Food prices cool Feb inflation to 3.61%

Industrial output growth rose to 8-month high of 5% in Jan

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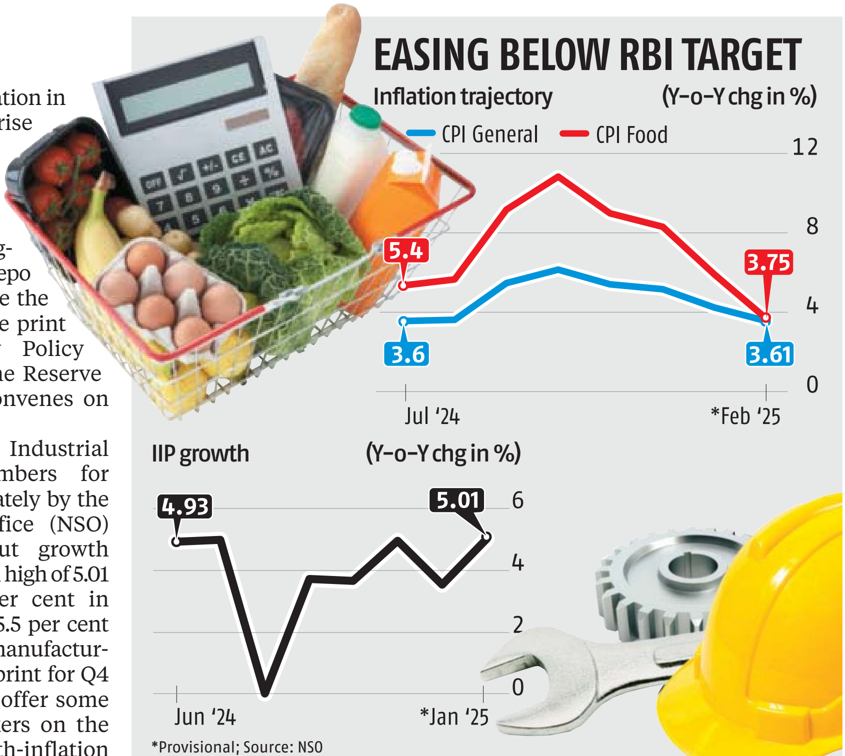
New Delhi, 12 March

A sharp deceleration in food price rise helped moderate India's retail inflation to a seven-month low of 3.61 per cent in February, triggering hopes of another repo rate cut as this would be the final official price gauge print before the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) convenes on April 7.

The Index for Industrial Production (IIP) numbers for January, released separately by the National Statistics Office (NSO) showed factory output growth surged to an eight-month high of 5.01 per cent from 3.54 per cent in December, driven by a 5.5 per cent upswing in the critical manufacturing sector. The first IIP print for Q4 of 2024-25 should also offer some comfort to policy makers on the restoration of the growth-inflation balance that had gone a tad awry in preceding months.



Food inflation fell sharply from almost 6 per cent in January to 3.75 per cent in February, marking the mildest uptick since May 2023, thanks largely to a year-on-year contraction in prices of vegetables (-1.07 per cent), pulses (-0.35 per cent), and eggs (-3.01 per cent).The pace of inflation also cooled for cereals (6.1 per cent) and meat (2.11 per cent), but retail prices of edible oils spurted higher by 16.36 per cent, while fruits became 14.82 per cent steeper. Economists attributed some of the spike in edible oil prices to the weakening currency.

Rural food inflation stood at 4.06 per cent, while urban food inflation was 3.20 per cent, significantly below the 6.31 per cent and 5.53 per cent, respectively, recorded in January. Overall rural inflation dropped to 3.79 per cent in February from 4.59 per cent in January, while urban inflation declined from 3.87 per cent to 3.32 per cent.

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Weather risks could hit food prices

Rajani Sinha, chief economist at CARE Ratings, said food inflation is likely to remain benign in the coming months but any weather-related disruptions could play spoilsport. "On the monetary policy front, the below potential growth in the recent quarters and comfort on the inflation front support the possibility of a 25 basis points (bps) policy rate cut in the upcoming April MPC meeting," she averred.

The RBI's MPC had effected a 25 bps reduction in the repo rate to bring it to 6.25 per cent at its last meeting in February, marking the first reduction in the benchmark interest rate in almost five years. At the time, RBI Governor Sanjay Malhotra had said food inflation pressures, absent any supply-side shocks, should see a softening due to good kharif production, winter easing in vegetable prices, and favourable rabi crop prospects.

Madan Sabnavis, chief economist, Bank of Baroda, said inflation is likely to remain low in March as well, so there is a good chance of a further repo rate cut in April, especially since that RBI has been doing everything to provide easy flow of liquidity.

"Core inflation is expected to rise but remain moderate. Rising uncertainty in global financial markets, coupled with continuing volatility in energy prices and adverse weather events, presents upside risks to the inflation trajectory," he added.

Mixed bag on consumption

On the industrial output front, electricity generation growth moderated to 2.4 per cent, while mining output grew 4.4 per cent, rising from 2.7 per cent in December. Madan Sabnavis, chief economist, Bank of Baroda says that IIP growth during January is impressive as it involves the manufacturing sector growing above 5 per cent.

Within manufacturing, 10 of 23 manufacturing segments recorded over 5 per cent growth in January, while just four segments recorded a contraction. Based on end-use classification, output growth accelerated only in primary goods (5.5 per cent) during January, while it decelerated for capital goods (7.8 per cent), intermediary goods (5.2 per cent), infrastructure goods (7 per cent), and consumer durables (7.2 per cent).