

Retail inflation at a three-month high in November

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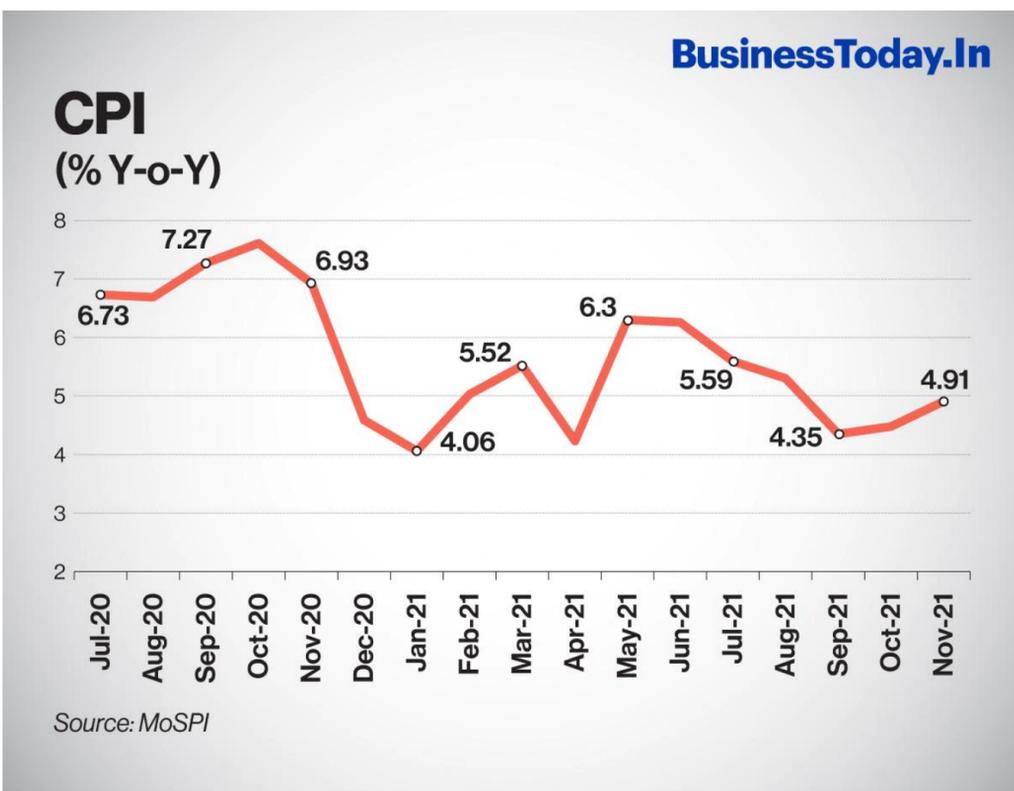
India's retail inflation touched a three-month high in November on elevated vegetable prices, despite a favorable base and fuel price cut by the Centre and states, official data showed.

While inflation remained within the central bank's tolerance band for the fifth straight month, economists expect it to rise in the coming months due to the waning effect of favorable base, telecom tariff hike and GST rate increase in clothing and footwear.

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Economists expect the RBI-led Monetary Policy Committee to continue with an accommodative stance for the rest of the year to support growth.

Food inflation rose to 1.87 per cent in November from 0.85 per cent in the previous month. Fuel inflation eased to 13.35 per cent from 14.35 per cent following the softening international crude oil prices. However, core-CPI inflation, which is non-food and non-fuel, continued to remain elevated at above 6 per cent in November.



