



# Inflation Watch

August 2016



# CPI Inflation Summary



## Headline Inflation

- August headline CPI inflation rose 5.05% compared to a year earlier
- The August CPI inflation was lower than the median estimate of 5.5% in the Reuters survey
- Headline CPI remained flat on a m-o-m basis
- The buildup of CPI inflation in the financial year so far was 3.0% compared to the buildup of 3.4% in the corresponding period the previous year

## Food, Beverage (Weight 45.9%)

- Y-o-Y food and beverages inflation stood at 5.8% in August compared with 7.9% the previous month.
- Within food and beverages, the pulses inflation remained elevated at 22%. However vegetables which have a higher weight than pulses in the CPI came down sharply from 14% in July to 1% in August.

## Fuel and Light (Weight 6.8%)

- Y-o-Y Fuel and Light inflation stood at 2.5% in August lower than the 2.8% for the previous month
- The Fuel and Light inflation remained flat on a m-o-m basis

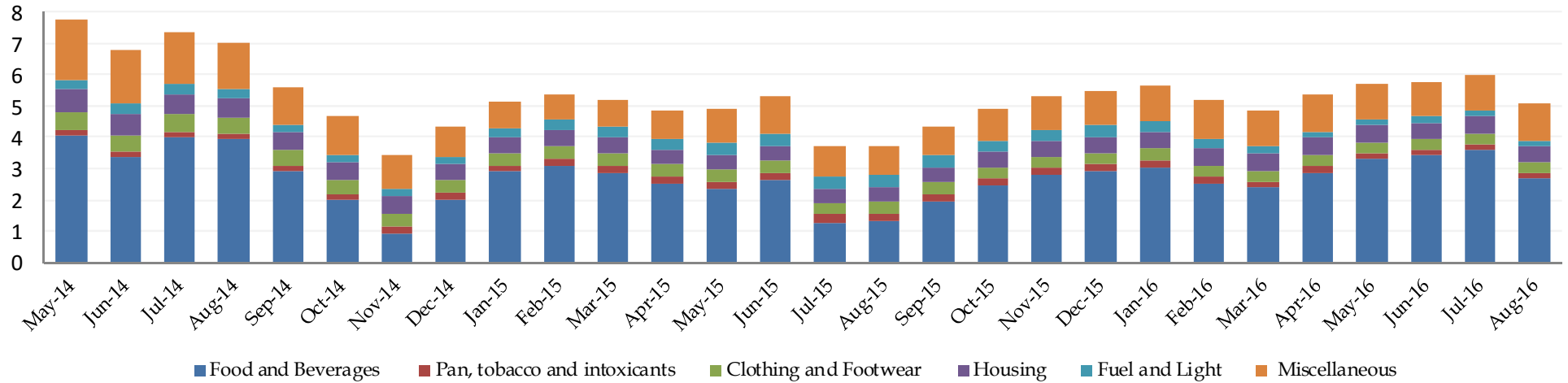
## Miscellaneous (Weight 28.3%)

- Y-o-Y Miscellaneous Products inflation stood at 4.2% in August compared with 4.0% the previous month
- Within miscellaneous, the transportation and communication component continued to remain muted coming in at 1.2%

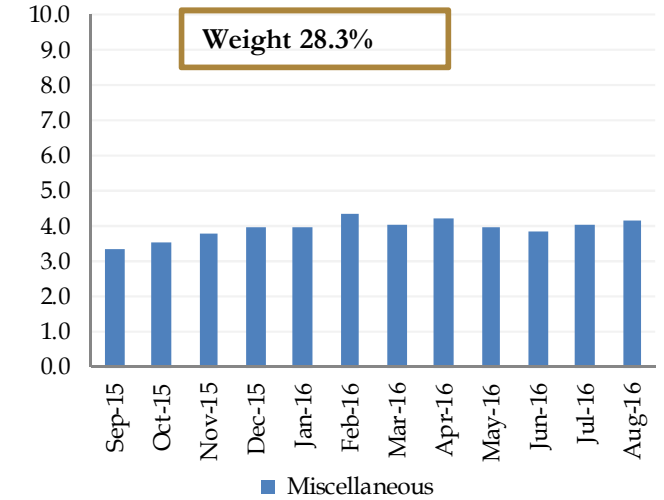
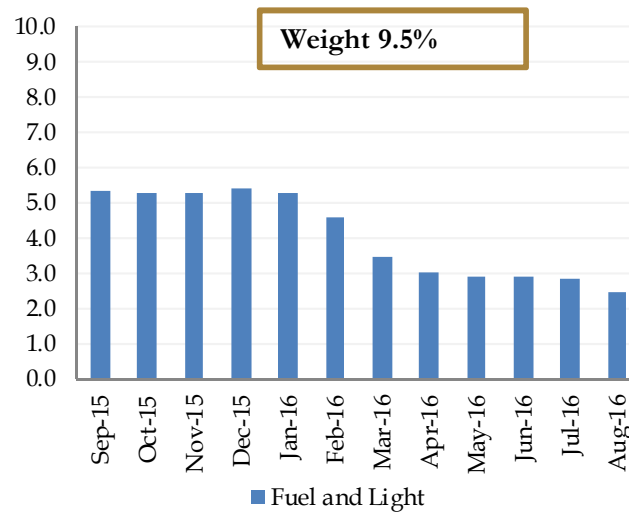
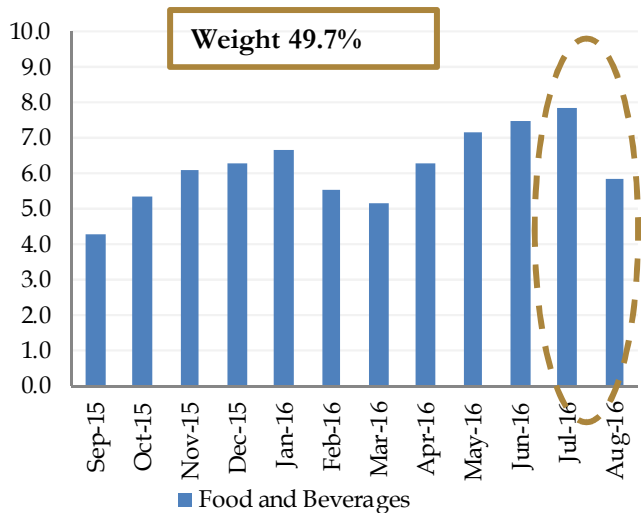


