

Retail inflation eases to 3-mth low of 6.77%

May make MPC less hawkish on rate hike; WPI inflation dips to 19-month low of 8.39% in Oct

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India's retail inflation softened to a three-month low at 6.77 per cent in October from 7.41 per cent in September as food prices declined substantially.

The easing in price pressure may turn the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) less hawkish when it meets next month even though a pause in the ongoing rate hike cycle is unlikely.

The data released by the National Statistical Office on Monday showed food inflation eased to 7.01 per cent from 8.6 per cent in September due to a decline in prices of vegetables, fruit, pulses, and edible oil.

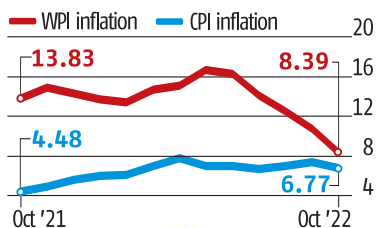
Services inflation, which includes items like health, education, transport and communication, recreation and personal care, eased to a 29-month low at 5.9 per cent.

Reacting to the latest inflation numbers, the finance ministry said the measures taken by the government to rationalise tariff structures of major inputs to augment domestic supplies helped to keep cost-push inflation in consumer items in control.

"The impact of these measures is expected to be felt more significantly in the coming months," it tweeted.

Sunil Kumar Sinha, principal economist at India Ratings, said while the decline in inflation was good news for the economy, a continuous increase in cereals inflation (12.08 per cent) was not so for households at the bottom of the income pyramid because

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Note: CPI: Consumer price index; WPI: Wholesale price index

Sources: CSO; DPIIT



they spent a large share of their income on food products.

"Cereals and product inflation has been in excess of 5 per cent since March 2022 and in double digits in the past two months," he added.

Retail inflation has remained outside the MPC's tolerance band of 2-6 per cent for more than three successive quarters now, marking the panel's failure to achieve its legally mandated inflation target.

On November 3, the MPC held a special meeting to discuss and draft a report to be sent to the government regarding its inability to meet the inflation target.

Turn to Page 8 ▶

▶ FROM PAGE 1

Inflation...

The data released separately by the industry department on Monday showed wholesale price inflation eased to a 19-month low at 8.39 per cent in October on the back of a higher base and a broad-based easing of pricing pressure.

This is likely to slow the pass-through of input cost pressures by producers, supporting the easing of retail inflation.

Rajani Sinha, chief economist at CARE Ratings, said she expected the RBI to be less hawkish in its upcoming policy meeting during December 5-7 and go for a 35 basis point rate hike.

“There is a need to moni-

tor the impact of volatility in food inflation and impact of the exchange rate on imported inflation.

We expect inflation to average 6.6 per cent in the third quarter and 6.2 per cent in the fourth quarter of this fiscal year. The retail inflation rate could fall below 6 per cent only by the end of FY23,” she added.

Aditi Nayar, chief economist at ICRA Ratings, said another rate hike was certain in the December policy meet.

“However, its extent is likely to be tempered to 35 basis points from the 50 basis points in the previous three reviews.”

Morgan Stanley on Monday said it saw policy rates peaking at 6.5 per cent in the March quarter of 2023.

It hopes interest rates to start softening in the December quarter of 2023

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