

Retail inflation inched higher to 1.33% in Dec

Deflation in food prices narrowed; core inflation at 27-mth high of 4.45%

AUHONA MUKHERJEE

New Delhi, 12 January

India's retail inflation firmed up to a three-month high of 1.33 per cent in December, up from 0.71 per cent in November, as food price deflation narrowed and favourable base effects began to wane, according to data released by the National Statistics Office (NSO) on Monday. Economists said the latest headline inflation print still leaves room for another 25-basis-point cut in the repo rate by the Reserve Bank of India (RBI), though views were split on the likelihood of such a move.

The December figure marked the final Consumer Price Index (CPI) print under the current 2012 base year. From January onwards, with data scheduled for release on February 12, the CPI series will shift to a new 2024 base year.

After two consecutive months of CPI-based inflation remaining below 1 per cent, retail inflation rose in December as food price deflation narrowed to 2.71 per cent from 3.91 per cent in November.

In rural India, retail prices edged higher, with the NSO reporting a 0.76 per cent reading for CPI (Rural), compared with 0.1 per cent in November. Urban retail inflation also increased, rising to 2.03 per cent from 1.4 per cent in the previous month. Rural food prices declined by 3.08 per cent, while urban food prices fell 2.09 per cent.

Core inflation, which excludes volatile items such as food and energy, rose to a 27-month high of 4.45 per cent in December, from 4.23 per cent in November, driven largely by a sharp rise in precious metals prices. Core inflation was last at comparable levels in September 2023, when it stood at 4.55 per cent.

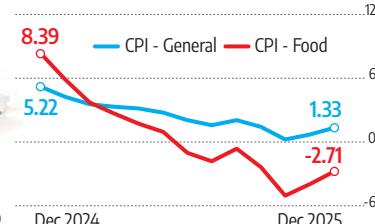
Gold inflation surged to 68.66 percent,



Source: NSO

Mild uptick

(Y-o-Y change in %)



while silver prices spiked 97.07 per cent, amid heightened demand. Excluding precious metals such as gold and silver, core CPI inflation remained unchanged at 2.4 per cent.

Despite the uptick, December's inflation print remains below the RBI's medium-term target of 4 per cent, with a tolerance band of 2 percentage points on either side. With the December reading, CPI inflation averaged 0.76 per cent in the third quarter, compared with the central bank's estimate of 0.6 per cent.

The RBI's Monetary Policy Committee (MPC) cut the repo rate by 25 basis points at its December meeting. While retail inflation continues to remain below even the lower band of the target band, economists are divided over the likelihood of another rate cut at the MPC's next meeting, scheduled for February 4-6.

Unfavourable base effects could contribute to higher inflation readings in the coming months, potentially moving inflation closer to the RBI's 4 per cent target, said Sujan Hajra, chief economist and executive director at the Anand Rathi group. "In this context, another 25 basis point rate cut by the RBI remains likely. A deeper easing cycle, however, would require a meaningful downside surprise

to GDP growth," he added.

Aditi Nayar, chief economist at ICRA, said that while the December 2025 MPC meeting indicated the possibility of another rate cut in February 2026, a pause appears warranted at the current juncture. "It would be prudent to wait and assess the updated CPI (base: 2024) and GDP (base: 2022-23) series, due for release later in February, as these will determine the prevailing growth-inflation mix and help shape a fresh outlook," she said.

Rajani Sinha, chief economist at CareEdge Ratings, said the recent uptick in inflation is unlikely to concern the RBI from a monetary policy perspective. "While inflation projections leave room for a further 25 basis point rate cut, we expect the MPC to pause and conserve policy space, opting to ease only if growth conditions deteriorate," she said.

Dipti Deshpande, principal economist at Crisil, said she expects CPI inflation to rise to 5 per cent in 2026-27, from an estimated 2.5 per cent in the current financial year, as food inflation normalises. "Weak global crude prices should keep fuel inflation contained, while the lingering impact of GST rate cuts should help cap core inflation until the first half of the next financial year," she added.