# CPI Inflation by Component

CPI Inflation



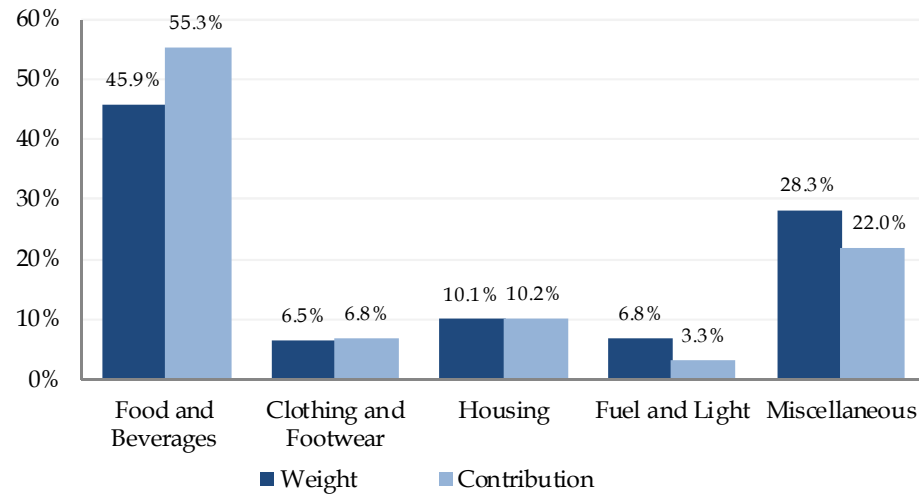
CPI Inflation by Component



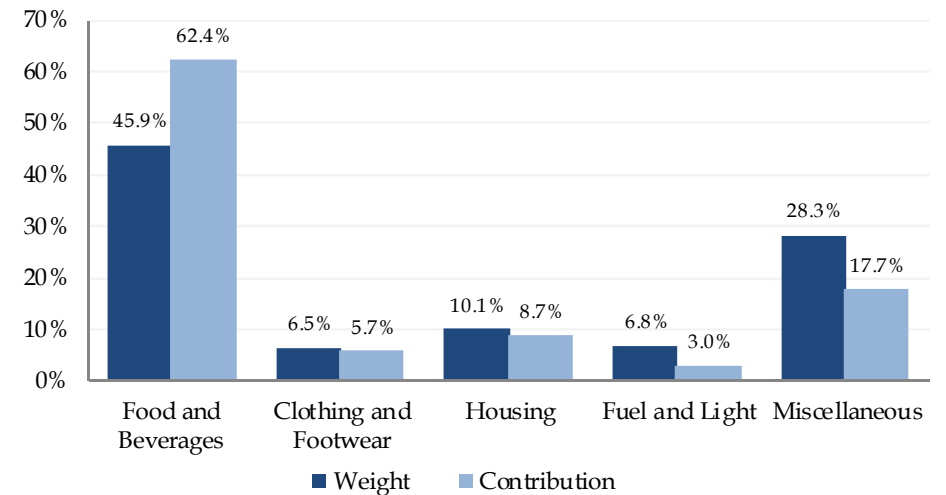


# CPI Contribution Analysis: Large fall in vegetable inflation

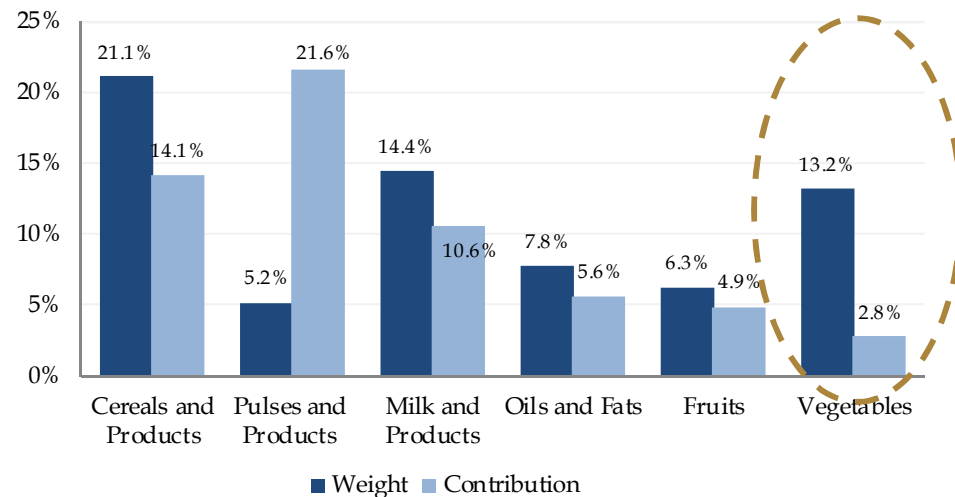
### Component Contribution to CPI Headline Inflation (Aug)



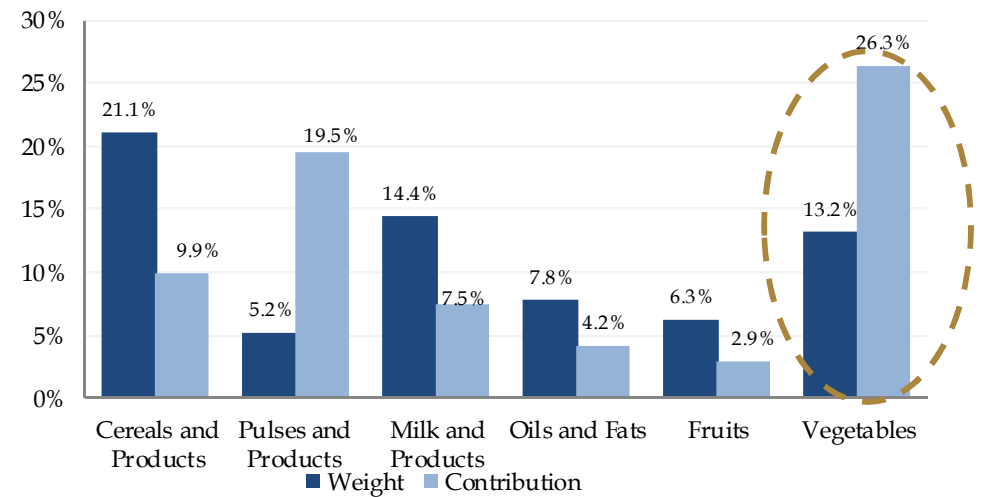
### Component Contribution to CPI Headline Inflation (July)



