

India's December inflation rate at 5.59%, food inflation jumps to 4.05%

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Rising prices of essential kitchen items pushed the retail inflation to a six-month high of 5.59 per cent in December, close to the Reserve Bank's upper tolerance limit of 6 per cent.

The Consumer Price Index (CPI) based retail inflation was 4.91 per cent in November 2021 and 4.59 per cent in December 2020.

The RBI, which mainly factors in the CPI-based retail inflation while arriving at its bi-monthly monetary policy, has been tasked by the government to keep the inflation at 4 per cent with margin of 2 per cent on either side (that is, in the range of 2-6 per cent).

Retail inflation has been rising since October 2021. In July too the rate of price rise was 5.59 per cent but it slowed in the subsequent two months, before starting to move up from October.

As per the data released by the National Statistical Office (NSO) on Wednesday, food inflation was at 4.05 per cent in December this fiscal compared to 1.87 per cent in the preceding month.

In the food basket, inflation was on higher side in 'cereals and products', eggs, 'milk and products', spices, and 'prepared meals, snacks and sweets' segments in December over the preceding month.

However, the rate of price rise was slower in case of vegetables, fruits, and 'oil and fats'.

In the 'fuel and light' category, though the inflation softened from a month ago, it remained elevated at 10.95 per cent during the month. It was 13.35 per cent in November 2021.

The Reserve Bank expects the inflation print to be somewhat higher over the rest of the year as base effects turn adverse.

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Aditi Nayar, chief economist at Icra, said the increase in CPI inflation in December 2021 relative to the previous month was primarily led by food and beverages, and clothing and footwear.

There was a welcome moderation in the prints for fuel and light, and pan, tobacco etc amidst a mild dip in miscellaneous items and housing, she added.

"Overall, we expect the headline CPI inflation to range between 5.7 - 6 per cent in Q4 FY2022, as compared to the MPC's (Monetary Policy Committee) forecast of 5.7 per cent.

"While the CPI inflation has hardened sharply between November and December 2021, the uncertainty triggered by the third wave is sure to take precedence when the MPC meets next month. We now see a negligible likelihood of a change in stance or reverse repo hike in the February 2022 policy review," Nayar said.

With a higher inflation target, the MPC can choose to prioritise growth revival for much longer than other major central banks, for many of whom inflation control has become a pressing policy focus, she noted.

The RBI's next monetary policy meeting will be held in February.

"Food inflation is expected to increase further due to supply bottlenecks and adverse weather conditions.

"Although there has been a 68 basis points increase in the inflation rate in December over the previous month, the average inflation for Q3 remained below the RBI's estimates of 5.3 per cent," said M Govinda Rao, Chief Economic Adviser at Brickwork Ratings.

The CPI has now remained within the tolerance level for the sixth month in a row with 5.59 per cent this December, D R E Reddy, CEO and Managing Partner at CRCL LLP said.

"Inflationary pressures on food are projected to remain low for the foreseeable future. Household income has also increased, indicating a boost in discretionary income in the hands of the average person. Overall, these figures show that the economy is rapidly rebounding from the pandemic's devastation," Reddy said.