

# Quickonomics

May 30, 2022

## The turn of services inflation

Inflation in services — the sector hit hardest by the pandemic and slowest to recover — is finally catching up.

When consumer price index (CPI)-based inflation registered an eight-year high this April, on the back of an all-round rise in commodity, food and fuel prices, services inflation was still sedate.

But of late, it is beginning to tick up too.

Not only that, we discern the following trends:

- Low inflation in a few large essential services is keeping overall services inflation subdued
- However, prices of discretionary services are rising
- The rise has been sharper in services catering to the upper income segments of population
- Transportation-related services have seen the sharpest rise in the past six months, due to fuel price spikes

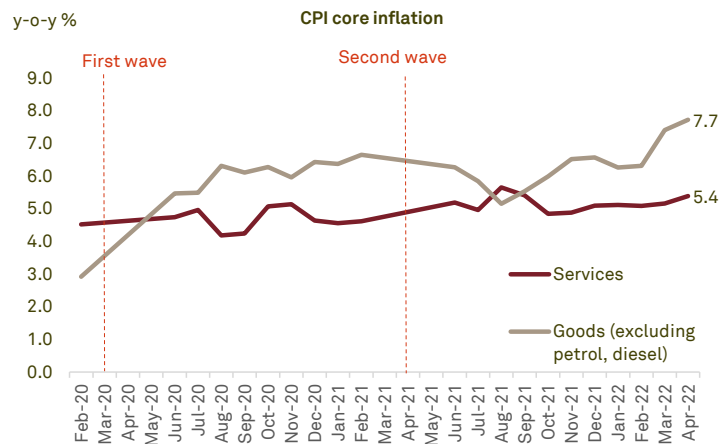
The demand recovery we are seeing this fiscal will only further drive the generalisation of inflationary pressure across other service segments. That, alongside surging costs, will push producers to pass on the price rise to consumers.

### Certain services have started picking up pace

We compared granular CPI inflation data in the past six months (November 2021-April 2022) with the two years of the pandemic (fiscals 2021 and 2022), and the pre-pandemic average (fiscals 2016-2020).

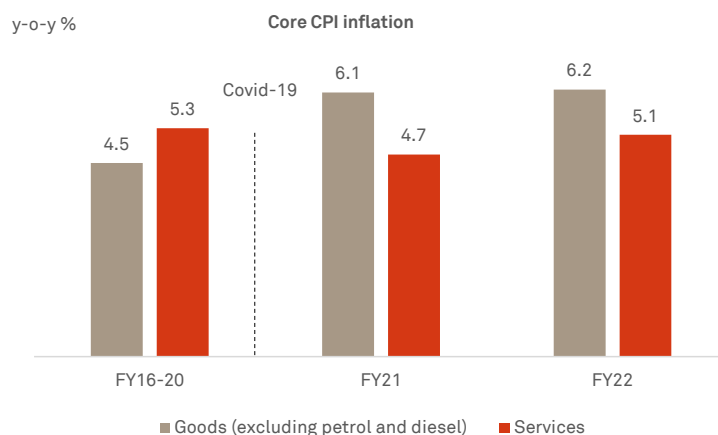
For better understanding, we categorised services into essentials, discretionary and transport-related (see table below) to find:

### On the rise...



Note: Core inflation refers to CPI inflation excluding food & beverages and fuel & light  
Source: National Statistics Office (NSO), CEIC, CRISIL

### ...it has trended higher than goods inflation before the pandemic



Source: NSO, CEIC, CRISIL

## A few essential services with large weights recorded low inflation

- Inflation in house rentals and education fell significantly during the pandemic, relative to the previous five years. Even in the recent six months, it was below 4% for both. Cumulatively, these categories have 14% weight in the CPI basket and 52% in services CPI computation. Low inflation in these large categories has, thus, capped services inflation
- Some services, whose importance rose post pandemic, recorded a sharp rise in inflation last year. These include health services, and work-from-home related essentials such as mobile and internet expenses