### Component Contribution to Food Articles Inflation (Aug)



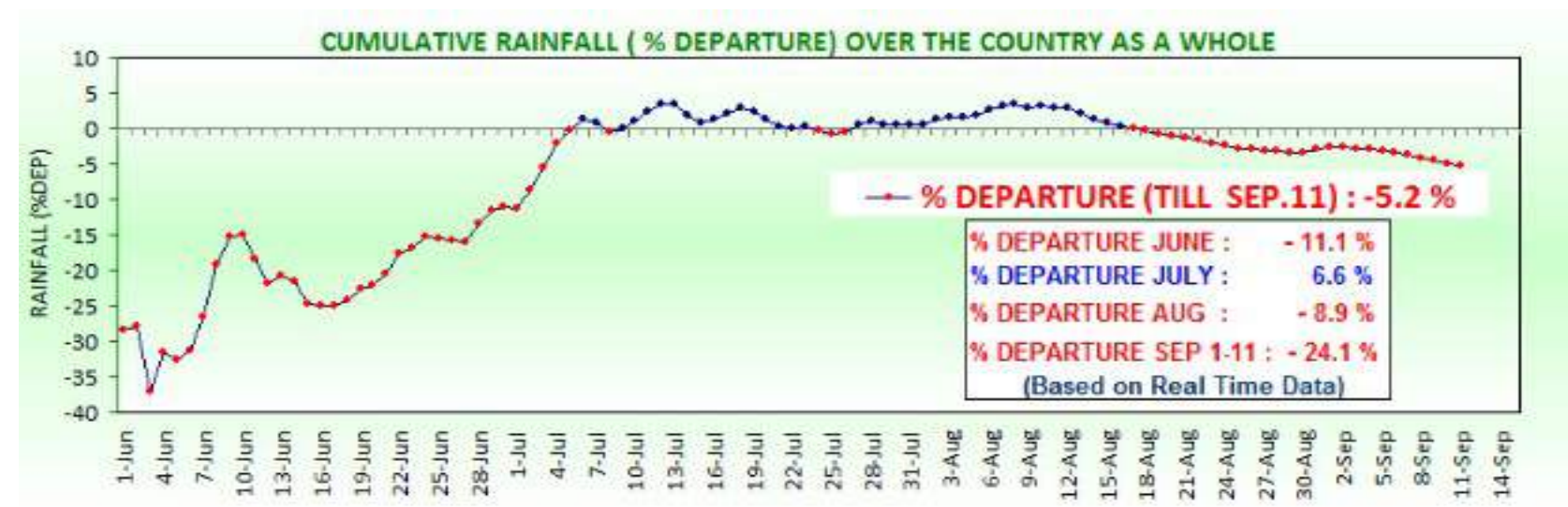
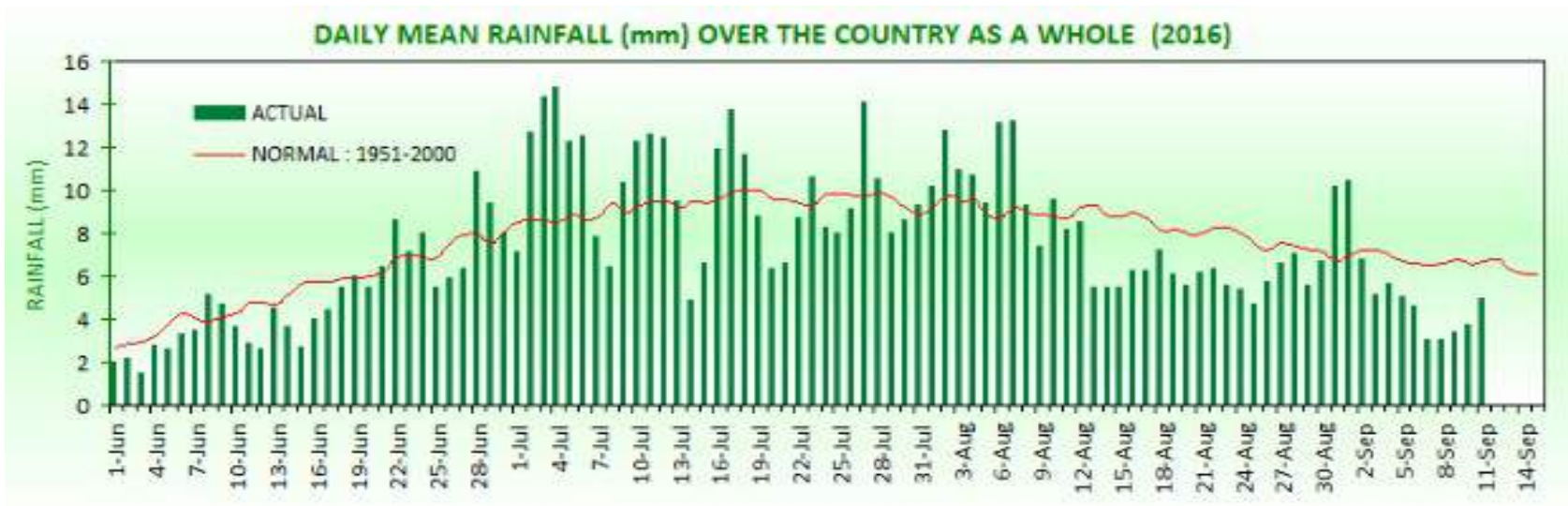
### Component Contribution to Food Articles Inflation (July)





