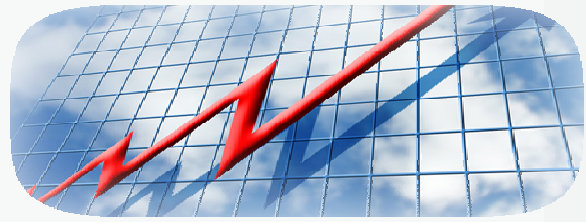


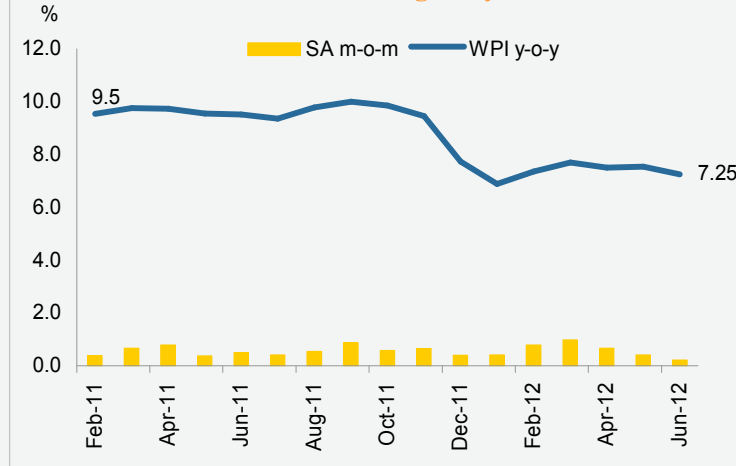
# Econon Update - INFLATION



Poor monsoon exacerbate the upside risks to inflation

16<sup>th</sup> July, 2012

### Inflation heads down, albeit marginally



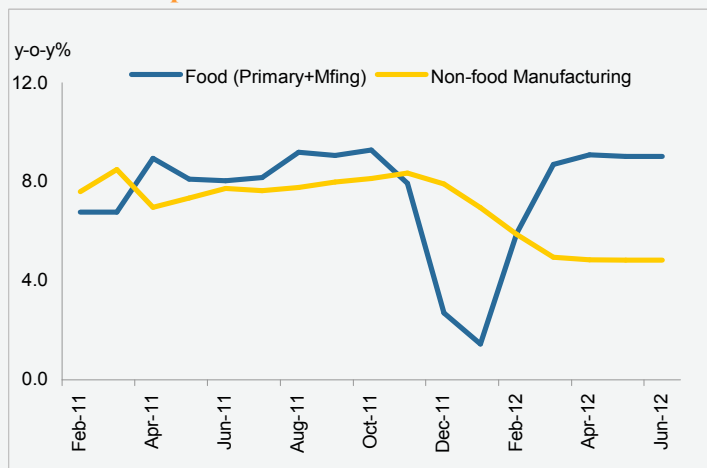
- Wholesale-price based inflation (WPI) edged down marginally to 7.25 per cent in June 2012 as compared to 7.5 per cent in the previous month. The underlying momentum in the WPI series, reflected by the m-o-m seasonally-adjusted series also moderated slightly.
- The upward stickiness in the WPI has prevented the RBI from cutting interest rates aggressively to spur growth. According to CII, much of the upward pressure in inflation is due to supply-side factors, for which RBI's monetary policy is an inappropriate policy response. Hence, an interest rate cut is warranted in the forthcoming policy meeting on July 31st, 2012.

### Sectoral components of Inflation

	Weight	Apr-June					
		Jun-11	Apr-12	May-12	Jun-12	FY12	FY13
<b>General</b>	100.0	9.5	7.5	7.5	<b>7.25</b>	9.6	7.4
<b>Primary</b>	20.1	11.3	9.6	10.9	<b>10.5</b>	13.1	10.3
- Food	14.3	7.6	10.9	10.7	<b>10.8</b>	8.8	10.8
- Non-Food	4.3	18.4	1.4	8.5	<b>6.8</b>	22.2	5.5
- Minerals	1.5	23.4	15.9	15.6	<b>14.5</b>	25.5	15.3
<b>Fuel</b>	14.9	12.8	12.1	11.5	<b>10.3</b>	12.7	11.3
- Coal	2.1	13.3	13.9	13.9	<b>13.9</b>	13.3	13.9
- Mineral oil	9.4	16.8	13.7	12.8	<b>10.9</b>	16.1	12.4
<b>Manufacturing</b>	65.0	7.9	5.3	5.0	<b>5.0</b>	7.4	5.1
- Food	9.9	8.0	9.3	9.0	<b>9.0</b>	8.4	9.1
- Non-food	55.0	7.7	5.1	4.8	<b>4.8</b>	7.3	4.9

- Primary articles inflation remained high at 10.5 per cent in June 2012, with primary food inflation rising to 10.8 per cent led by a 48.8 per cent jump in vegetable prices.
- Inflation in fuel category softened to 10.3 per cent in June 2012 led by lower inflation in internationally linked fuels like ATF and naphtha.
- Manufacturing inflation remained unchanged at 5 per cent from the previous month in June 2012. Though on a m-o-m basis, the index moved up by 0.3 per cent.

### Demand-side pressures on inflation ease



- Reflecting a sustained decline in demand-side pressures in the economy, non-food manufacturing inflation, popularly known as the core inflation index remained below the psychological mark of 5 per cent for the third consecutive month in June 2012.
- Overall food inflation (primary + manufacturing) remained high at 9 per cent in June 2012. A deficient monsoon till date and risk of a further increase in the minimum support prices of food grains pose further upside risk to food inflation going forward.

Source: Ministry of Industry, CII computations

**Outlook:** Inflation remains high despite slowing growth mainly due to supply-side bottlenecks which have pushed up food inflation. In addition, a weak Rupee has also wiped out any gains from the softening in global commodity prices, and would keep the imported component of inflation high. A deficient monsoon till date, has posed another significant upside risk to inflation for this fiscal. On balance, we expect WPI inflation to remain above RBI's comfort zone (5%)- at around 7 per cent in the current fiscal.

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