

PRICE PRESSURE EASES IN OCT

CPI inflation drops to 6.77%; outlook hazy

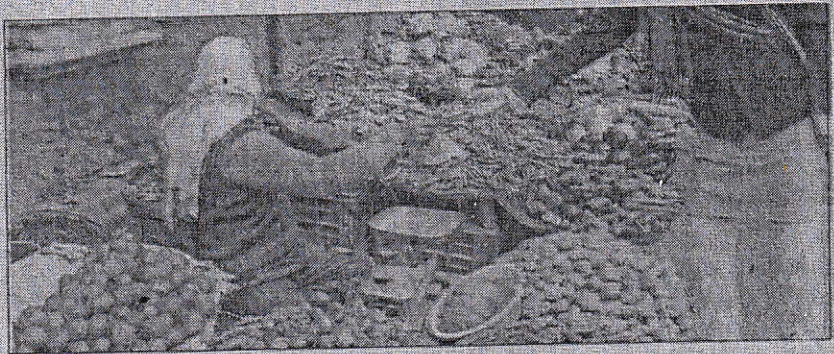
WPI inflation lowest in 19 months; gap with CPI narrows

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New Delhi, November 14

RETAIL INFLATION DROPPED to 6.77% in October, compared with a five-month peak of 7.41% in the previous month, while wholesale price inflation hit a 19-month low of 8.39%, signalling that the price pressure in the economy may have peaked. The official data released on Monday offer some breather to the fiscal and monetary authorities ahead of the presentation of the next year's Budget.

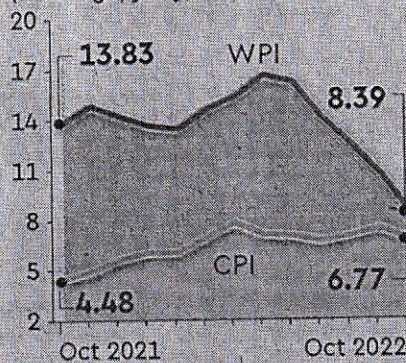
Analysts still expect the Reserve Bank of India (RBI) to go for a fifth round of rate hike this fiscal in December to try and bring retail inflation within its medium-term target of 2-6%. Inflation based on the consumer price index (CPI) has breached the upper limit of the RBI's target for the 10th straight month now.

The broad-based decline in inflation across food, fuel and manufactured goods segments in the two price gauges in October came on the back of easing

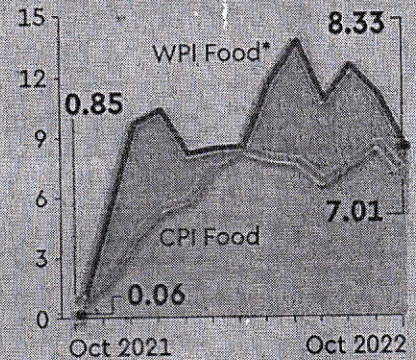


NARROWING GAP

(% change, y-o-y)



(% change, y-o-y)



*Primary food articles

Source: MoSPI/DPIIT

global commodity prices amid slowing demand due to a tightening of interest rates by key central banks.

Some analysts expect retail inflation to slip further to remain within 6-6.5% range, though the outlook still remains hazy

amid a fresh rise in international prices of some commodities this month. The Bloomberg Commodity Index rose 3.5% so far this month.

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■ Food inflation declines sharply in October, Page 13

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HOWEVER, THE base effect will again turn favourable from December, which could drag retail inflation below 6%. If the rupee stabilises around the current level after a sharp appreciation last week, the risks of imported inflation, too, will ease. The narrowing gap between the WPI and the CPI (it was as high as 9.59 percentage points in July) suggests the pass-through of elevated input costs to finished product prices is probably nearing completion. The spillover from wholesale to the retail level could be limited.

In a series of tweets, the finance ministry said sobering global prices of commodities like crude oil, iron ore and steel, coupled with the rationalisation of tariff structures of key inputs by the government to augment domestic supply, helped "keep cost-push inflation in consumer items under control".

To soften prices of edible oils and pulses, the government has tweaked tariffs on imported items from time to time, and imposed stock limits on edible oils to discourage hoarding.

Consequently, inflation in "oils and fats" and "pulses & products" moderated to -2.15% and 2.78%, respectively.

"Further, the government has taken trade-related measures on wheat and rice to keep domestic supplies steady and curb the rise in prices. The impact of these measures is expected to be felt more significantly in the coming months," it added.

For its part, RBI has hiked the repo rate by 190 basis points since May to 5.9%. On Saturday, RBI governor Shaktikanta Das had termed inflation a "major challenge", even though he had predicted retail inflation to drop below 7% in October. He had also asserted that the central bank remained committed to bringing it down to 4% over a period of time. This means the central bank may not opt for a pause in the rate hike in its December review.

Interestingly, while retail inflation dropped despite an unfavourable base, the moderation in inflation based on the wholesale price index (WPI) was partly driven by a high base.

The latest data showed that retail food inflation eased to 7.01% in October from 8.60% in the previous month. Core inflation eased marginally to

5.98% from a four-month high of 6.07% in September, according to India Ratings. The slower drop in core inflation suggests festival demand may have allowed producers to pass on the rising input costs, albeit to a limited extent.

Fuel and light inflation moderated to 9.93% in October from 10.39% in the previous month.

Within the food segment, inflation in spices inched up further to 18.02% in October from 16.88% in the previous month, and that in cereal and product inflation rose further to 12.08% from 11.53%, contributing substantially to the headline inflation.

DK Joshi, chief economist at Crisil, said core retail inflation still remains sticky. "Its major components (clothing and footwear, recreation, personal care and effects) are up on-year, indicating recovering demand (especially in the festival season) allowed producers to pass on higher input costs to selling prices," he added.

Icra chief economist Aditi Nayar said: "The near-term inflation outlook is clouded by a few risks such as the recent sequential rise in prices of global commodities, supply disruptions for perishables owing

to excess rains, and a robust demand for services. Nevertheless, a high base is expected to aid in further softening the year-on-year CPI inflation to ~6.0% in November." Nayar expected the central bank to limit its rate hike to 35 basis points in December from 50 basis points on the past three occasions.

Sunil Kumar Sinha, principal economist at India Ratings, said, "While decline in inflation is good news for the economy, continuous increase in cereals inflation does not augur well for the households at the bottom of the income pyramid, as they spend a disproportionately larger share of their income/expenditure on food products."

As for the WPI inflation, primary food inflation eased to 8.33% in October from 11.3% in September, while fuel and power inflation moderated to 23.17% from 32.61%. Manufactured product inflation, which has a 64.2% weight in the WPI, eased to 4.42% from 6.34%, broadly mirroring the easing of global prices of commodities like basic metals, mineral products, rubber, chemicals and pharmaceutical products.