

### CPI inflation moderates sharply to 4.6 percent in December 2020

Month	Weight	Dec-19	Sep-20	Oct-20	Nov-20	Dec-20
General Index	100	7.4	7.3	7.6	6.9	4.6
Food & beverages	45.86	12.2	9.8	10.1	8.9	3.9
Pan, tobacco & intoxicants	2.38	3.4	10.7	10.6	10.4	10.7
Clothing & footwear	6.53	1.5	3.0	3.1	3.4	3.5
Housing	10.07	4.3	2.8	3.3	3.2	3.2
Fuel & light	6.84	0.7	2.8	2.1	1.6	3.0
Miscellaneous	28.32	4.2	6.9	6.9	7.0	6.6

❖ Latest Consumer Price Index (CPI) based inflation rate data for the month of December 2020 was released by the Central Statistics Office earlier this week. During the month of December 2020, NSO collected prices from 99.5 percent villages and 98.5 percent urban markets, while the market-wise prices reported therein were 88.3 percent for rural and 92.5 percent for urban.

❖ As per the release, CPI based inflation witnessed sharp moderation and was reported at a fifteen-month low of 4.6 percent in December after remaining above the higher end of comfortable inflation range of the RBI consecutively. The easing of price pressure can mainly be attributed to a sharp plunge in food & beverages price index which accounts for nearly 46% of the entire index value.

❖ Inflation in the food & beverages segment stood at a sixteen-month low of 3.9 percent in December 2020. Steep contraction, to the tune of 10.4 percent, in the vegetables price index was primarily responsible for softening of price pressures in the food segment during the month. Other important food items such as eggs, meat & fish, oils & fats, pulses & products and spices continued to report double digit inflation in December 2020.

❖ While price pressures in the poultry sector is likely to moderate in January owing to the bird flu concerns, prices of edible oils are likely to remain firm. Retail prices of mustard oil, sunflower oil, refined soyabean oil as well as palm oil have grown at double digit levels (in the 25-30% range y-o-y). Increased demand in the festive season coupled with lower imports have created a supply demand mismatch.

#### 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
Dec-19	14.2	4.4	9.6	4.4	3.0	4.5	60.5	15.4	3.4	5.8
Aug-20	9.1	5.9	15.9	6.2	12.5	1.0	11.5	14.4	3.9	12.4
Sep-20	10.7	4.7	17.3	5.6	13.4	3.1	20.8	14.7	2.7	11.7
Oct-20	11.0	3.5	18.9	5.2	15.2	0.3	22.1	18.3	1.5	11.3
Nov-20	9.5	2.5	17.4	5.0	17.9	0.2	15.5	18.1	1.0	10.9
Dec-20	3.4	1.0	15.3	4.0	20.1	2.7	-10.4	16.0	0.5	10.3

❖ Nonetheless, domestic mustard crop as well as palm production seems buoyant and are likely to wane off price pressures in the coming months. Overall, price pressures in edible oils segment are expected to wane by the first quarter of FY22.

❖ Miscellaneous segment, indicative of services inflation, ebbed slightly and was reported at a six-month low of 6.6 percent in December 2020. Inflation in this segment was reported at 7.0 percent in the month of November. However, transport & communication and personal care related services remained elevated.

❖ Inflation in housing remained unchanged from the previous month and stood at 3.2 percent in the month of December. Pan, tobacco & intoxicants continued to report double digit inflation rate in December 2020. Clothing & footwear segment reported a marginal uptick in inflation.

❖ Fuel & light inflation rate almost doubled to 3.0 percent in the month of December as compared to 1.6 percent inflation reported in the previous month. Increase in international crude oil prices backed by pickup in economic activity were seen driving the fuel prices. Domestic fuel prices in several major states of India are being reported at record high.

❖ Core inflation eased marginally to 5.7 percent in the month of December as compared to 5.8 percent inflation reported in the previous month. Some easing of prices in services segment amidst hopes of coronavirus vaccination as well as fall in number of daily cases buoyed sentiments.

