

Economy First Cut

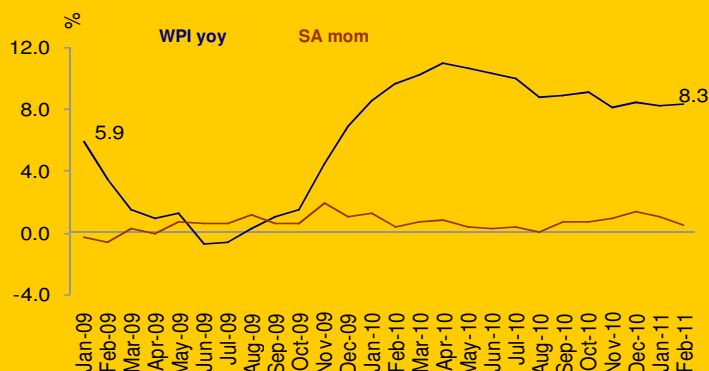
Inflation



Rise in non-food inflation offsets gains from decline in food inflation

14th March 2011

WPI based inflation remains high at 8.3 per cent



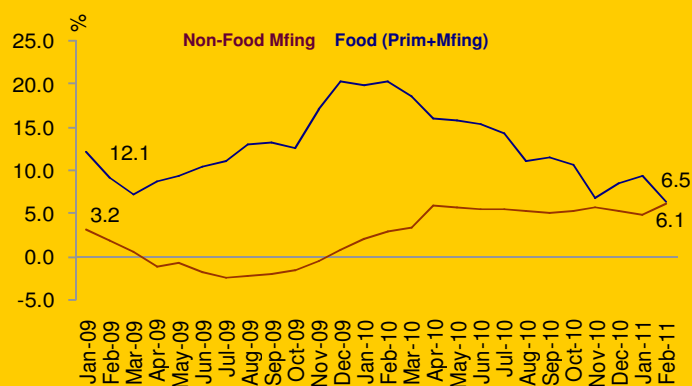
- Headline inflation based on WPI rose to 8.3 per cent in February 2011, slightly up from 8.2 per cent recorded in previous month on account of a significant rise in core (non-food manufacturing) inflation. The same stood at 9.7 per cent in February 2010. Inflation for December 2010 was revised sharply upwards to 9.4 per cent from 8.4 per cent reported earlier.
- The month-on-month momentum, as reflected in the seasonally adjusted series, saw moderation. Inflation during the reporting month.

Sectoral Inflation (y-o-y%)

(2004-05 base)	Weight	Feb-10	Dec-10	Jan-11	Feb-11	FY10	FY11
General	100.0	9.7	8.4	8.2	8.3	3.0	9.2
Primary	20.1	21.7	16.5	17.3	14.8	11.8	17.8
- Food articles	14.3	21.8	13.5	15.6	10.6	14.8	15.9
- Non-Food articles	4.3	14.4	22.3	23.9	29.8	4.2	20.8
- Minerals	1.5	36.3	27.7	17.3	16.8	6.4	25.6
Fuel	14.9	10.2	11.2	11.4	11.5	-3.4	12.2
- Petrol	1.1	11.7	21.7	27.4	28.7	-8.8	19.5
- Diesel	4.7	8.9	14.7	14.7	12.4	-3.5	14.9
Manufacturing	64.9	5.2	4.5	3.8	4.9	15	5.2
- Food	9.9	17.7	0.4	-1.0	-0.3	13.3	3.6
- Non Food	55.0	2.8	5.3	4.8	6.1	-0.6	5.5

- Primary articles inflation continued to remain at an elevated level, 14.8 per cent, in February 2011 but witnessed a deceleration as compared to previous month's 17.3 per cent. This was primarily led by softening of inflation in food articles.
- Non-food primary article inflation surged to 29.8 per cent in the reporting month as against 23.9 per cent in the previous month. This was led by significant increase in prices of castor seed, cotton and copra.
- Fuel inflation inched up to 11.5 per cent as compared to 11.4 per cent in previous month.

Core inflation rises to 6.1 per cent – the highest in 29 months



- Manufacturing inflation rose to 4.9 per cent in February 2011 as against 3.8 per cent in the previous month. Like primary articles, inflation in this sub-group was also driven by non-food items.
- Manufactured food prices fell 0.3 per cent in a year whereas non-food manufacturing prices picked pace to post inflation of 6.1 per cent in February 2011 compared to 4.8 per cent a month earlier.
- Decline in prices of food items in both primary and manufactured subgroups resulted in overall food inflation ((Primary + Manufacturing) slowing sharply to 6.5 per cent in February 2011 against 9.3 per cent a month ago.

Note: Graph depicts y-o-y growth

Source: Ministry of Industry, CRISIL computations

Outlook

As expected, with the new crop hitting the market, food inflation started showing signs of moderation. However, contrary to expectations, non-food inflation recorded a significant rise in February 2011. The average WPI inflation for April-February 2010-11 stands at 9.2 per cent.

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