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Retail inflation rises to 4.48% in Oct, reverses 4-month downward trend-Business Journal

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India's retail inflation inched up to 4.48 per cent in the demand-driven festive month of October from 4.35 per cent in September, reversing the four-month downward trend. Core inflation, which relates to non-food and non-oil items, rose to 5.8 per cent in the month after remaining stagnant at 5.6 per cent in August and September, substantiating concerns raised by the finance ministry in its recent report.

Core inflation generally guides the Reserve Bank of India's monetary policy committee (MPC) to decide on its stance since food and fuel inflation rates are uncertain by their very nature. However, economists expect the MPC to be gradual in its policy normalisation.

Urban areas bore the brunt of the rise in inflation, surging to 5.04 per cent from 4.57 per cent. Villages, on the other hand, saw a decline in the rate of price rise in the period, from 4.13 per cent to 4.07.

In its latest monthly review, the department of economic affairs under the finance ministry had sounded a note of caution on core inflation, saying it remained sticky. The report attributed core inflation to the hardening of input costs and the ripple effect of the escalating global oil prices.

The core inflation rate has remained in the range of 5.5-5.9 per cent for over a year now.

ICRA Chief Economist Aditi Nayar said the global factors driving US inflation would affect the landed prices of Indian imports as well. US retail price inflation hit a 30-year high of 6.2 per cent in October.

"There was a hardening in inflation for clothing and footwear, and miscellaneous items, suggesting that the reviving demand is nudging producers in some sectors to pass through the input price pressures, resulting in a pick-up in core inflation," Nayar said.

Inflation in clothing rose to 7.39 per cent in October from 7.16 per cent in the previous month. In footwear, it was up at 7.87 per cent from 7.40 per cent.

CARE Ratings Chief Economist Madan Sabnavis said that with the expected increase in the goods and services tax (GST) rate on clothing from January, there would be a further rise in inflation under this head.

The GST rate on garments and footwear might be raised to 12 per cent from the current 5 per cent from January as part of the GST Council's decision to correct the inverted duty structure.

Sabnavis said that within the miscellaneous category, personal care products and household goods would also witness higher inflation as most producers had announced that they would be increasing prices to offset the increase in costs. This will further push inflation up, he said. In October, the inflation rate for personal care products rose to 2.49 per cent from 1.91 per cent in the previous month. Household goods and services saw the rate moving up to 6.17 per cent from 5.92 per cent in this period.

Even as the inflation rate in health declined to 7.57 per cent from 7.74, economists cautioned that inflation in this sector was becoming structural. "With health inflation turning structural, retail inflation is likely to remain around the 5 per cent mark in the third quarter of the current financial year," Sunil K Sinha, principal economist at India Ratings, said.

Even as core sector inflation is the main determinant of the MPC's monetary stance, economists believe that the RBI may be gradual in touching policy rates.

Govinda Rao, former director at the National Institute of Public Finance and Policy (NIPFP), said the RBI had to closely monitor the growth–inflation dynamics. It has already started normalising the excess liquidity in the system, but the supply side issues need to be addressed and on this, the MPC has little control, Rao, who is now chief economic adviser at Brickwork Ratings, said.

"The RBI will also have to take note of the impact of tapering by the Fed and the European Central Bank," he said.

Rajani Sinha, chief economist and national director (research), Knight Frank India, said while the central bank would be cautious of inflationary threat, it is likely to be gradual in its policy normalisation under the current circumstances.

The food inflation rate rose to 0.85 per cent in October from 0.68 per cent in the previous month. However, the rate fell to 0.31 per cent in villages from 0.69 per cent, while it rose to 1.72 per cent from 0.68 per cent during this period. This perhaps was due to high fuel cost to carry food items in urban areas.

Even as vegetables continued to see a fall in prices, though at a decelerated pace of 19.43 per cent year-on-year in October from 22.47 per cent in the previous month, there was a 14.2% increase in CPI of vegetables sequentially, according to Nayar.

Barclays Chief India Economist Rahul Bajoria said, "Indeed, vegetable prices are surging, though early trends in November indicate that the upward momentum is stalling."

Sabnavis said the main problem areas continue to be edible oils, meat and fish products in the food basket.

Fuel and light inflation surged to 14.35 per cent in October from 13.63 per cent in the previous month. Within that, petrol saw inflation rate sharply rising to 27.19 per cent from 22.17 per cent, while diesel witnessed the rate of price rise at 31.76 per cent against 22.38 per cent over this period.

However, the Centre's move to cut excise duty on petrol by Rs 5 a litre, and on diesel by Rs 10 a litre from November 4 and the subsequent reduction in value added tax rates by 25 states and union territories would reduce the inflation rate in these two items.

"Our calculations suggest that the direct impact of the reduction in central excise duty on petrol and diesel on the November inflation print would be 30-35 basis points, with a somewhat smaller impact of the varied VAT cuts by states. The second order impact will be visible over the next three months, but is likely to be muted as tentative demand had limited the pass through of higher fuel prices to other goods," Nayar said.