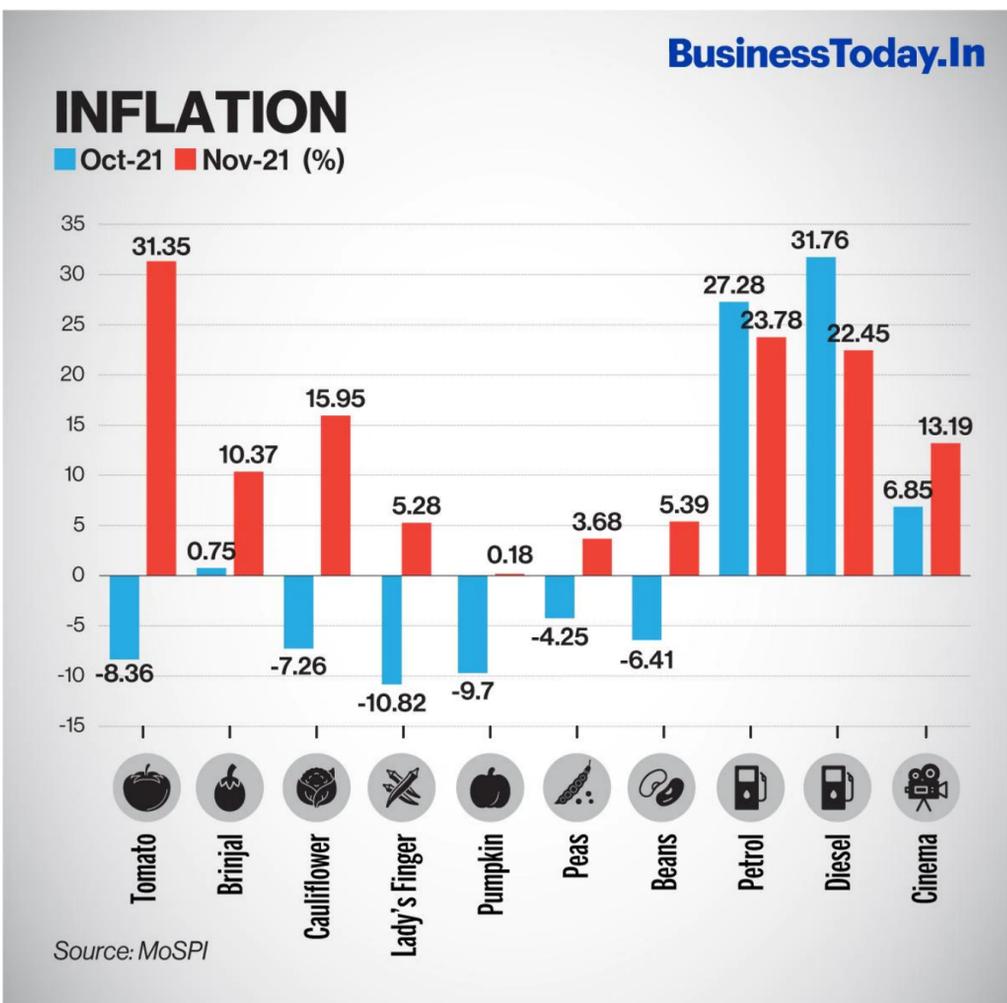
(Credit: Mohsin Shaikh)

"The food and fuel inflation are expected to be volatile due to exogenous factors like weather and global commodity prices. However, the elevated level of core inflation at over 6 per cent in the last two months is a matter for concern...Going forward, with the waning base effect, and improving domestic demand conditions, the inflation outlook for the remaining months also does not look bright...We expect the December inflation to cross 5.5 per cent and the third quarter inflation to remain below the RBI's inflation outlook of 5.1 per cent," said M Govinda Rao, Chief Economic Adviser at Brickwork Ratings.

Fuel and beverage inflation rose to 2.6 per cent in November from 1.8 per cent in October on a year-on-year basis. The contraction in vegetable prices reduced to 13.62 per cent from 19.4 per cent in October. In the sub-category, inflation in tomato shot up to 31 per cent in November compared to 8.36 per cent deflation in the previous month. Spinach saw inflation rise to 8.5 per cent from 0 per cent in October. Inflation for brinjal and cauliflower rose to 10.37 per cent and 15.9 per cent in November compared to a deflation of 0.75 per cent and 7.26 per cent, respectively.

Inflation in oils and fats eased marginally to 29.6 per cent from 33.5 per cent in October.

"Going forward, food prices are likely to moderate. According to the daily mandi prices, onion and potato prices contracted by 11 per cent and 5.5 per cent on a sequential basis in December-21 till date," said Swati Arora, economist at HDFC Bank. "That said, a hike in telecom tariffs, plausible supply chain disruptions, a hike in GST rate on clothing and footwear along with a waning of a favorable base are likely to weigh on the inflation readings. We expect inflation to hover around 6 per cent in December-21," said Arora.



(Credit: Mohsin Shaikh)

Inflation of both 'transport and communications' and 'fuel and light' declined in November, but remained in double digits at 10.02 per cent and 13.35 per cent, respectively.

The Centre last month cut excise duty on petrol and diesel by Rs 5 and Rs 10, respectively, to lessen the burden of rising international crude oil prices on consumers and aid economic demand. It was followed by reduction in value added tax on petrol and diesel by several BJP ruled states including Karnataka, Gujarat, Uttar Pradesh, Himachal Pradesh, Goa, Assam, etc.

Excise duty on petrol and diesel now stands at Rs 27.9 and Rs 21.8 per litre, respectively.

Aditi Nayar, chief economist at ICRA Ratings, said that the impact of fuel tax cuts helped to douse the transport and communications sub-index by 0.6 per cent in November 2021 in month-on-month (MoM) terms.

"However, all the other categories of miscellaneous items displayed a hefty sequential rise, ranging from 0.2 per cent for education to a sharp 0.9 per cent for personal care and effects, underscoring the growing price pressures in the economy," said Nayar.

Inflation for diesel for vehicles fell to 22.45 per cent in November from 31.76 per cent in the previous month. The rate of price rise in the case of petrol for vehicles also eased to 27.28 per cent from 23.78 per cent in the previous month.

Devendra Kumar Pant, Chief Economist at India Ratings & Research, said inflation of commodities such as health, fuel and light, and transport and communications has turned structural. Supply shortages are further aiding higher inflation, which cannot be termed transitory. "CPI is likely to remain high till January 2022 and moderate after that," said Pant.