# Monsoon: has fallen back lower than normal in September

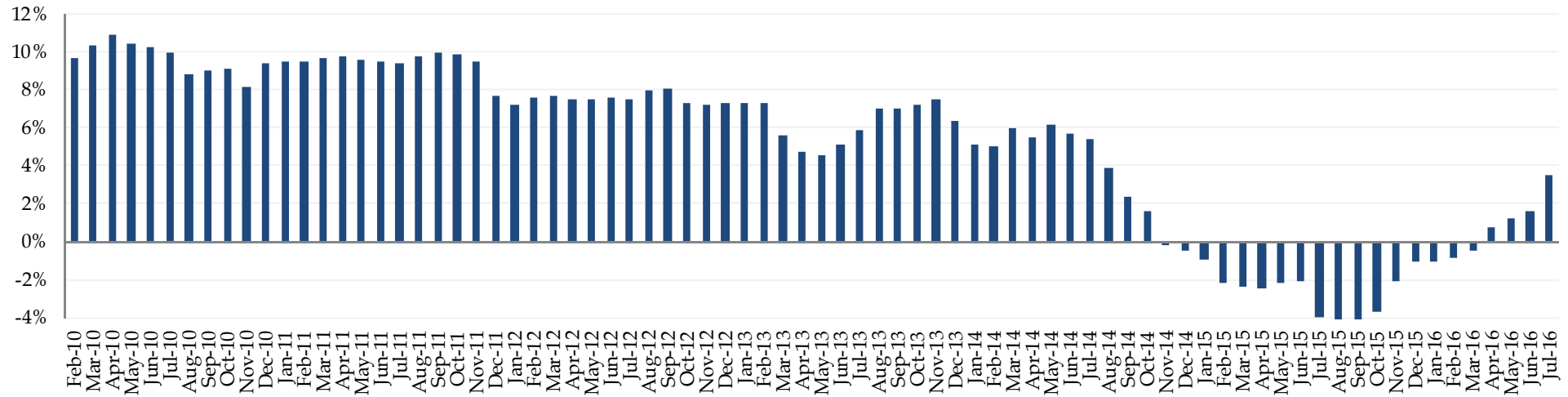
## Daily Rainfall



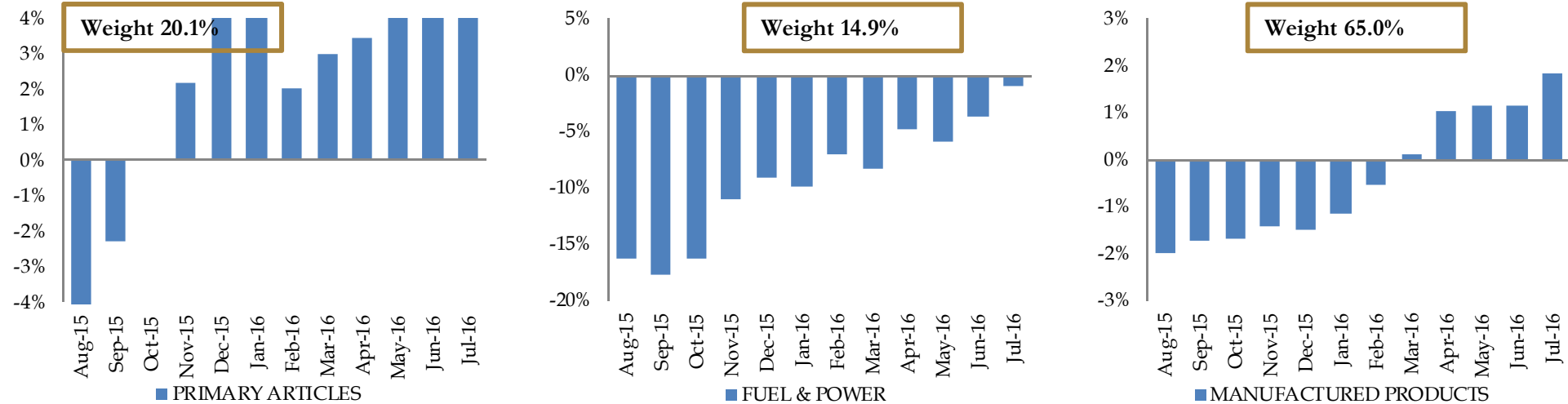


# WPI Inflation by Component

WPI Inflation



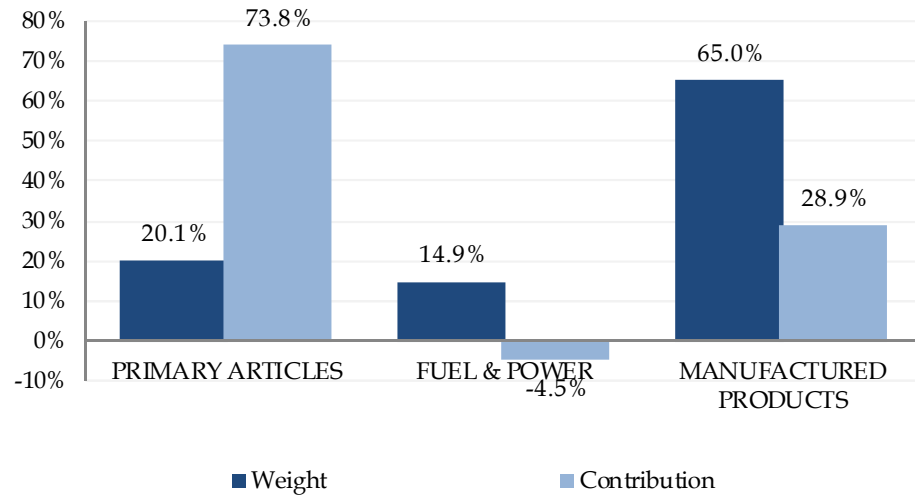