## Many discretionary services rebounded from pandemic lows

- Inflation in services such as cinema tickets, domestic help/cook and tailoring, dropped in the first year of the pandemic. But it recovered in the second year, recording higher inflation in the recent six months
- Services with greater elasticity of demand, such as those catering to the upper income segments, recorded the sharpest rise in inflation. Cinema tickets and hotel lodging charges saw double-digit inflation in the past six months, much above the pre-pandemic five-year average. Reducing pandemic restrictions and pent-up demand allowed a quick pass-through of input cost escalation to the consumers
- While data on restaurants and other food services is not explicitly available, certain proxy categories<sup>1</sup> (purchase of cooked meals and snacks, tea and coffee cups, prepared sweets, cake and pastry) show inflation rising above 6% in the past six months compared with the pre-pandemic print of below 5%
- Inflation in services such as tailors, barber and beauticians, and cable TV connections remains below the pre-pandemic average

## Transportation-related services felt maximum pinch

- Transport services, particularly the ones catering to upper income segments, clocked the sharpest rise in inflation. Airfares, for one, logged the highest inflation among services
- Other modes of private transport such as taxis and school buses have also seen inflation above 7% in the past six months
- However, public transport services such as railways, bus and trams have seen only a modest rise. This is a relief, especially for lower income segments
- On the costs side, the pressure is the highest for the transport sector, given crude oil prices rose ~80% in fiscal 2022, and continue to be above \$100 per barrel till date

## Expect more increases this fiscal

Interestingly, services inflation used to be higher than that in goods pre-pandemic (see chart on page 1). After sliding back in the past two fiscals, rising demand has put it back on an upward trajectory.

Moreover, as economic recovery becomes broad-based this fiscal, the ability of firms to pass on costs across a wider range of services will strengthen.

This April recorded the fastest rise in input costs for services in 11 years, according to S&P Global PMI data.

The rise in services inflation will continue to broaden the pressures faced by the economy this fiscal.

<sup>1</sup>These categories come under food and beverages CPI and are not included in services CPI computation

Table: Inflation trends across services

Services categories		Weight in overall CPI (%)	CPI inflation (y-o-y %)			
			FY16-20	FY21	FY22	Past 6 months (Nov 2021-Apr 2022)
Essentials	Telephone charges: landline	0.2	1.1	4.9	1.2	0.5
	Monthly maintenance charges	0.0	2.0	15.2	-3.9	1.6
	House and garage rent	9.5	5.7	3.0	3.5	3.4
	Education	4.5	5.6	2.8	2.9	3.5
	Water charges	0.2	4.4	2.4	3.6	3.9
	Sweeper	0.0	6.6	5.7	4.5	6.0
	Internet expenses	0.1	2.0	2.3	8.1	7.0
	Health services	5.9	5.5	5.1	7.5	7.1
	Mobile charges	1.8	2.3	11.9	6.8	8.6
Discretionary services	Club fees	0.0	2.4	0.7	1.5	2.2
	Watchman charges	0.1	3.8	8.8	1.5	2.5
	Tailor	0.4	6.2	3.3	4.8	5.1
	Monthly charges for cable TV connection	0.8	4.9	7.6	5.9	5.2
	Porter charges	0.0	6.0	16.9	6.8	5.2
	Barber, beautician, etc.	0.6	6.6	7.2	5.9	5.8
	Washerman, laundry, ironing	0.1	6.5	5.1	6.1	6.3
	Domestic servant or cook	0.6	6.1	3.5	7.7	8.6
	Other consumer services excluding conveyance	0.2	6.1	0.5	7.2	6.7
	Cinema tickets	0.1	7.0	-20.9	6.7	11.4
	Hotel lodging charges	0.0	3.7	14.4	7.2	13.0
	Other entertainment	0.1	3.4	-3.1	3.8	6.2
Transportation-related	Horse cart fare	0.0	4.3	-3.7	-10.7	-2.2
	Railway fare	0.2	1.6	1.3	2.7	2.5
	Hand-drawn rickshaw and cycle fare	0.0	4.7	8.3	3.2	4.4
	Bus or tram fare	1.4	4.5	11.1	5.3	4.8
	Taxi, auto rickshaw fare	0.6	4.4	6.3	7.4	7.1
	School bus, van, etc	0.2	5.5	2.8	5.9	7.2
	Steamer, boat fare	0.0	8.3	6.6	12.2	10.6
	Air fare normal: economy class adult	0.1	-5.3	138.7	24.5	25.9

Source: NSO, CEIC, CRISIL

■ CPI<=4   
■ 4<CPI<6   
■ CPI>=6

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