

### CPI inflation further moderated to 4.1 percent in January 2021

Month	Weight	Jan-20	Oct-20	Nov-20	Dec-20	Jan-21
General Index	100	7.6	7.6	6.9	4.6	4.1
Food & beverages	45.86	11.7	10.1	8.9	3.9	2.7
Pan, tobacco & intoxicants	2.38	3.7	10.6	10.4	10.7	10.9
Clothing & footwear	6.53	1.9	3.1	3.4	3.5	3.8
Housing	10.07	4.2	3.3	3.2	3.2	3.3
Fuel & light	6.84	3.7	2.1	1.6	2.9	3.9
Miscellaneous	28.32	4.8	6.9	7.0	6.6	6.5

- ❖ Latest data on consumer price index (CPI) based inflation rate was released by the Central Statistics Office on Friday- February 12<sup>th</sup>, 2021. During the month of January 2021, NSO collected prices from 99.4 percent villages and 98.5 percent urban markets.
- ❖ As per the release, CPI based inflation further moderated and was reported at a sixteen-month low of 4.1 percent in January 2021 vis-à-vis 4.6 percent inflation reported in December 2020. Lower food & beverages prices were responsible for the moderation in overall retail inflation during the month. Also, a marginal downtick was reported in miscellaneous goods prices.
- ❖ Inflation in the food & beverages segment, which accounts for 46 percent of the CPI index, stood at an eighteen-month low of 2.7 percent in January 2021. While sharp contraction in the vegetables price index (-15.8 percent) was mainly responsible for subdued price pressures in the food segment, a decline in prices of cereals and milk products also contributed to a lower index value during the month. On the other hand, other important food items such as eggs, meat & fish, oils & fats, pulses & products and spices continued to report high inflation rates in January 2021 albeit at a relatively slower rate as compared to the previous month.
- ❖ Inflation in fruits segment, however, noted an uptick and was reported at a fifteen-month high with prices rising by 5.0 percent in the month of January as compared to 2.7 percent increase noted in the previous month.

#### 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
Jan-20	13.6	5.3	10.6	5.6	6.7	5.8	50.0	16.7	4.6	8.3
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	3.9	20.1	2.7	-10.5	16.0	0.5	10.3
Jan-21	1.9	0.1	12.6	2.7	19.7	5.0	-15.8	13.4	-0.3	9.0

- ❖ Major fruits including apples (19.4 percent), coconut(13.2 percent), grapes (4.2 percent) and groundnut (3.2 percent) registered a spike in prices in January 2021.
- ❖ Miscellaneous segment, indicative of services inflation, ebbed slightly and was reported at a seven-month low of 6.5 percent in January 2021. Inflation in this segment was reported at 6.6 percent in the month of December. Inflation in housing segment noted a slight uptick and stood at 3.3 percent in the month of January. On the other hand, pan, tobacco & intoxicants continued to report double digit inflation rate in January 2021. Clothing & footwear segment too reported a slight uptick in inflation levels during the month.
- ❖ Inflation in the fuel & light segment edged upwards and stood at 3.9 percent in the month of January as compared to 3.0 percent inflation reported in the previous month. International crude oil prices have been on the rise since November 2020 on the back of renewed optimism on recovery of global economic activity driven by large scale vaccination programmes.
- ❖ However, despite easing of price pressures in the food segment, household inflation expectations rose dramatically in the January 2021 round of RBI Household expectations survey, both in three month ahead as well as one year ahead period for general prices. This could be mainly attributed to increased fuel prices as well as other important food items such as pulses and edible oil and an overall uptick in core inflation

Source: MoSPI, RBI, CMIE, Press articles, FICCI Research

# Economy Fact Sheet – Consumer Price Index

## February 2021

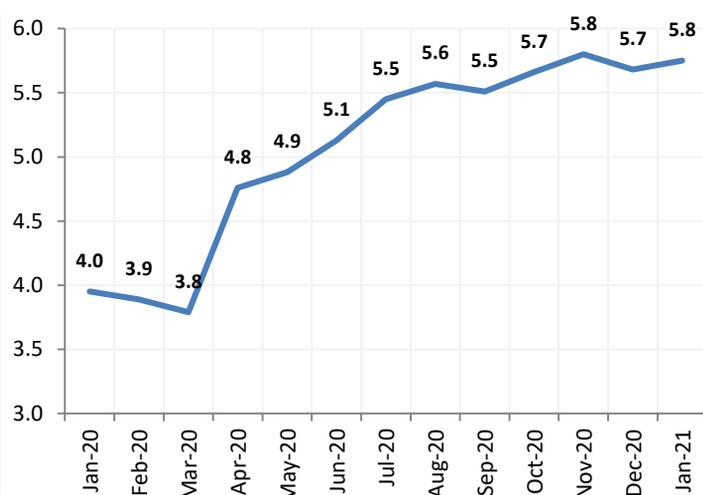
### Households' Inflation Expectations Survey, January 2021- Expectations for General Prices: % of respondents

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
Jan-20	56.1	23.4	3.6	63.6	21.4	3.2
Mar-20	52.5	25.6	5.2	60.7	24.8	3.7
May-20	56.0	23.5	5.8	57.1	23.8	4.7
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	<b>56.0</b>	<b>22.4</b>	<b>5.3</b>	<b>62.9</b>	<b>21.2</b>	<b>3.9</b>

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

Month	Current perception of inflation rate (in %)	Inflation expectations three months ahead (in %)	Inflation expectations one year ahead (in %)
Jan-20	7.6	8.6	9.2
Mar-20	7.6	8.5	9.0
May-20	9.3	10.4	10.2
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

### Core Consumer Price Index: Growth: Y-o-Y in %



### Comments

The Reserve Bank of India, while announcing the monetary policy earlier this month, projected some moderation in inflation outlook over the short term; inflation is now projected at 5.2% for Q4 2020-21 vis-à-vis 5.8% forecasted in its December 2020 review. However, inflation is expected to be slightly in the higher range of 5.2% and 5.0% in H1 2021-2022 as compared to December 2020 estimates and decline a tad to 4.3% in Q3: 2021-22 - with risks remaining broadly balanced.

The months of December and January have witnessed larger than anticipated moderation in food prices which resulted in actual inflation being closer to the RBI's target. This sharp response to falling food, mainly vegetable prices, therefore indicates that the near-term headline inflation outlook will largely be dependent on movement in food prices. While increasing prospects of a bumper rabi crop, higher arrivals of key winter vegetables and subdued poultry demand on the back of fears surrounding avian (bird) flu support benign inflationary outlook in the coming months.

Furthermore, broad based escalation in cost push price pressures in services as well as manufacturing segments on the back of continued rise in industrial input prices as well as energy prices is a worrisome factor as far as outlook on core inflation is concerned. This coupled with improving demand conditions amidst greater vaccination and renewed optimism, as indicated by various lead indicators and RBI's latest survey on industrial outlook, suggests increased tendency of prices being inflationary. However, this must not deter the RBI to continue with its accommodative stance, at least till the end of 2021, as it is important to support the green shoots of recovery at this juncture.

Source: MoSPI, RBI, CMIE, Press articles, FICCI Research