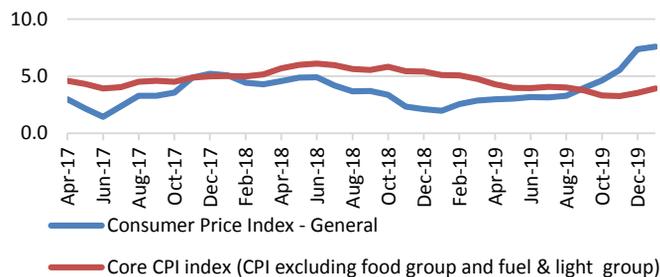


### CPI inflation at 7.6 percent in January 2020 – Highest in over five and a half years

- ❖ Consumer Price based retail inflation continued to edge up for the sixth consecutive month in January 2020. The overall CPI based inflation rate was reported at 7.6 percent in January 2020 – which was the highest since May 2014. The corresponding number was 7.4 percent in December 2019 and 2.0 percent in January 2019.
- ❖ The inflation rate has moved beyond RBI's comfort range and exceeds upper threshold of the Monetary Policy Committee's medium-term inflation target of 4 percent (+/-2 percent).
- ❖ The recent build up in inflation comes on back of elevated prices of food & beverage segment that has a weightage of 45.86% in the overall CPI index. Also, a spurt was noted in prices of fuel & light segment in January 2020.
- ❖ All other major segments including – clothing & footwear, housing, miscellaneous and pan, tobacco & intoxicants – noted moderate increase in price levels.
- ❖ Core inflation – which is CPI excluding food group and fuel & light group – stood at 3.9 percent in January 2020. This is marginally higher than 3.6 percent inflation rate reported in December 2019. The core inflation is gradually edging up.

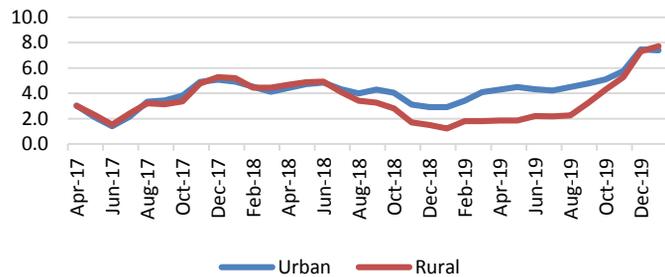
#### Trend in CPI Inflation

##### Consumer Price Inflation (in %)



#### CPI Index – Rural & Urban

##### Consumer Price Index - Rural & Urban (in %)



Month	General Index	Food and beverages	Pan, tobacco and intoxicants	Clothing & footwear	Housing	Fuel & light	Miscellaneous
<b>Weight</b>	100	45.86	2.38	6.53	10.07	6.84	28.32
<b>Jan-19</b>	2.0	-1.3	5.5	2.9	5.2	2.1	6.0
<b>Oct-19</b>	4.6	6.9	3.9	1.7	4.6	-2.0	3.5
<b>Nov-19</b>	5.5	8.7	3.3	1.3	4.5	-1.9	3.7
<b>Dec-19</b>	7.4	12.2	3.4	1.5	4.3	0.7	4.2
<b>Jan-20</b>	7.6	11.8	3.6	1.9	4.2	3.7	4.8

Source: Economic Outlook – CMIE

The Food and Beverage segment which has been a major contributor to inflation noted a marginal moderation in inflation levels. The inflation rate for the segment was reported at 11.8 percent for the month of January 2020, vis-à-vis 12.2 percent inflation noted in December 2019. The moderation comes on back of some fall noted in inflation in vegetable segment. The prices in the segment, however, are still beyond the comfort level. All other segments under the Food & Beverages head (except vegetable) noted an increase in prices with the increase being most pronounced in case of some major protein items like pulses & products, eggs, milk & products and oils & fats. Vegetable prices have been witnessing double digit increase since September 2019 and the latest data point for January 2020 reported an inflation rate of 50.2 percent. The spike in onion prices was one of the key factors behind the massive increase in the price of the food segment. The fall in domestic production during the kharif season because of late monsoon followed by excess rains in major onion producing areas such as Maharashtra and Karnataka led to the increase in prices. There was an estimated shortfall of about 15.8 lakh tonnes in onion production this year. Further, potato prices also spiked in December 2019 and remain elevated in January 2020 too. Prices of other winter vegetables (carrots, cauliflower, garlic) also remained high. Inflation in the fuel & light segment which had turned positive in the month of December 2019 (0.7 per cent) after remaining in the negative zone for five consecutive months, increased further to 3.7 percent in the month of January 2020. After an initial shock earlier this year due to brewing tension between US and Iran, crude prices are expected to remain moderate on back of exponential spread of coronavirus epidemic.