WPI Inflation by Component



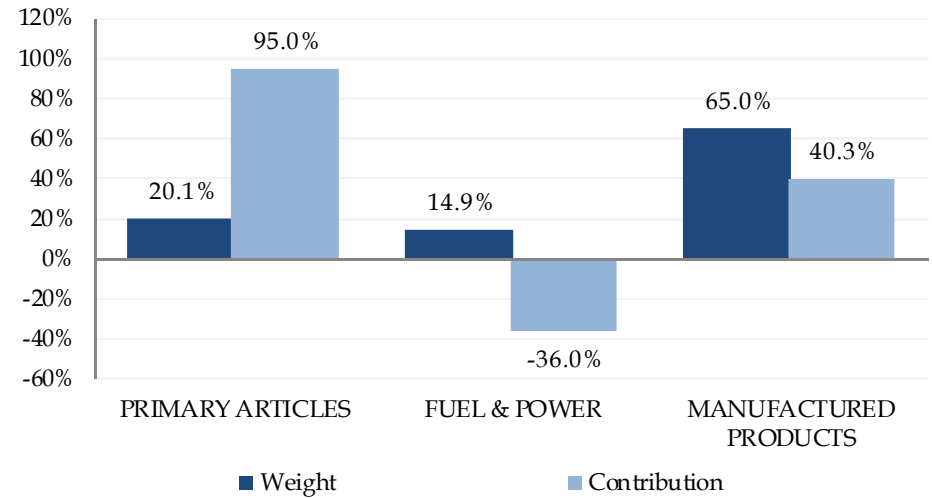


# WPI Contribution Analysis

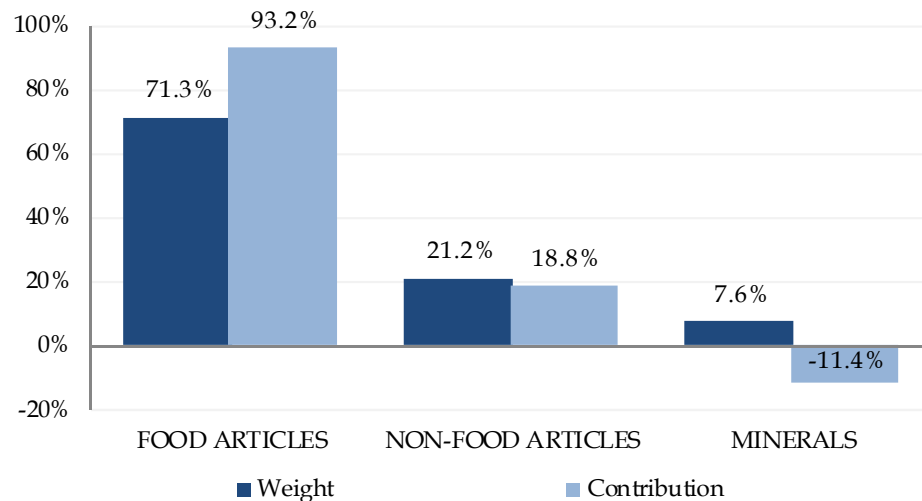
### Component Contribution to WPI Headline Inflation (July)



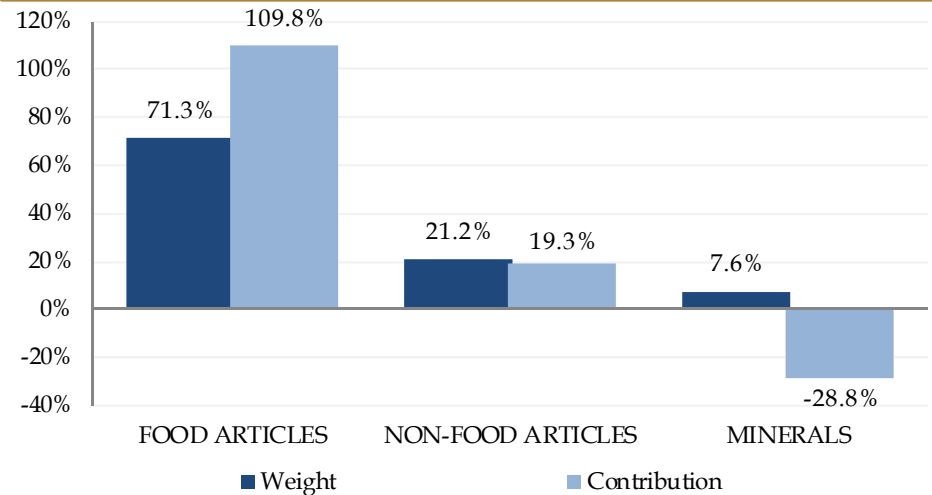
