

CPI inflation stood at 6.7 percent in August 2020

Month	Weight	Aug-19	May-20	Jun-20	Jul-20 P	Jul-20 F	Aug-20
General Index	100	3.3	6.3	6.2	6.9	6.7	6.7
Food and beverages	45.86	3.0	8.4	7.9	8.7	8.5	8.3
Pan, tobacco and intoxicants	2.38	5.0	6.3	11.3	12.4	10.5	11.2
Clothing & footwear	6.53	1.2	3.4	2.7	2.9	2.8	2.8
Housing	10.07	4.8	3.7	3.6	3.3	3.3	3.1
Fuel & light	6.84	-1.7	1.6	0.5	2.8	2.7	3.1
Miscellaneous	28.32	4.7	5.8	6.1	7.0	6.8	7.0

The Central Statistics Office released the consumer price index (CPI) based inflation rate for the month of August 2020 last evening. As per the latest data, CPI based inflation was reported at 6.69 percent in August 2020 which was slightly lower than 6.73 percent inflation reported in July 2020. The retail inflation rate for July 2020 has been revised down to 6.73 percent from 6.93 percent reported last month. However, prices have been above RBI's indicative trajectory for the fifth consecutive month.

Food & beverages, miscellaneous category & pan, tobacco and intoxicants segments majorly contributed to the increased prices in the month of August 2020. Fuel & light segment also recorded a slight uptick. Miscellaneous segment recorded 7.0 percent inflation in August. Within the segment, which largely corresponds to various services, personal care & effects (14.5 percent) and transport & communication (11.1 percent) segments recorded double digit inflation levels during the month. Other segments including recreation & amusement (4.1 percent), health (4.7 percent) and household goods & services (3.0 percent) also recorded higher prices in August 2020.

During the month of August, 2020, NSO collected prices from 96.1% villages and 96.4% urban markets, while the market-wise numbers of prices reported therein were 78.6% for rural and 84.4% for urban.

Source: CMIE, MOSPI; P: Provisional; F: Final

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
Aug-19	3.0	1.3	7.7	1.5	0.6	-0.8	6.9	6.9	-2.4	2.3
Apr-20	10.5	7.8	9.3	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	8.7	7.9	18.1	7.0	11.5	0.3	4.0	17.6	2.9	13.4
Jul-20	9.3	6.9	16.4	6.5	12.2	0.1	11.1	15.7	3.6	12.9
Aug-20	9.1	5.9	15.9	6.2	12.5	1.0	11.4	14.4	3.9	12.3

Source: CMIE

Even though food prices declined a tad, the segment continued to witness inflationary pressures in the month of August 2020. The food index reported an increase by 9.1 percent in August 2020, vis-à-vis 9.3 percent inflation rate in July 2020. Values of both protein index as well as vegetable index remained at elevated levels during the month. Prices of overall protein-based segments reported an inflation rate of 10.8 percent in August 2020 as compared to 11.3 percent inflation reported in July 2020. Eggs, fish and meat recorded an inflation rate of 15.9 percent and pulses and products recorded 14.4 percent inflation in August 2020.

Prices of vegetables surged by 11.4 percent in the month of August. Higher prices of staples- led by potatoes, tomatoes and peas were mainly responsible for the sharp increase in inflation levels. Price of garlic also noticed a sharp increase (to the tune of 26.6 percent) in August 2020.

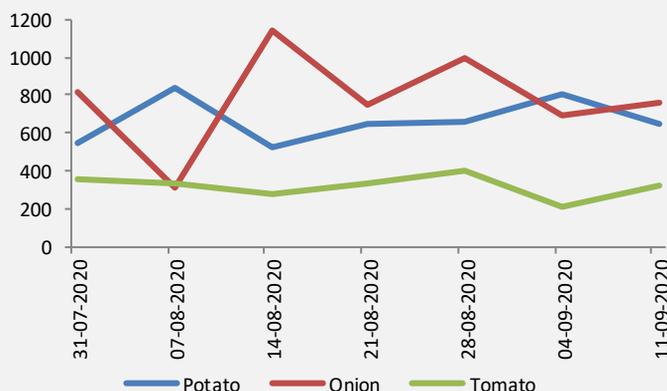
Other food products such as oils & fats (12.5 percent) and spices (12.3 percent) also contributed to the increase in overall food price index during the month.

