

Oct retail inflation eases to 5-mth low of 4.87%

Food inflation, however, remains on sticky ground

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India's consumer price index (CPI)-based retail inflation rate declined for the second consecutive month to a five-month low in October, providing relief to the Centre on the macroeconomic front as the long festival season is underway.

Data released by the National Statistical Office on Monday showed that retail inflation eased to 4.87 per cent year-on-year in October from 5.02 per cent in September, driven by a favourable base effect and moderation in the prices of clothing, footwear, housing, fuel, and transport, among other things.

Although headline inflation remained within the Reserve Bank of India's (RBI) tolerance band of 2-6 per cent for the second month in a row in October, it has now been above the medium-term target of 4 per cent for 49 consecutive months.

Meanwhile, food inflation remained sticky as it slightly moderated to 6.61 per cent in October from 6.62 per cent in September due to the prices of items within the category cancelling each other out.

The stickiness in food inflation was due to an acceleration in the prices of fruit (9.34 per cent), sugar (18.79 per cent), and protein-rich items like eggs (9.3 per cent) and pulses (18.79 per cent) on the one hand and the deceleration in the prices of cereals (10.65 per cent), meat (3.27 per cent), milk (6.44 per cent), vegetables (2.7 per cent), and spices (22.76 per cent) during the month.

Rajani Sinha, chief economist at CARE Ratings, says that while the decline in

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Rate of inflation in %



inflation is comforting, it remains to be seen if it sustains, given the weak prospects for the kharif harvest and expected hit to rabi sowing amid lower reservoir levels in major agricultural states.

“The First Advance Estimates of kharif crop production paint a grim picture for cereals and pulses output — categories witnessing sticky double-digit inflation. This poses an upside risk to the overall inflation outlook,” she added.

Echoing similar views, Madan Sabnavis, chief economist at Bank of Baroda, says that though the virtually unchanged food prices index indicates stable inflation, it does not provide any comfort from the monetary policy stance, and a cautious approach would be the way forward as the kharif shortfalls would manifest in the coming months as the harvest is one month old now.

The central bank had also retained its forecast for retail inflation at 5.4 per cent for 2023-24 (FY24). However, it had revised upwards its inflation forecast for the sec-

ond quarter of FY24 to 6.4 per cent from 6.2 per cent and downwards for the third quarter to 5.6 per cent from 5.7 per cent.

“However, with risks tilted to the upside, the central bank is expected to remain vigilant and maintain its hawkish policy tone in the upcoming policy meeting. Any monetary policy change can be expected only in the second quarter of 2024-25 when CPI inflation moves closer to the RBI’s 4 per cent medium-term inflation target,” said Sinha. Aditi Nayar, chief economist at ICRA, also said that the MPC is expected to maintain a hawkish tone amidst a status quo on the rates and stance in its upcoming policy meeting.

Core inflation, which excludes food and fuel components, came in below 5 per cent in October, as prices of clothing and footwear (4.31 per cent), housing (3.8 per cent), and services like recreation (3.27 per cent), education (5.07 per cent), health (5.88 per cent), personal care (7.84 per cent), and transport (1.96 per cent) saw deceleration during the month.