### Component Contribution to WPI Headline Inflation (June)



### Component Contribution to Primary Articles Inflation (July)



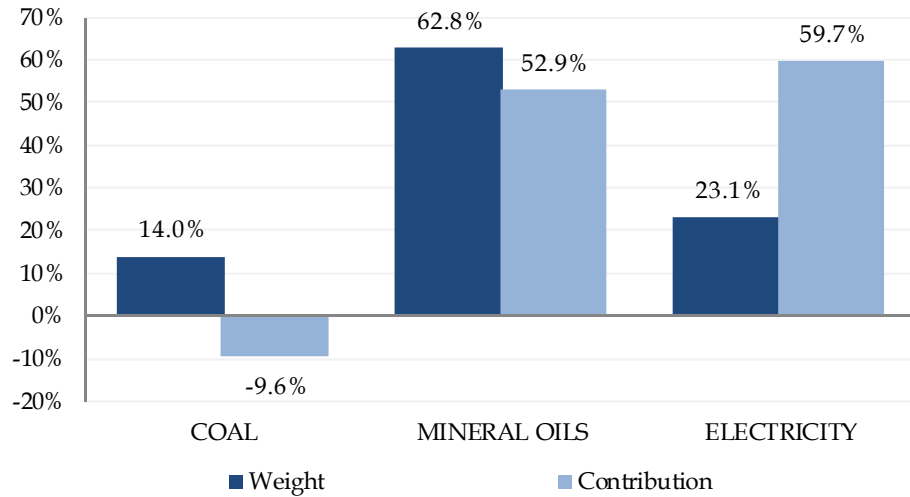
### Component Contribution to Primary Articles Inflation (June)