Retail Prices of Essential Vegetables

Month	Rs./kg			Y-o-Y growth (%)		
	Potato	Onion	Tomato	Potato	Onion	Tomato
Aug-19	19.3	25.2	39.5	-11.1	15.4	40.8
Jan-20	26.4	64.9	26.9	42.1	239.6	8.9
Feb-20	23.0	39.0	22.9	41.0	132.3	11.4
Mar-20	23.0	31.5	22.1	47.1	90.7	-2.0
Apr-20	26.4	28.3	22.9	56.4	66.5	-16.9
May-20	25.8	22.0	20.0	50.5	27.1	-38.9
Jun-20	27.3	21.1	24.9	48.5	8.8	-31.2
Jul-20	31.0	22.3	48.5	60.2	2.8	27.8
Aug-20	33.4	23.2	46.8	73.0	-8.0	18.4

Source: Department of Consumer Affairs, Azadpur Mandi, CMIE

Arrival of Essential Vegetables at Azadpur Mandi (tons)



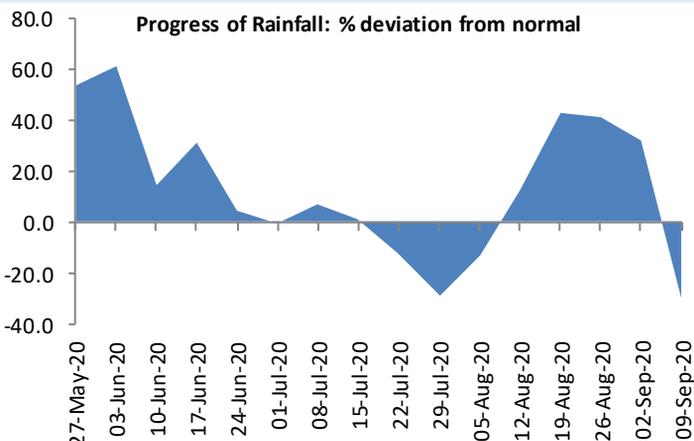
Prices of vegetables have been on the rise for the second consecutive month now which can be attributed to lower supplies to the wholesale as well as retail markets. Latest data indicates volatility in the supply of essential vegetables such as potatoes, tomatoes and onions at the Azadpur Mandi in Delhi. While the economy has progressed in its phase wise opening, seamless functioning of supply chains, as seen in pre-covid times, is still to be achieved. Higher diesel prices has also raised transportation costs of vegetables which is getting partially reflected in the overall increase in vegetable prices. Retail prices of potatoes reported a growth of 73 percent in the month of August 2020, while tomato prices were seen rising by 18 percent y-o-y in August 2020. In addition to the constraints in movement, unavailability of labor did add to the concerns.

Furthermore, rainfall in India has been on the higher side this monsoon season. The percentage deviation of rainfall from normal has largely been in the positive terrain throughout the monsoon season.

Flooding across various parts of India (including Madhya Pradesh, Karnataka, Arunachal Pradesh, Bihar, Assam, Tamil Nadu, Andhra Pradesh) was reported during the month of August which has caused large scale damage to standing crops.

While the outlook on agricultural produce was positive since the beginning of the cropping season, the impact from widespread floods in the country remains to be seen and it might keep the prices high in future as well

Progress of Rainfall: % deviation from normal



Source: CMIE

Comments

Even though the economy is opening up, supply side constraints caused by localized lockdowns did remain a concern during the month of August. The latest guidelines on Unlock 4.0 released by the central government to address the problems of localized lockdowns should offer some respite. The central government has advised the States/UTs not to impose any local lockdown, outside the containment zone, without a prior consultation.

However, upside risks to prices remain on fore even though the base effect can be expected to offer a small breather. The increasing covid-19 cases in the rural hinterland has been a concern and supply side bottlenecks can remain on fore going ahead.

Given that the spurt in inflationary pressures is supply side led, the Reserve Bank of India should not refrain from announcing a further cut in the repo rate in its forthcoming Monetary Policy in October 2020. This will lead to some boost in sentiment. Confidence building remains critical at this juncture. The growth numbers have been abysmal, and all levers need to be used to get the economy back on track.