

Double whammy: IIP contracts 1.6 pc in Jan, retail inflation rises to 5.03 pc in Feb

New Delhi, Mar 12 (PTI) In a double whammy for the economy, industrial production growth re-entered the negative territory by contracting by 1.6 per cent in January, while retail inflation soared to a three-month high of 5.03 per cent in February on costlier food items.

The National Statistical Office (NSO) in the Ministry of Statistics and Programme Implementation (MoSPI) released the Quick Estimates of Index of Industrial Production (IIP) for January 2021 and Consumer Price Index (CPI) numbers for February 2021 on Friday evening.

As per the data, the contraction in the IIP in January was mainly on account of a decline in output of capital goods, manufacturing and mining sectors.

The output of the manufacturing sector, which accounts for 77.6 per cent of the IIP, contracted by 2 per cent during the month under review, as against a growth of 1.8 per cent during the corresponding month last fiscal.

The worst performance was witnessed in the capital goods sector which showed a contraction of 9.6 per cent during January over a decline of 4.4 per cent during the same month in the previous fiscal.

NSO also revised upwardly the IIP number for December 2020 to 1.56 per cent from the earlier estimate of 1 per cent.

The factory output growth was in the negative territory in November 2020. It had posted an increase during September and October 2020.

Meanwhile, retail inflation rose to 5.03 per cent in February mainly on account of higher food prices.

The consumer price index (CPI) based retail inflation was at 4.06 per cent in January. The earlier high was in November 2020 at 6.93 per cent.

The rate of price rise in the food basket accelerated to 3.87 per cent in February, as against 1.89 per cent in the preceding month, as per the NSO data.

Inflation in "fuel and light" category remained elevated at 3.53 per cent during the month vis-a-vis 3.87 per cent in January.

The inflation print in "oil and fats" moved up to 20.78 per cent from 19.71 per cent.

For fruits, it grew to 6.28 per cent from 4.96 per cent. In vegetables, the rate of deflation was softer at (-) 6.27 per cent against (-)15.84 per cent in the preceding month.

Among others, milk and products, pulses and products, and eggs had inflation prints at 2.59 per cent, 12.54 per cent and 11.13 per cent, respectively. The corresponding rates were 2.73 per cent, 13.39 per cent and 12.85 per cent in January.

"While we had anticipated a deterioration in the IIP's performance in January 2021, we didn't expect it to revert to a contraction in that month.

"The disaggregated data doesn't provide any heartening takeaways either, with three of the six use-based categories displaying a contraction, and the other three eking out a sub-1 per cent growth," ICRA Principal Economist Aditi Nayar said.

M Govinda Rao, Chief Economic Adviser, **Brickwork Ratings**, said the contraction in IIP numbers for January comes as a bit of surprise after turning positive in December.

The manufacturing sector continues to contract at 2 per cent, which shows that we still have some distance to cover before the economy recovers, he said.

On inflation, Nayar said the sharper-than-expected uptick in the CPI inflation print for February 2021 was on account of food items, clothing and footwear.

"The core inflation hardened to a three-month high 5.7 per cent in February 2021 from 5.5 per cent in the previous month, reiterating that an uptick in commodity prices, rising demand, and emerging pricing power will keep inflationary pressures intact," Nayar said.

Sandeep Malhotra, CEO, IFFCO Kisan Sanchar, said consumer price index has inclined up primarily on account of food prices, particularly edible oils in-line with trends exhibited in the international market.

"These prices may continue to be higher for sometime on back of easy liquidity prevailing in the market," he added.

The Reserve Bank of India (RBI) mainly factors in the retail inflation while arriving at its monetary policy.

After the last meeting of the rate-setting Monetary Policy Committee, the central bank had kept the interest rates unchanged on inflationary concerns. The next meeting of the MPC is scheduled for April 5-7, 2021.

The RBI has been mandated by the government to keep the retail inflation at 4 per cent, with a margin of 2 per cent on the either side.

Rahul Gupta, Head of Research- Currency, Emkay Global Financial Services, said the spurt in CPI inflation is mostly on the back of rise in food inflation and fuel prices.

The rising global crude prices will continue to add inflationary risks going ahead and CPI will remain elevated, he said.

Sreejith Balasubramanian, Economist - Fund Management, IDFC Asset Management Company, opined that the trajectory of core inflation, driven by both core-goods and services, needs to be watched closely.

The IIP contracted by 12.2 during April-January period of the financial year as against a flat growth of 0.5 per cent seen in the similar period of last fiscal.

As per the data, there was a contraction of 0.2 per cent in the consumer durables segment and 6.8 per cent in the consumer non-durable section. These two segments were in contraction mode during January 2020 as well. PTI KPM NKD CS ABM ABM