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

Month	Weight	Jan-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
<b>Food &amp; Beverage</b>	45.86	-1.3	3.0	4.7	6.9	8.7	12.2	11.8
<b>Cereals and products</b>	9.67	0.8	1.3	1.7	2.2	3.7	4.4	5.3
<b>Egg, fish and meat</b>	4.04	4.2	7.7	9.6	9.4	9.1	9.6	10.5
<b>Meat and fish</b>	3.61	5.0	8.5	10.3	9.8	9.4	9.6	10.5
<b>Egg</b>	0.43	-2.4	0.3	3.3	6.3	6.2	8.9	10.4
<b>Milk and products</b>	6.61	0.7	1.5	1.8	3.1	3.5	4.4	5.6
<b>Oils and fats</b>	3.56	0.9	0.6	1.2	2.0	2.6	3.0	6.7
<b>Fruits</b>	2.89	-4.2	-0.8	0.8	4.1	3.2	4.5	5.8
<b>Vegetables</b>	6.04	-13.4	6.9	15.5	26.1	36.1	60.5	50.2
<b>Pulses and products</b>	2.38	-5.5	6.9	8.4	11.7	13.9	15.4	16.7
<b>Sugar and confectionary</b>	1.36	-8.2	-2.4	-0.4	1.3	2.1	3.4	4.6
<b>Spices</b>	2.5	1.4	2.3	3.3	3.9	4.3	5.8	8.3
<b>Non-alcoholic beverages</b>	1.26	3.3	2.9	3.2	2.6	1.4	1.5	2.1
<b>Prepared meals, snacks, sweets etc.</b>	5.55	3.4	2.4	2.0	2.2	1.9	2.2	2.6

Source: Economic Outlook – CMIE

### Reserve Bank of India's (RBI) Outlook on Inflation

RBI in its recently announced monetary policy (February 6, 2020) cited inflation outlook to remain highly uncertain. The Monetary Policy Committee noted that over the coming weeks, onion prices are expected to temper on back of improvement in supply conditions. However, prices of other food items – especially pulses and protein rich products – can harden further. Besides, telecom charges are imparting cost-push pressures to Core CPI inflation. The Central Bank cited that trajectory of core inflation will have to be monitored as pass-through of remaining revisions in mobile phone charges, increase in prices of drugs and pharmaceuticals and impact of new emission norms pan out over the near term.

**CPI inflation projection for Q4:2019-20 has been put at 6.5 per cent; 5.0-5.4 per cent for H1:2020-21; and 3.2 per cent for Q3:2020-21**

### RBI Household Inflation Expectations Survey

#### Household Inflation Expectations (in per cent)

Round No	Survey period ended	3 months Ahead	One year Ahead
55	Mar-19	7.8	8.1
55B	May-19	7.6	8.1
56	Jul-19	7.6	7.9
57	Sep-19	8.0	8.1
57B	Nov-19	9.2	9.9
58	Jan-20	8.6	9.2

After a sharp pick up in November 2019, households' inflation perceptions and expectations moderated in January 2020, though they remained higher than the earlier part of the year. Median inflation expectations over three months and one-year horizons eased by 60 basis points and 70 basis points, respectively

Most households expect that prices will continue to rise. However, the proportion of households expecting increase in food prices has declined, albeit marginally

Source: RBI Household Inflation Expectations Survey, Feb 2020 & sixth Bi-monthly Monetary Policy

### FICCI Comments

Inflation has been on an upward trajectory and this has emerged as an additional macro concern for the authorities especially when growth conditions continue to remain weak. Numbers indicate that food segment has been a key source of the recent increase in price levels. We have in the past seen such spurts led by volatility in production levels of certain specific vegetable items and it is high time that we take steps to address the issue. The country is still far from having a seamless supply infrastructure for the agricultural commodities and the sector continues to depend on the monsoons. The government has taken initiatives to address such concerns, but we still have a long way to go.

In fact, the Operation Green Scheme announced in the Union budget 2018-19 to stabilize the supply of Tomato, Onion and Potato(TOP) crops was a great step but more needs to be done on that front.

We hail the recent proposal in the Union Budget 2020-21 urging the States to follow the three model laws related to land leasing, marketing and contract farming. This was much required, and we hope that the States will have a positive response.

Core inflation is expected to remain moderate amid subdued demand conditions and vegetable prices are likely to mellow down in near future. With a further slowdown expected in China and in light of the overall global situation, crude demand is also likely to be suppressed (except under scenario of any flaring in geo-political concerns).

Though both the Government and Central Bank have been doing their best to balance growth and inflation, at this juncture it is important to give a push to growth.