

Retail inflation cools to 12-mth low of 4.75%

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Consumer Price Index (CPI)-based headline retail inflation eased to a 12-month low of 4.75 per cent in May on the back of a softening core and fuel inflation, even though food inflation remained elevated. Separately, the Index of Industrial Production (IIP) also moderated to 5 per cent in April from an upwardly revised figure of 5.4 per cent in the preceding month.

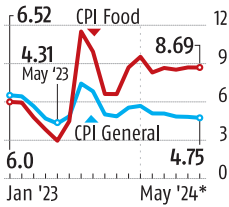
Data released by the National Statistical Office (NSO) on Wednesday showed that food inflation remained sticky at 8.69 per cent in May from 8.7 per cent in April, driven by acceleration in the prices of cereals (8.69 per cent), eggs (7.62 per cent), fruits (6.68 per cent) and pulses (17.14 per cent). Though the prices of vegetables (27.3 per cent) decelerated as compared to the preceding month, they still saw a double-digit rise in May. The prices for protein-rich items like meat and fish (7.28 per cent),

sugar (5.7 per cent) and milk (2.62 per cent) decelerated during the month.

Rajani Sinha, chief economist, CARE Ratings, says though the fuel and light category (-3.83 per cent) remained in deflation and core inflation (3.1 per cent), which excludes food and fuel components, stayed benign, food inflation had remained sticky and is a matter of concern, especially in specific food categories like vegetables and pulses.

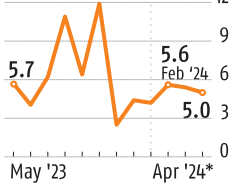
RETAIL INFLATION: CORE, FUEL IMPACT

(In % Y-o-Y)



IIP: SLIGHT DIP

(In % Y-o-Y)



*Provisional

Source: NSO

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Heatwave took toll on vegetable supply

“While the outlook for food inflation has brightened due to anticipation of a normal monsoon, temporal and spatial distribution of monsoon would be critical factors to monitor. Aside from the higher food inflation, there is an incremental risk to inflation from the increase in global commodity prices, particularly industrial metals. Since the end of March, industrial metal prices have risen by 9.3 per cent and globally, food prices are also increasing. This warrants closer attention as the rise in input prices can be passed on to the consumption basket,” she added.

Echoing similar views, Madan Sabnavis, chief economist at Bank of Baroda, says the present heatwave has taken its toll on vegetable supplies, with prices of potatoes, tomatoes and onions rising, which will continue for another month or two.

“Future inflation numbers will be driven by base effects, especially post June, from July onwards. Otherwise one should recognize that there is no new crop of pulses coming in before October and hence typically prices would move up until they come in,” he added.

Prices of clothing and footwear (2.74 per cent), housing (2.56 per cent), and services like recreation (2.51 per cent), education (4.07 per cent), health (4.2 per cent) and transport (0.97 per cent) saw deceleration during the month.

Last week, the Reserve Bank of India (RBI)’s monetary policy committee (MPC) unanimously kept the policy rate unchanged at 6.5 per cent for an eighth consecutive time and also kept inflation forecast for the current financial year unchanged at 4.5 per cent.

Separately, IIP growth moderated during April as manufacturing growth decelerated to 3.9 per cent from 5.76 per cent in March, thus constraining the overall performance, even as the growth in electricity (10.2 per cent) and mining (6.7 per cent) accelerated.

The data showed that six out of 23



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manufacturing sectors in the IIP — such as food products, tobacco, leather, wood and paper — registered a contraction in output growth during April.

Meanwhile, in the use-based categories, growth in the capital goods (3.1 per cent) and intermediate goods (3.2 per cent) decelerated during the month, whereas growth in primary goods (7 per cent), infrastructure goods (8 per cent) and consumer durables (9.8 per cent) accelerated. Growth in the output of consumer non-durables (-2.4 per cent) registered contraction during the month.

“Infra and primary goods segments witnessed steady growth due to the ongoing infra activity, while consumer durables’ demand may be attributed partly to rural spending as well as wedding season, when people tend to buy more of these goods in April-May. The decline in FMCG (fast moving consumer goods) does show stress at the lower income levels,” says Sabnavis.