

CPI inflation eases to 11-month low of 5.9%; IIP contracts

Core inflation inches up; manufacturing activity declines

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New Delhi, 12 December

India's retail inflation rate unexpectedly decelerated to an 11-month low in November, and factory output contracted to hit a 26-month low in October, further strengthening the case for ending the rate hike cycle by the central bank.

The data released by the National Statistical Office on Monday showed that the Consumer Price Index (CPI)-based inflation rate eased below the Reserve Bank of India's (RBI's) upper tolerance limit of 6 per cent, to 5.88 per cent, in November due to a sharp moderation in food prices. It was 6.77 per cent in October 2022, and 4.91 per cent in November last year.

The Index of Industrial Production (IIP), on the other hand, shrank 4 per cent year-on-year in October as manufacturing output contracted 5.6 per cent. Average inflation has remained above 6 per cent for the past three consecutive quarters, which constituted a failure on the part of the RBI to meet its inflation mandate.

The moderation in inflation was driven by vegetables (-8.08 per cent) and fruits (2.62 per cent), while inflation for egg (4.86 per cent), cereals (12.08 per cent), and spices (19.52 per cent) accelerated further.

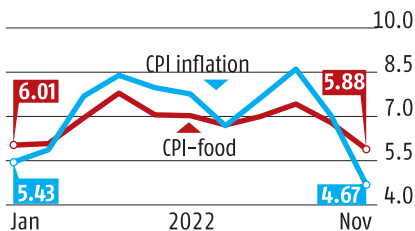
However, core inflation, which excludes volatile food and fuel prices, inched up to 6.3 per cent in November from 6.2 per cent in October.

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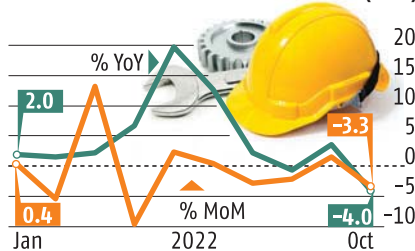
BELOW 6%, FINALLY

Retail inflation trend (in % YoY)



PRODUCTION PANGS

Index of Industrial Production (2022)



CPI: Consumer Price Index; YoY: Year on Year; MoM: Month on Month
Source: National Statistical Office

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GOVT NOT TO MAKE PUBLIC RBI REPORT ON INFLATION FAILURE

CPI inflation...

RBI Governor Shaktikanta Das in his latest monetary policy statement had expressed concern over the “sticky and elevated” core inflation, holding that the battle against inflation was not over yet.

“The measures taken by the government to contain food prices helped to bring inflation below the RBI’s tolerance limit of 6 per cent. To soften the prices of cereals, pulses and edible oils, appropriate trade-related measures have been undertaken. The impact of these measures is expected to be felt more significantly in the coming months,” the finance ministry said in a statement.

Soumya Kanti Ghosh, group chief economic adviser, State Bank of India, said now there was a “minimal probability” of a 25-basis point rate hike in February. “However, that will also be accompanied by a change in stance to neu-



tral, if it was to happen. The next policy statement is due on February 8, and will come just after the Budget announcement on February 1 and after the FOMC policy statement. From that point, the RBI will be in a vantage position of taking a considerate view in February policy,”

he added.

However, Sunil Sinha, principal economist, India Ratings and Research, said that while headline inflation was under the RBI’s target, sticky core inflation needed continuous monitoring, and the RBI was unlikely to lower its guard against inflation. “While the extent of rate hike has reduced, India Ratings still expects the central bank to undertake a 25-bp hike in February 2023 monetary policy,” he said.

The six-member monetary policy committee (MPC) of the RBI last week increased the policy repo rate by 35 basis points to 6.25 per cent, the highest level since February 2019. The repo rate has been increased by 225 bps since May.

Except for the primary (2 per cent) and infrastructure (1 per cent) groups, all use-based components of the IIP contracted in October. While consumer durables (-15.3 per cent) contracted for the third consecutive month, consumer non-durables (-13.4 per cent) shrank for the fourth consecutive month, signalling weak demand in the economy, especially for mass consumption items. The festival season in October, which led to a lesser number of working days, also adversely affected factory production.

Crisil Chief Economist D K Joshi said it was certain that global slowdown would weigh significantly on industrial outlook over the coming year, as aggressive rate hikes and elevated inflation had hit growth in advanced economies.

“Domestic demand recovery has been uneven, with demand for higher value items such as passenger vehicles remaining stronger than consumer non-durables. Going forward domestic demand could soften as transmission of rate hikes progresses and increases borrowing costs from current levels,” he added.

NBFC...

In the H1FY23, the NBFCs accounted for 29.4 per cent of the combined net profit of all lenders, down sharply from the pre-Covid average of around 52 per cent.

The movement in the share prices of the banks and the NBFCs suggests that equity investors expect banks to continue to grow at the expense of their non-bank peers.

The combined market capitalisation of the banks is up 26.2 per cent year-to-date (YTD) in 2022 to a record high of ₹34.9 trillion on Friday.

In contrast, in the same period, the NBFCs’ combined market cap was down 1.7 per cent YTD to ₹15.05 trillion on Friday. In fact, the NBFCs’ combined market cap is still lower than their all-time high of ₹16.45 trillion in October 2021.

NBFCs’ share in lending had more than doubled between H1F12 and H1FY19 from 11 per cent to 23.1 per cent.

In the same period, NBFCs’ half-yearly profit jumped 180 per cent from ₹11,600 crore in H2FY12 to ₹32,600 crore in H1FY19.

BS SUDOKU

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Solution tomorrow

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