

Retail inflation inches up to 3.65% in Aug

IIP growth at 4.8% in July on manufacturing uptick

SHIVA RAJORA

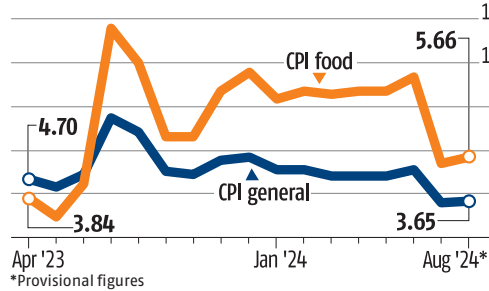
New Delhi, 12 September

The consumer price index (CPI)-based retail inflation rose marginally in August to 3.65 per cent from 3.6 per cent in July, yet remained below the Reserve Bank of India (RBI)'s medium-term target of 4 per cent for the second time in nearly five years, mainly because of a high base during the same period a year ago. Separately, the Index of Industrial Production (IIP) also rose slightly to 4.83 per cent in July from 4.72 per cent in June.

The data released by the National Statistical Office (NSO) on Thursday also revealed a rise in food inflation, which increased to 5.66 per cent in August from 5.42 per cent in July. This uptick was driven by acceleration in the prices of vegetables (10.71 per cent), fruits (6.45 per cent), food and beverages (5.30 per cent), eggs (7.14 per cent), and non-alcoholic beverages (2.40 per cent).

Meanwhile, the prices of cereals (7.31 per cent) and protein-rich items like milk (2.98 per cent), meat & fish (4.30 per cent) decelerated during

INFLATION TRAJECTORY Y-o-Y% chg

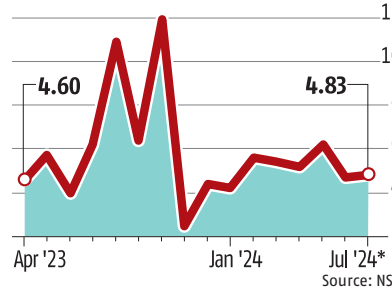


the month. The prices of pulses (13.6 per cent) decelerated, but remained in double-digit.

Rajani Sinha, chief economist, CARE Ratings, said the spike in inflation during August was largely on account of an uptick in food inflation. The recent data shows that the sowing of pulses and a few oilseeds has lagged compared to years with normal monsoon, potentially adding to price pressures given their import dependence.

“The ongoing deflation in domestic edible oil prices has so far counteracted the price pressures in other components of the food basket. However, international edible oil prices have exited a deflationary period due to global factors,

IIP GROWTH TREND Y-o-Y% chg



and the risk of these prices passing through to the domestic consumption basket remains a key concern. Hence, monitoring food prices is crucial going ahead, as risks to food inflation have not been entirely mitigated,” she added. Core inflation, which excludes the volatile food and fuel components, remained benign (3.5 per cent) even as the prices of clothing and footwear (2.72 per cent) and services like recreation (2.31 per cent), education (3.74 per cent), and health (4.10 per cent) saw slight uptick during the month.

The prices of fuel (-5.31 per cent) remained in contraction during the month.

“Although the core CPI inflation eased

slightly to 3.5 per cent in August from 3.6 per cent in July, this is likely to be an intermittent dip, as we expect the core CPI inflation print to inch up through the rest of the financial year in spite of the recent moderation in commodity prices, on account of demand for services, as well as the Y-o-Y decline in the sowing of cotton,” said ICRA Chief Economist Aditi Nayar.

On the possibility of a rate cut, Madan Sabnavis, chief economist, Bank of Baroda, said that RBI will look for inflation to stay low on a durable basis and hence will be circumspect again, with December being the earliest point for considering any change in policy.

As for the IIP, the acceleration in manufacturing output growth (4.6 per cent) was offset by the deceleration in mining (3.7 per cent) and electricity (7.9 per cent) output growth.

The NSO data showed eight of the 23 manufacturing sectors in the IIP, which included food products, textiles, leather, and chemicals, contracted in July. In use-based categories, growth accelerated in capital goods (12 per cent) and intermediate goods (6.8 per cent). Growth in consumer durables (8.2 per cent) decelerated while consumer non-durables (-4.4 per cent) contracted, reflecting tepid consumer demand in the economy.