

ASSOCHAM Eco Pulse Study

**Inflation may peak in December 2008 to reach 14-14.5 per cent
July 2008**

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Inflation may peak in December 2008 to reach 14-14.5 per cent: ASSOCHAM

As there seems no sign of abatement in oil prices, fuel prices may be hiked further in October 2008, causing inflation to peak in December 2008 to reach 14-14.5 per cent, suggests ASSOCHAM Eco Pulse (AEP) Study.

As per the AEP Report on 'Inflation and Interest Rates', the trickle down impact of hiked fuel prices spilling over to other commodities by the month of December this year . Coupling with low-base effect, inflation as measured by WPI Index would peak to 14 -14.5 per cent level as compared to 3.8 per cent in December 2007.

“As inflation is likely to rise till December 2008, there could be further tightening of monetary policy pushing the already high interest rates further up”, said Mr. Sajjan Jindal, President, ASSOCHAM.

The study found that if the lending rates go up by another 50-100 basis points, non-food credit off take may come down to 19-20 per cent in the present financial year and home loan growth may dip to 5-7 per cent.

ASSOCHAM Forecasts

Indicator	Growth Rates (In per cent)	
	2008-09 (Forecast)	2007-08 (Actual)
Inflation (WPI Index)	14-14.5 per cent by December 2008	3.83 per cent (As on December 29, 2008)
Non-Food Credit	19-20 per cent	22.3 per cent
Housing Loans	5-7 per cent	12.0 per cent*
Deposits	20 per cent	21.2 per cent
*Y-o-Y as on Feb 15, 2008		

During April-May 2008, inflation has been in the range of 7.7 per cent to 8.75 per cent. In the same time period in 2007, it hovered about 6.44 per cent to 5.15 per cent. However, with the beginning of July 2007, the rate of increase in the WPI Index had reduced to the levels of 4 per cent. Subsequently, it had gone down to the levels of 3 per cent till December 2007.

As the interest rates started rising in 2004, the growth rate of housing loans and non-food credit has been declining. The housing loan growth has fallen to about 12 per cent in 2007-08 (as on February 15, 2008 on yearly basis), from 49 per cent in the financial year 2004-05. The non-food credit off take has been slowing from 26.5 per cent in fiscal 2005 to 22.3 per cent in fiscal 2008, with an exception of 2005-06, when it grew at 31.8 per cent. Non-food credit expanded at 26.55 per cent on yearly basis as on June 20, 2008.

While the demand for corporate borrowings may increase by oil companies, it may be partially offset by players from other sectors who are likely to prefer supplier's credit instead of bank credit. The supplier's credit costs around 8-9 per cent against 12-14 per cent being charged by the banks for working capital financing.

Home loans have suffered a double whammy of increasing interest rates and high property prices. With the upward revision home loan rates by 50-100 basis points by a majority of players, the interest rates have almost doubled in the past four years. The interest rate on fixed-rate home loan charged by few of the players is more than 14 per cent. The property prices, on the other hand, had registered a 50-100 per cent increase in 2007-08 alone.

Though real estate prices have softened in some areas, the affordability has not improved as the prices are still high and interest rates have been increasing

relentlessly. Thus, expectation of further corrections and higher interest rates would keep the demand of home loans low in the current fiscal.

Despite the increase in deposits rate effected since July 2008 and negative sentiment in the equity markets, the current inflation may reduce the deposits growth to 20 per cent in 2008-09. The growth rate in deposits had gone up to more than 22 per cent in 2006-07 from 12.7 per cent in 2004-05. It was 21.2 per cent in the last fiscal.

According to the latest data available, the year-on-year expansion in deposits has fallen to 21.95 per cent as on June 20, 2008. It is significantly down from 23.2 per cent on June 6, 2008.

The return on deposits with maturity of more than one year had increased to 7.5-9.6 per cent in 2007-08 from 5.25-6.25 per cent in 2004-05. It has reached 8.25-10 per at present and may go up by about 25 basis points before the end of the current financial year.