# Retail inflation hits 16-month high: Experts say RBI rate cut still very much likely

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**NEW DELHI:** Retail inflation breached the central bank's medium-term target of 4% in October for the first time in 15 months, on the back of higher food prices, Reuters reported.

Annual retail inflation rose to 4.62% last month, up from 3.99% in the prior month and higher than the 4.25% forecast in a Reuters poll of analysts.

Retail food prices, which make up nearly half of India's inflation basket, increased 7.89% in October from a year earlier, against 5.11% in September.

Prices of most vegetables climbed in October as monsoon downpours delayed harvests and disrupted supplies.

### Amar Ambani, Head of Research – Institutional Equities, YES Securities

CPI inflation moved above 4.5% on account of sharp uptick in vegetables prices. However, the spurt in food price inflation is seen to be transient and expected to get offset by arrival of kharif produce, and better prospects for rabi sowing. Inflation is expected to average at 3.5-3.7% in FY20, assuming crude oil price at USD 65-70/bbl and moderation in core price pressures. Slowing growth will dominate the attention of the central bank rather than temporary spike in food inflation. Flow of frequency indicators reaffirms the broad-based slowdown in economic growth. Near term growth momentum is projected to remain lackluster with FY20 GDP growth estimated at 6.0% with downside risks. It is imperative for the RBI to remain accommodative and support growth. With CPI inflation projected to average below 4% amid widening negative output gap, we expect RBI to deliver another 25-40 bps in the rest of FY20, before getting into a prolonged pause.

### Vinod Nair, Head of Research, Geojit Financial Services

Being above RBI's forecast and weak economic data such as PMI & IIP will alert the market to turn cautious. Post the recent rally the fact is that the valuation of the market has peaked higher while earnings growth was behind. GDP data is also likely to be released by the end of the month, the expectation for which has worsened below 5% noted in Q1FY20. RBI is unlikely to change its monetary policy soon and will continue to maintain its descending rate strategy with an accommodative stance to support the weakening economy. But the further hike in inflation forecast will demand a more careful strategy in the future.

### Aditi Nayar, Principal Economist, ICRA

The spike in the retail inflation in October 2019 was primarily driven by food inflation, whereas the core CPI inflation recorded an expected moderation driven by a favourable base. Looking ahead, we expect the core-CPI inflation to inch up modestly from the level recorded in October 2019, but not breach 4%. The pace of normalisation in vegetable prices will be the key driver of the trend in food inflation over the next few months. The sharp uptick in the CPI inflation in October 2019 has contrasted with the industrial contraction recorded in September 2019. In our view, the extent to which the Q2 FY2020 GDP growth reading eases further from the 5.0% recorded in the previous quarter, will influence the MPC's decision on whether to cut rates further, and by how much, in the December 2019 policy review.

### M Govinda Rao, Chief Economic Advisor, Brickwork Ratings

**On the back of high food inflation, CPI inflation has increased to 4.62% in October 2019. The increase is mainly due to food inflation, particularly from vegetables and fruits (increasing onion prices is a main contributor) perhaps caused by unseasonal rains. Although it is still within the range of MPC target, it poses some doubts on the rate cut. The core inflation is still lower at 3.5%, hence considering the low GDP growth which is expected to slow down even more during the second quarter, the MPC may decide to cut the repo rate further by 25 basis points in the upcoming monetary policy.**

### Siddhartha Sanyal, Chief Economist & Head of Research, Bandhan Bank

Despite today's uptick, largely due to a temporary rise in food prices, inflationary pressures broadly still remain very much under control and the growth momentum continues to be very weak. So today's inflation numbers should not jeopardise the RBI's accommodative stance. The numbers may create some uncertainty in the market over the next few days given the spike in the headline inflation number. But considering all factors, one more rate cut by the RBI in December remains reasonably likely. Another rate cut beyond that should not be ruled out.

### Rahul Gupta, Head of Currency, Emkay Global Financial Services

This sharp rise was especially due to an uptick in food prices amid erratic monsoon. Despite rising inflation, we expect RBI to continue its easing cycle on the back of sluggish growth and weak core inflation and cut repo rate at December meeting.

### Devendra Pant, Chief Economist, India Ratings

Although headline CPI inflation in October 2019 has breached central point of RBI's inflation targeting framework, the increase is due to seasonal items and strong base effect. With economic growth slowdown, India Ratings and Research believes growth concerns will dominate in RBI's monetary policy review and RBI to continue with accommodative policy and expect further rate cut in the policy review of December 2019.

### Vidya Bala, Co-founder, Primeinvestor.In

The increase is steadily seen in the food component of consumer inflation. Having crossed the RBI's mid-point of 4%, one needs to see whether this trend is only temporary or if it will creep up further. While the central bank may start taking note of this uptick, there are more concerning factors such as the IIP (Index of Industrial Production) being at an eight-year low. So one would have to worry more about growth at this stage rather than the rising inflation.

### Anagha Deodhar, Economist, ICICI Securities

We expect CPI to remain above 4% for the remaining five months of the fiscal. It could touch as high as 4.6% in January-February 2020 before moderating to 4.3% in March. The current level of inflation indicates weak demand in the economy. Growth concerns have become far more important than inflation in the current context. We expect growth in Q2FY20 to come in at ~4.5% which would be a big concern. Although inflation is increasing, it is still comfortably within the RBI's target range. So, it's unlikely to give inflation much importance in the December review. More rate cuts are definitely on the cards, especially given the weak growth outlook. I expect a large rate cut in December followed by one more rate cut in early 2020.

### Rupa Rege-nitsure, Chief Economist, L&T Finance Holdings

This was expected given the spikes in vegetables, meat & fish and egg prices due to disruption in transportation caused by excessive and unpredictable rains. Inflation in pulses too is on the higher side due to demand-supply mismatch.
"However, core inflation has collapsed to 3.44% in October versus 4.01% in September due to broad based weakness in demand. While the RBI will continue to provide comfort on the liquidity front, it makes sense to take a pause in the rate cutting cycle."

### Madhavi Arora, Economist, Edelweiss Securities

We think the current underlying growth-inflation mix continues to be favourable for counter-cyclical monetary stance. The domestic demand state, as reflected in various activity indicators, has weakened further in recent months, while fragile external growth backdrop convolutes the domestic slowdown further. We think the monetary accommodation has further steam of 50-65bps cut more in the cycle, contingent on data outcomes. We will closely watch out for the evolution of inflation amid various domestic and global idiosyncrasies, and fiscal fragilities that could impact the MPC's reaction function.