Source: MoSPI, CMIE

### Monthly Average Retail Prices of Essential Commodities: Rs/Kg.

(Data as on January 11, 2021)

Rs./Kg.	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Rice	33.5	33.5	33.3	34.1	34.1	34.3	34.2	34.5	34.7	34.9	35	34.6	36.8
Atta (Wheat)	30.1	30.2	30.1	31.2	31.4	31.4	31.2	31.1	31.1	30.6	30.7	30.5	31
Tur/Arhar Dal	88	86.9	87.2	94.5	94.7	93	93.1	93	94.9	104.6	106.6	105.1	104.9
Moong Dal	93.2	96.4	98.6	108.6	111	108.9	106.9	103.5	101.8	102.6	104.4	104.6	105.5
Masoor Dal	66.8	67.6	67.2	73	76.2	76.6	76.7	77.4	77.8	78.4	79.3	78.9	79.8
Mustard Oil	117.1	117.7	117	118	118.3	119.9	122.1	124.5	126.5	128.6	132.7	137.7	142.5
Sunflower Oil	106	107.6	106.1	109.6	110.9	111.6	112.9	113.2	117.8	121.8	123.7	129	137.1
Sugar	39.3	39.3	39.1	40.1	39.9	39.7	40.2	40.2	40.4	40.2	40	39.9	40
Tea Loose	218.4	218.5	217.2	218.8	217.9	219.6	220.9	224	228.3	231.2	236.3	244.3	252.2

### Crude Oil Price (Indian Basket): \$/bbl.

Year	April	May	June	July	August	September	October	November	December
2019-20	71.00	70.01	62.37	63.63	59.35	61.72	59.70	62.53	65.50
2020-21	19.90	30.60	40.63	43.35	44.19	41.35	40.66	43.34	49.84

### Prices of Petrol in Various States of India at Record High

State	Petrol Price (₹/L)	Sales Tax/VAT on Petrol
Andhra Pradesh	87.24	31% VAT + Rs.4/litre VAT+Rs.1/litre Road Development Cess and Vat thereon
Chhattisgarh	82.95	25% VAT + Rs.2/litre VAT
Gujarat	81.47	20.1% VAT+ 4% Cess on Town Rate & VAT
Haryana	82.54	25% or Rs.15.62/litre whichever is higher as VAT+5% additional tax on VAT
Jharkhand	83.17	22% on the sale price or Rs. 17.00 per litre, which ever is higher + Cess of Rs 1.00 per Ltr
Karnataka	86.63	35% sales tax
Madhya Pradesh	92.07	33 % VAT + Rs.4.5/litre VAT+1%Cess
Maharashtra	91.18	26% VAT (in Mumbai, Thane & Navi Mumbai) / 25% VAT (Rest of Maharashtra) + Rs.10.12/Litre additional tax
Punjab	83.50	Rs.2050/KL (cess)+ Rs.0.10 per Litre (Urban Transport Fund) +24.79% VAT+10% additional tax on VAT
Rajasthan	91.63	38% VAT+Rs 1500/KL road development cess
Tamil Nadu	87.45	15% + Rs.13.02 per litre
Telangana	87.59	35.20% VAT
Uttar Pradesh	83.90	26.80% or Rs 18.74/Litre whichever is higher
West Bengal	85.68	25% or Rs.13.12/litre whichever is higher as sales tax+ Rs.1000/KL cess- Rs.17/KL exemption (20% Additional tax on VAT as irrecoverable tax)
NCT Of Delhi	84.20	30% VAT

### Comments

Fresh arrivals of major vegetables have eased the price pressures from the food basket. Furthermore, incoming data on progress of rabi sowing shows encouraging trend with major cereals and pulses witnessing a year-on-year growth. Food inflation is therefore expected to ease further and remain at benign levels over the near term.

Positive developments on administration of coronavirus vaccine is supporting swift economic recovery. This, in turn, has caused edging up of international crude oil and domestic fuel prices - as oil marketing companies in India continue to pass on increase on account of high crude oil prices to consumers. Prices of industrial inputs and metal prices is also witnessing an increase thereby adding to fresh cost push price pressures in the core segment.

Furthermore, fiscal cost of vaccinating and the expenditure on requisite infrastructure and logistics will add to the fiscal imbalances and can pose as a risk to inflationary pressures. However, given the magnitude of the pandemic and the health crisis it unfolded, this one-time necessary expenditure can be met by setting a fresh fiscal consolidation roadmap in the upcoming budget.

Despite some easing in price levels, RBI is likely to remain in watchful mode in the forthcoming monetary policy (February 3-5, 2021) as prices of non-perishables food items remain firm and commodities prices including crude oil see an uptick.

Source: MoSPI, PPAC, CMIE, Press articles