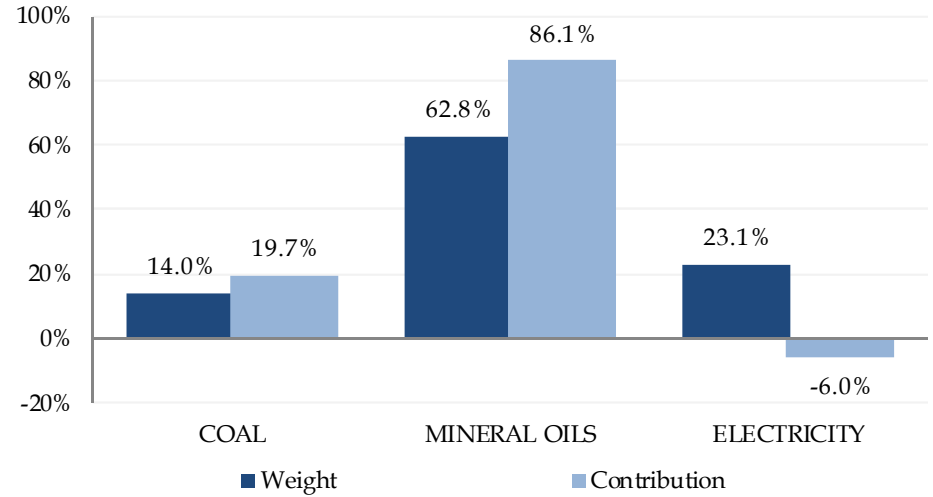


# WPI Contribution Analysis

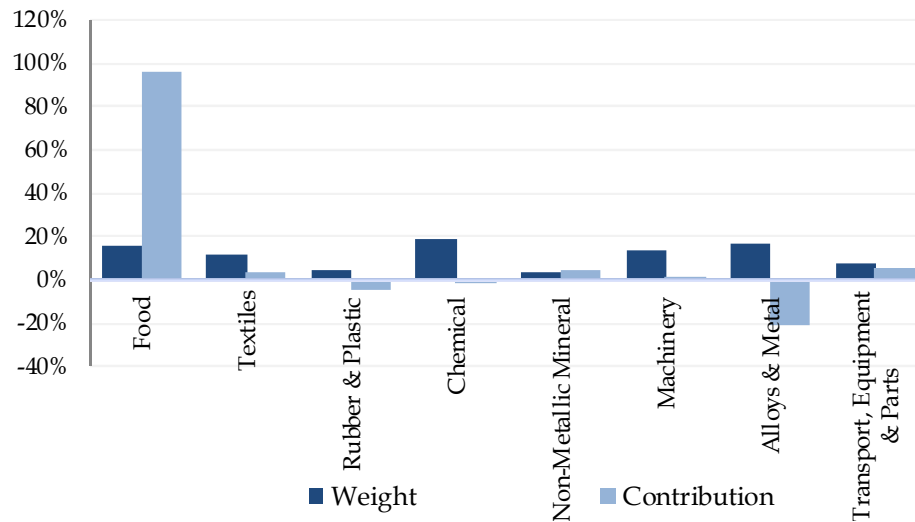
### Component Contribution to Fuel and Power Inflation (July)



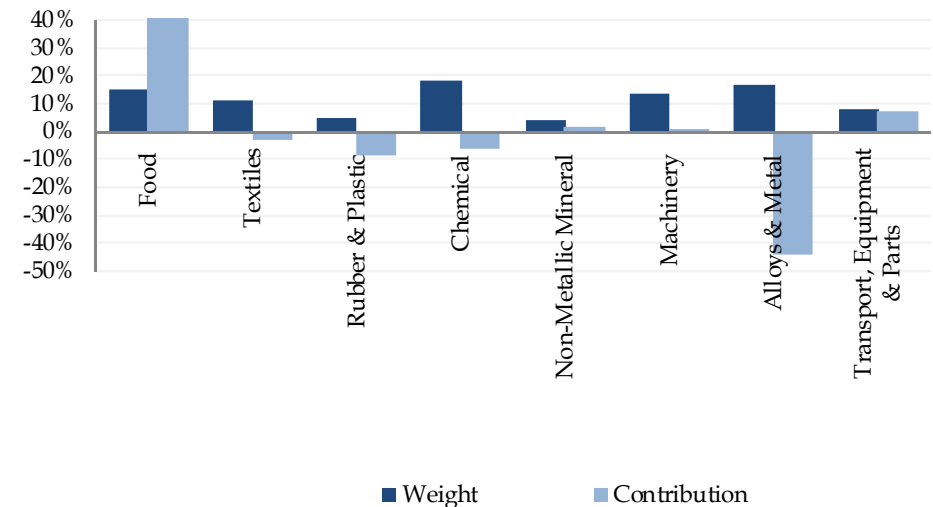
### Component Contribution to Fuel and Power Inflation (June)



