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Retail inflation over 6% second month, all eyes on RBI meeting

ENS ECONOMIC BUREAU
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DOMESTIC RETAIL inflation rose to an eight month high of 6.07 per cent in February, breaching the upper tolerance level of medium-term inflation target of 4+/- 2 per cent for the second month in a row, data released by the National Statistical Office (NSO) on Monday showed.

Experts noted that the RBI may have to revise upward its inflation forecast as inflationary pressures are becoming generalised. A reassessment of the current accommodative stance of the central bank is also possible. This is the fifth consecutive

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EXPLAINED

E. Is inflation turning sticky?

RETAIL INFLATION above 6% carries the risk of getting generalised. Further, with the possibility of fuel price hikes, inflation is likely to remain elevated. All eyes will be on the RBI meeting in April.

Retail inflation

month of rising inflation. Retail inflation was at 6.01 per cent in January 2022 and 5 per cent a year ago.

The RBI has projected retail inflation at 5.3 per cent for FY22, with Q4 inflation at 5.7 per cent before easing to 4.9 per cent in Q1 FY23.

Economists said there was a risk of the price rise becoming more generalised and the RBI falling behind the curve in reining in inflation. All eyes are now set on the outcome of the next meeting of RBI's Monetary Policy Committee scheduled between April 6 and April 8.

Apart from geopolitical tensions and spiralling commodity prices, the RBI policy move will also factor in the pace of rate hikes by the US Federal Reserve, which is meeting on March 15 amid inflation in the US hitting a four-decade high in February to 7.9 per cent.

The government, however, is of the view that two months of over 6 per cent retail inflation cannot be seen as a breach of the upper band of RBI's target. In a written reply to the Lok Sabha on Monday, the government said that crossing of the inflation rate above the 6 per cent band "for a particular month cannot be construed as breach of target". It is construed as a breach only when the average inflation is more than the upper tolerance level of the inflation target for any three consecutive quarters, Minister of State for Finance Pankaj Chaudhary said in the reply.

Wholesale inflation also rose to 13.11 per cent during February mainly on account of high price of crude oil and some non-food items, the data released by the Ministry of Commerce and Industry on Monday showed. The WPI inflation figures, which had eased mildly in December and January, have remained in double digits for 11 months on the trot, starting April 2021.

At the retail level, an uptick in food price inflation, which rose 5.85 per cent in February, compared with a 5.43 per cent price rise recorded during January and high fuel prices contributed to the high inflationary figures, as per the data from NSO.

In the food basket, the inflationary pressures on some items such as edible oil, fruits, milk, sugar, confectionery, non-alcoholic beverages and prepared meals saw month-on-month decline, while the prices of other items such as cereals, meats, egg, vegetables and pulses rose month-on-month.

Economists expect that Russia's invasion of Ukraine, which started on February 24, is likely to impact crude oil as well as edible oil prices in the near future, with the impact due to rise in crude oil to be sharper in months to come.

"Edible oils prices will continue to rise with global prices going up due to the war. As summer approaches, the benefit of winter season for vegetables will get diluted. Both petrol and diesel have witnessed an increase of over 50 per cent which is a warning of how much the CPI can also increase in case there is a full pass-through," said Madan Sabnavis, Chief Economist at Bank of Baroda. He believes there should be a revision in the forecast as well as policy stance of the RBI as inflation appears to have become generalised.

In its monetary policy review on February 10, the RBI's MPC had said inflation is likely to moderate in H1:2022-23 and move closer to the target rate thereafter, providing room to remain accommodative. "Timely and apposite supply side measures from the Government have substantially helped contain inflationary pressures. The potential pick up of input costs is a contingent risk, especially if international crude oil prices remain elevated," it had said in February.

"The price levels are likely to remain sticky in the next few months, despite the fading base effect, due to continued supply disruptions caused by the ongoing geopolitical developments and continued price increase in crude oil, edible oil, and metals' prices. In addition, the supply disruption in semiconductors is also likely to create adverse effects on both output and prices in the electronics and automobile industries. The RBI is now faced with Hobson's choice of pushing growth or controlling inflation," said M Govinda Rao, Chief Economic Adviser at Brickwork Ratings.