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Inflation quickens as Jan. IIP contracts

Retail price gains hit 3-month high of 5.03% in Feb. on food, fuel costs; industrial output shrank 1.6%

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Retail inflation quickened in February to 5.03%, a three-month high, spurred by higher food and fuel prices, official data released on Friday showed.

Food price inflation as measured by the Consumer Food Price Index (CFPI) accelerated to 3.87% last month, from 1.96% in January. While the prices of oils and fats surged 20.8% from a year earlier, those of pulses and products climbed 12.5%, while meat and fish prices increased 11.3%, eggs (11.1%) and fruits (6.28%).

Prices of vegetables, which have been softening in recent months, saw the contraction narrow to 6.27%, after falling 15.8% in January.

Inflation in the transport and communication category was 11.4%, a sharp jump



Taxing times: Inflation in the transport and communication category rose sharply to 11.4%. ■ SANDEEP SAXENA

from January's 9.3%.

The spurt in retail inflation mainly originated from higher food inflation, said Sunil Kumar Sinha, Principal Economist at India Ratings

and Research.

"Weakening of base effect in February 2021 contributed to higher food inflation. Vegetable prices remained in deflationary mode for the

third consecutive month. However, deflation slowed down considerably to 6.3% in February 2021," he added.

Mr. Sinha added that higher retail prices of fuel due to a combination of higher crude prices and elevated excise duties pushed transport and communication inflation to a four-month high.

"Health inflation... at 6.3% was a 17-month high and is turning structural," he added.

Factory output retreats

Industrial production contracted 1.6% in January, mainly on account of a decline in output of capital goods, manufacturing and mining sectors, Press Trust of India reported, citing a separate official release.

Output of the manufacturing sector, which constitutes 77.6% of the Index of Indus-

trial Production (IIP), shrank by 2% in January, as against a growth of 1.8% in the same month last fiscal.

'Some distance to cover'

"The contraction in IIP numbers at -1.6% for January comes as a bit of surprise after turning positive in December (1.04%)," M. Govinda Rao, Chief Economic Adviser, Brickwork Ratings, said in a statement. "The manufacturing sector continues to contract at 2% and shows that we still have some distance to cover before the economy recovers," the economist added.

"Going forward, the excess liquidity in the system combined with volatility in fuel prices can pose an upward risk to inflation," Dr. Rao said. "The RBI might take some measures to drain excess liquidity," he added.