### Component Contribution to Manufactured Products Inflation (July)



### Component Contribution to Manufactured Products Inflation (June)

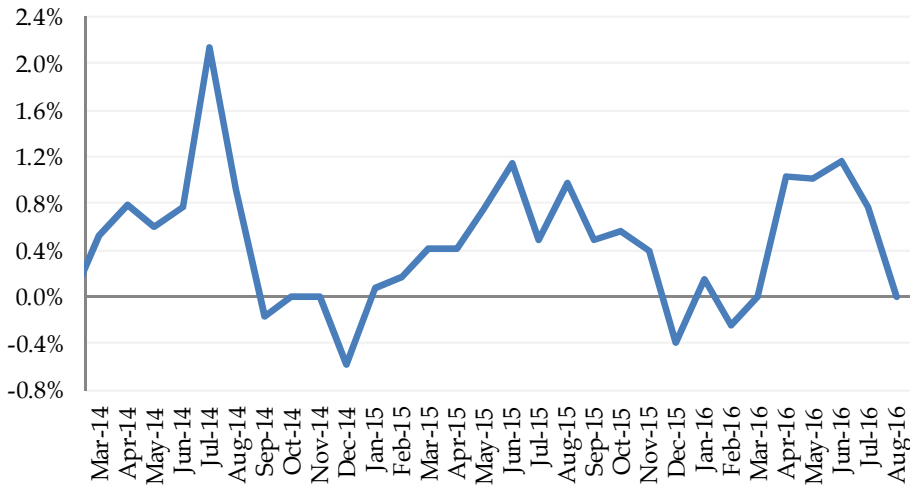




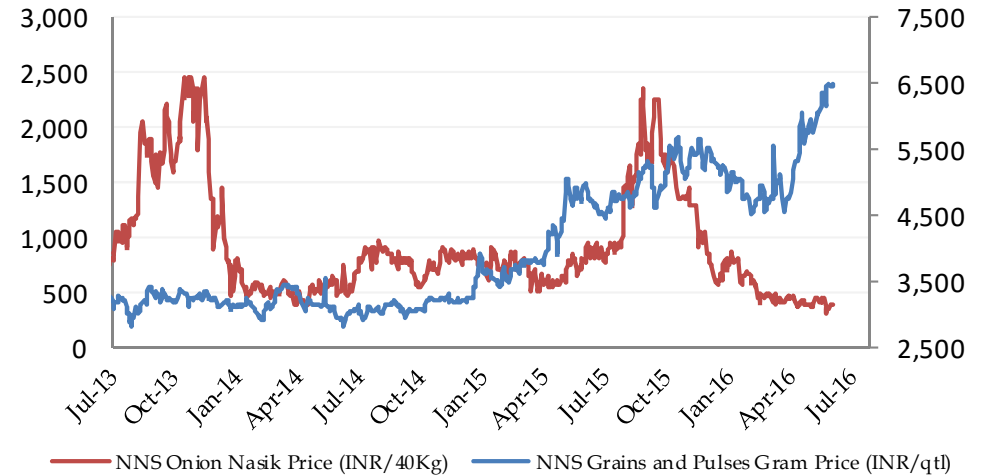


# CPI moves down sharply in August

### Month on Month CPI



### Selected Prices



### Conclusions

- Just as the July inflation rose significantly driven by a rise in vegetable prices, the August inflation has now fallen driven by a fall in vegetable prices.
- In our July Inflation Watch we noted that food inflation was likely to fall as we expected both vegetable and pulse inflation to fall. Both of these have materialized in the August data and we expect this falling trend to continue and actually accelerate in the coming months. We expect this to happen beginning in October when we expect a faster deceleration in pulses prices driven by both the government’s efforts to increase the supply of pulses through imports and higher sowing of pulses.
- Although we do expect food inflation to fall further, it is important to monitor the implementation of the 7<sup>th</sup> Pay Commission as that could exert upward pressure on the housing component of CPI inflation .
- Going forward we still expect inflation to be in line with the RBI’s medium term target of 5% by March 2017. Commodity prices which have a significant impact on Indian inflation have continued to remain moderate although the benefit to inflation will be less than the previous year. In addition, successive quarters of below potential output continues to reduce inflationary pressures. In such a scenario, we expect inflation to remain in line with RBI’s medium term glide path especially if the normal monsoon holds as projected.
- With the decline in sequential momentum we expect the September inflation to remain around 5% with risks balanced to the downside. This deceleration in inflation combined with the muted IIP certainly creates room for monetary easing.

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Thank You



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