

Retail inflation in Aug rises to 7%; IIP growth slows

FinMin blames adverse base effect, increase in food and fuel prices

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India's retail inflation rate reversed its three-month downward trend in August, rising to 7 per cent from 6.7 per cent in the previous month, driven by a surge in food prices. This could put pressure on the central bank to further hike policy rates later this month, even though growth in factory output decelerated sharply in July.

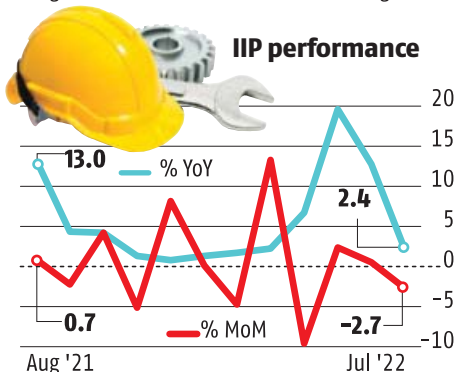
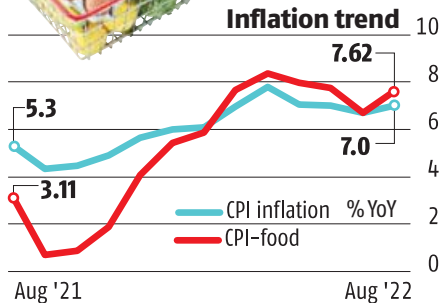
The finance ministry said the "moderate" increase in retail inflation was attributable both to an adverse base effect and an increase in food and fuel prices. "Despite erratic monsoons and negative seasonality in vegetable prices, food inflation is still lower than the April peak of the current year. With global inflation pressures, inflationary expectations remain anchored in India with stable core inflation," it tweeted.

While fuel inflation softened in August to 10.78 per cent due to falling crude oil prices, the prices of cereals (9.6 per cent), fruits (7.4 per cent), vegetables (13.2 per cent), and spices (14.9 per cent) hardened during the month. Among service items, education and household goods and services became more expensive.

Rural inflation (7.15 per cent) continued to be above urban inflation (6.7 per cent) in August.

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ECONOMIC INDICATORS IN FOCUS



Note: CPI: Consumer Price Index; IIP: Index of Industrial Production

Source: NSO

Inflation...

Among states, inflation in West Bengal (8.9 per cent), Gujarat (8.2 per cent), Telangana (8.1 per cent), and Maharashtra (7.99 per cent) remained above the national average, while it was significantly lower in Delhi (4.2 per cent), Himachal Pradesh (4.9 per cent), and Karnataka (4.98 per cent).

Separately, data released by the National Statistical Office showed that growth in the Index of Industrial Production (IIP) eased to 2.4 per cent in July from 12.7 per cent in the preceding month as mining output (-3.3 per cent) contracted due to monsoon rainfall. Manufacturing and electricity output grew 3.2 per cent and 2.3 per cent, respectively.

Among use-based industries, capital goods, which represents investment demand in the economy, grew 5.8 per cent, while consumer non-durables contracted 2 per cent, signaling worsening demand conditions in rural India.

D K Joshi, chief economist at CRISIL, said the sharp slowdown in IIP growth was a result of unfavourable base effect as well as a sequential decline in activity.

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