	2.8	5.3	6.1	6.5
Housing	10.07	3.3	3.9	3.8	3.9
Fuel & light	6.84	2.7	11.9	12.6	12.4
Miscellaneous	28.32	6.8	7.3	7.2	6.7

- ❖ As per the latest release, CPI based inflation eased to 5.6 percent in July 2021 after witnessing an inflation rate of over 6.0% for two straight months. Moderation of price pressures in food & beverages and miscellaneous segments were majorly responsible for pulling down overall inflation levels during the month.
- ❖ Inflation in the food & beverages segment, which has the maximum weightage in the CPI index, noted a downtick in the month of July and was reported at a three-month low of 4.5 percent.
- ❖ While cereals and vegetables price indices remained in the contractionary zone, slight moderation of prices across other major food items (such as fruits, pulses & products, oils & fat and spices) was recorded during the month. Nonetheless, despite some moderation, the prices for all the above food items continue to remain over the comfort level during the month of July 2021. In addition, prices of eggs, fish & meat segment noted an increase during the month.
- ❖ However, food inflation is likely to come down in the coming months on the back of monsoons turning more favorable (thereby improving kharif sowing), ample buffer stocks and government intervention in managing supplies as well as promoting cultivation of major essential items such as pulses and edible oil.

#### 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
Jul-20	9.3	6.9	16.4	6.5	12.2	0.1	11.1	15.7	3.6	12.9
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	30.9	11.9	-1.9	9.4	-1.5	6.9
Jun-21	5.2	-1.9	6.1	1.9	34.8	11.8	-0.7	10.0	0.8	5.6
Jul-21	4.0	-1.8	9.4	2.7	32.5	8.9	-7.8	9.0	-0.5	5.2

- ❖ As per the fourth advanced estimate, crop year 2020-21 has witnessed record production of 308.6 million tonnes of food grains even amidst a pandemic struck economy. This should help provide some support in reining food prices as adequate supplies are made available in the near term.
- ❖ Inflation rate in the fuel & light segment witnessed a minor dip in the month of July – however the price level in the segment continued to post double digit growth for the third consecutive month. Rising international crude oil prices along with high indirect taxes have kept domestic fuel prices over Rs. 100 per litre mark in most cities in the country - raising transport and logistics costs which is being reflected in final product prices.
- ❖ Therefore, even though there has been minor moderation in the overall price level, retail prices of household essentials continue to remain high on the back of pass through of cost push inflation from manufacturers, thereby worsening inflation expectations. RBI's latest Household Inflation Expectations survey revealed further rise in inflation expectations of consumers at current, three month ahead and one year ahead period.
- ❖ Services inflation, as represented by the miscellaneous segment, also eased in July 2021. Inflation in this segment was reported slightly lower at 6.7 percent in the month of July versus 7.2 percent inflation noted in the previous month.
- ❖ On the other hand, clothing & footwear segment witnessed slightly higher inflation levels (6.5 percent in July 2021 versus 6.1 percent in June 2021). Housing segment, too, registered a mild uptick in prices in the month of July 2021.

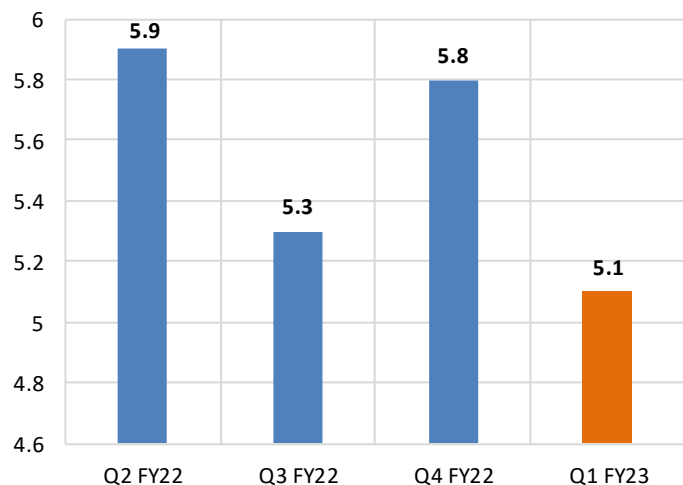
### Households' Inflation Expectations Survey, July 2021- Expectations for General Prices: % of respondents

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
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
<b>Jul-21</b>	<b>63.0</b>	<b>19.6</b>	<b>3.3</b>	<b>65.6</b>	<b>18.3</b>	<b>2.9</b>

### Households' Inflation Expectations Survey, July 2021- Household Inflation Expectations

Month	Current perception of inflation rate (in %)	Inflation expectations three months ahead (in %)	Inflation expectations one year ahead (in %)
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
<b>Jul-21</b>	<b>10.3</b>	<b>11.3</b>	<b>11.5</b>

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



### Comments

With the economy now on recovery mode, surging prices of industrial inputs as well as energy prices is building up immense cost push pressures. Rapidly increasing cost of doing business is forcing businesses to pass some price pressures to the end consumers. Given the prevailing weak demand conditions, rising prices of essentials will only dampen consumer sentiments further.

Fuel prices are at an unsustainable level. There is a major component of taxes built into the end price. This is a serious concern as fuel prices are putting a massive burden on consumers –the middle class –and limiting industrial recovery. There has been too much of cost passed on to the economy. FICCI, therefore, urges the state as well as central government to undertake a calibrated reduction of indirect taxes on domestic fuel prices. Moreover, efforts must also be made to ease prices of industrial inputs. Together, these steps can substantially ease cost push inflationary pressures and support demand.

In its latest Bi-monthly Monetary Policy, August 2021, the RBI upwardly revised its inflation forecast for the fiscal year 2021-22 to 5.7% on the back of unexpected rise in price levels in the months of May and June. However, it is encouraging to note that inflation projections throughout the course of the current year and in Q1 2022-23 remain under the upper band of the RBI's indicative target of 4% (+/-2%)

Going forward, there is optimism on inflationary pressures on food items especially will witness some moderation in the near term on the back of pick up in kharif sowing as the southwest monsoon progresses. Furthermore, adequate food buffer stocks as well as recent intervention by the government to rein surging prices of edible oils and pulses will also aid in keeping overall food inflation under check.

Source: MoSPI, RBI, CMIE