



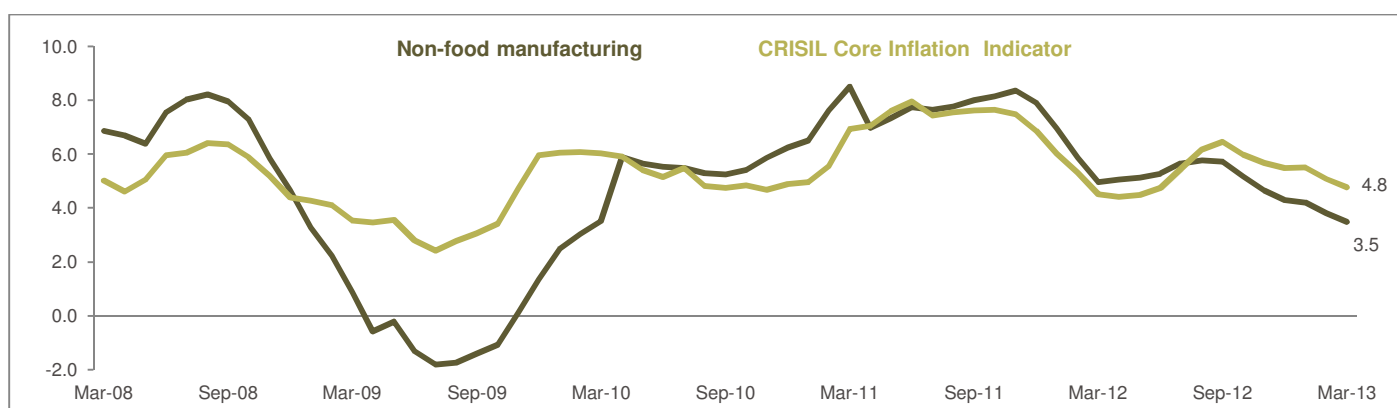
April 2013

CRISIL EconomyFirstCut

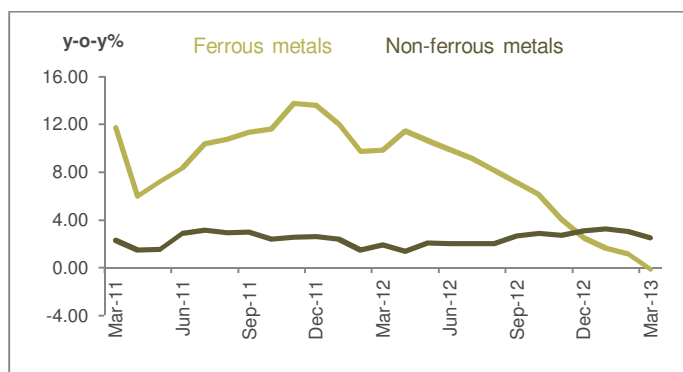
CCII falls below 5 per cent for the first time in 9 months

Overview: Core inflation has been falling for 7 months in a row. CRISIL Core Inflation Indicator (CCII), a measure of demand side pressures on prices, stood at 4.8 per cent in March. Non-food manufacturing inflation fell to 3.5 per cent from 3.8 per cent in the previous month. CCII has remained higher than non-food manufacturing inflation since, inflation in manufactured food; having nearly 18 per cent weight in the CCII has remained high at 7.0 per cent. In contrast, base metal prices which are excluded from CCII have been falling over the recent months. Ferrous metals registered a deflation of 0.1 per cent, while inflation in non-ferrous metals at 2.5 per cent, down from 3.0 per cent in the previous month. CRISIL Research now expects the economy to grow at a slower pace of 6.0 per cent in 2013-14, than anticipated earlier. This would ease the demand side pressures on prices. With core inflation and headline WPI inflation falling below 6 per cent in March, the probability of a rate cut in May has increased.

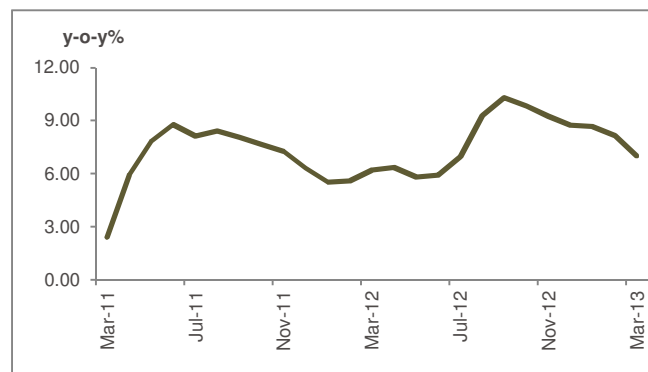
Core inflation going down



Deflation in ferrous metals



Manufactured food inflation falls



Source: Ministry of Commerce & Industry, CRISIL Research



Background to CRISIL Core Inflation Indicator: In April 2012, CRISIL Research released an alternative measure of core inflation – CRISIL Core Inflation Indicator, which we believe, is a better indicator of underlying demand pressure on prices and is more stable than the existing core inflation measure - non-food manufacturing inflation. It can, therefore, supplement the existing indicators that influence the RBI's interest rate decisions. CRISIL Research computes the CCII on a monthly basis. CCII is especially relevant in today's uncertain and volatile economic environment. CCII adds processed food to and takes out base metals from the RBI's core inflation measure, non-food manufacturing inflation. It thereby improves upon the current measure of core inflation in two respects. First, it reduces volatility in core inflation by excluding base metals prices, which are linked to international metal prices. Second, it captures demand-side pressures better, as it includes processed food articles, prices of which are influenced more by demand strength. This is in line with the practice followed by many other central banks.

Analytical Contacts:

Vidya Mahambare

Principal Economist, CRISIL Research
Email: vidya.mahambare@crisil.com
Phone: +91 22 3342 8038

Anuj Agarwal

Economic Analyst, CRISIL Research
Email: anuj.agarwal@crisil.com
Phone: +91 022 3342 8019

Media Contacts:

Priyadarshini Roy

Communications and Brand Management
Email: priyadarshini.roy@crisil.com
Phone: +91 22 3342 1812

Jyoti Parmar

Communications and Brand Management
Email: jyoti.parmar@crisil.com
Phone: +91 22 3342 1835

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CRISIL Limited

CRISIL House, Central Avenue, Hiranandani Business Park,
Powai, Mumbai – 400076. India

Phone: +91 22 3342 3000 | Fax: +91 22 3342 8088

www.crisil.com

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