

Retail inflation below RBI target for first time in 5 yrs

SHIVA RAJORA
New Delhi, 12 August

India's retail inflation rate, based on the consumer price index, in July fell below the Reserve Bank of India's (RBI's) medium-term target of 4 per cent for the first time since August 2019 on the back of a high base and sharp reduction in food prices.

However, a senior government official said the central bank was going to "look through" the data and this was unlikely to lead to a policy rate cut.

Separately, growth in the index of industrial production (IIP) declined to a three-month low of 4.2 per cent in June from the upward revised figure of 6.2 per cent in the preceding month.

The data released by the National Statistical Office (NSO) on Monday showed the retail inflation rate decelerated to 3.54 per cent in July as against 5.08 in the preceding month and 7.44 per cent during the same month a year ago.

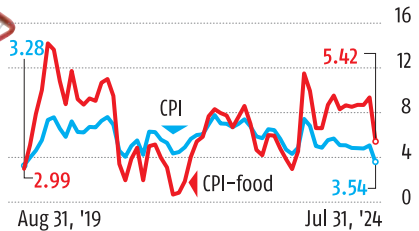
Government bond yields are expected to open marginally lower on Tuesday on the back of lower than expected domestic headline inflation print for July. The rate of 3.54 per cent was lower than the market expectations of 3.8 per cent.

The decline was led by the food inflation rate, which fell to 5.42 per



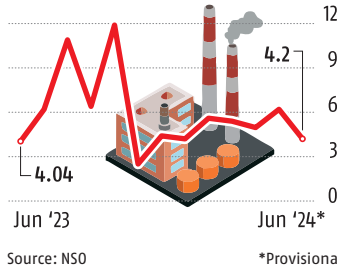
FOOD PRICE RISE COOLS DOWN

(in Y-o-Y %)



IIP: FIRMING UP

(in Y-o-Y %)



Source: NSO

*Provisional

cent in July from 9.36 per cent in June, driven by deceleration in the rate of increase of prices of vegetables (6.83 per cent), cereals (8.14 per cent), fruits (3.84 per cent), milk (2.99 per cent), and sugar (5.22 per cent). Though the prices of pulses (14.8 per cent) decelerated as compared to the preceding month, they still saw a double-digit rise in July.

Meanwhile, the prices of protein-rich items like eggs (6.76 per cent) and meat and fish (5.97 per cent) accelerated during the month.

Aditi Nayar, chief economist, ICRA Ratings, said the chief driver of the downtrend in food inflation was vegetable prices, which declined quite sharply led by the favourable base.

"Aided by a pickup in rain since early July, the cumulative sowing of kharif crops has exceeded the year-ago levels. The [Met's] expectations of above-normal rainfall during August-September 2024, amid the likely development of La Nina conditions at end August 2024, augur well for kharif crops," she added.

Echoing similar views, Madan Sabnavis, chief economist, Bank of Baroda, said the fall in food inflation was more due to the base effect rather than falling prices.

Prices of cereals, pulses still major pain point

The prices of cereals and pulses remain a major pain point.

On Thursday, in the customary post-Monetary Policy Committee (MPC) statement, RBI Governor Shaktikanta Das had said the headline inflation rate, after remaining steady during April and May 2024, increased in June, primarily driven by the food component, which remains stubborn. "Core inflation moderated, while the fuel group remained in deflation. The expected moderation in headline inflation during the second quarter of 2024-25 on account of favourable base effects is likely to reverse in the third quarter," said Das as the MPC kept the repo rate unchanged at 6.5 per cent for the ninth time in a row.

Core inflation, which excludes the volatile food and fuel components, remained benign (3 per cent) as prices of clothing and footwear (2.67 per cent) and services like recreation (2.20 per cent), education (3.43 per cent), and health (4.06 per cent) saw slight deceleration during the month. Meanwhile, the prices of fuel further con-

tracted during the month by 5.48 per cent. On the possibility of rate cuts, Kotak Mahindra Bank Chief Economist Upasna Bhardwaj said that RBI was expected to maintain the status quo in October with a likely shift in stance then.

"The scope for a shallow rate easing cycle could open from December but much will be data-dependent both in India and the US," she added.

As for the IIP, the decline in growth during June was led by deceleration in manufacturing (2.6 per cent) and electricity (8.6 per cent). Growth in mining, however, accelerated to 10.3 per cent.

Growth in the IIP during the first quarter (April-June) stood at 5.2 per cent. The NSO data showed nine of the 23 sectors in the IIP, which included food products, textiles, leather, and chemicals, contracted in June.

In use-based categories, growth decelerated in primary goods (6.3 per cent), capital goods (2.4 per cent), intermediate goods (3.1 per cent), and infrastructure (4.4 per cent).

