

## Retail inflation spurts to 7-month high in January; wholesale inflation stays in double-digits

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Retail inflation rate breached the 6 percent upper tolerance limit of the RBI for the first time in seven months in January, while the wholesale price index stayed in double-digits for the 10th month in a row, showed two sets of data released by the government on Monday.

Retail inflation, the key input for the RBI while reviewing the repo rate every two months, soared during the month mainly because of a spike in certain food items. The previous high for retail inflation was 6.26 per cent in June 2021. However, the wholesale price-based inflation in January showed a softening trend for the second straight month, as prices grew at a slower pace at 12.96 per cent.

According to the Consumer Price Index (CPI) data, daily consumable 'oils and fats' continued to pinch consumers' pockets with an inflation print at 18.7 per cent. However, it softened from December's retail inflation of 24.32 per cent.

Several other segments, including fuel and light, clothing and footwear and transport and communication witnessed over 9 percent price rise on an annual basis. The government also revised upwards the CPI inflation for December 2021 to 5.66 percent from 5.59 percent. In the year-ago month of January 2021, the retail inflation stood at 4.06 percent.

The inflation in the food basket was 5.43 percent in January 2022 as against 4.05 percent in the preceding month, as per the data released by the National Statistical Office (NSO), under the Ministry of Statistics and Programme Implementation (MOSPI).

The rate of price rise in 'cereals and products' quickened to 3.39 percent during the month as against 2.62 percent in December. Likewise, the retail inflation in the 'meat and fish' category accelerated to 5.47 percent from 4.58 per cent. In vegetables, the inflation moved up to 5.19 percent against a deceleration of (-)2.99 per cent in December.

The 'fuel and light' segment witnessed a softening of inflation at 9.32 percent against 10.95 percent. The Reserve Bank, which mainly factors in the CPI-based inflation, has been tasked by the government to keep the inflation at 4 per cent, with a margin of 2 percent on either side.

Earlier in the day, data released by the Commerce and Industry Ministry showed that the wholesale price index (WPI) based inflation eased for the second consecutive month during January at 12.96 percent, even though the food prices hardened. Notably, WPI inflation has remained in double digits for the 10th consecutive month beginning April 2021.

Inflation in December 2021 was 13.56 percent, while in January 2021, it was 2.51 percent.

Also, earlier in the day, Reserve Bank Governor Shaktikanta Das said it is primarily the statistical reasons which has resulted in higher inflation, especially in the third quarter of 2021-22, and the same base effect will play in different ways in the coming months.

Das said the RBI has already factored in high inflation numbers in its recent bi-monthly monetary policy, and retail inflation in January above 6 per cent "should not surprise or create any alarm".

Last week, the RBI had said headline inflation is expected to peak in the fourth quarter of 2021-22, within the tolerance band, and then moderate closer to target in the second half of 2022-23, providing room for monetary policy to remain accommodative.

RBI expects the retail inflation to soften to 4.5 per cent next fiscal, while projecting it at 5.3 per cent in the current fiscal year ending on March 31, 2022.

Experts weigh in

Sunil Kumar Sinha, Principal Economist, India Ratings and Research (Ind-Ra), said the heightened geopolitical risks will keep the energy prices and thus inflation at elevated levels. "Against this backdrop, Ind-Ra expects the wholesale inflation to be in double-digits and retail inflation close to the upper tolerance band of RBI during the rest of the current fiscal," he said.

Nikhil Gupta, Chief Economist at Motilal Oswal Financial Services, said, "We believe that CPI- inflation has peaked and is likely to soften to 5.6-5.7 per cent in February-March 2022. "

Aditi Nayar, Chief Economist, ICRA, said, "The tone of the February 2022 policy review (of RBI) virtually rules out a stance change in April 2022, notwithstanding the elevated CPI inflation print for January 2022...Our new base case is a change in stance in June 2022, followed by two repo rate hikes of 25 bps each in August 2022 and October 2022, guided by our view that inflation will not moderate appreciably in H1 FY2023.

Rajani Sinha, Chief Economist & National Director – Research, Knight Frank India, said, "While the CPI inflation for January 2022 has touched RBI's upper tolerance band, the positive aspect is that CPI inflation has fallen on MoM basis. The sequential fall has been possible mainly because of softening of food prices. However, the concerning aspect is that the core inflation has remained above 6 percent. Going forward, the sharp rise in global crude oil prices and its impact on CPI inflation will be a cause of concern for the RBI . While the Central Bank has given benign inflation projection for FY23, it will be critical to watch what happens to commodity prices and specifically global crude oil prices in the next few months

Upasna Bhardwaj, Senior Economist at Kotak Mahindra Bank, said, "The inflation reading came in line with our expectations. Although the core inflation has eased slightly but continues to remain sticky and elevated around 6 percent. The trajectory is expected to have peaked out in January. More so, RBIs own 2HFY23 estimates remain closer to 4 percent , although lower than our estimates, thereby not warranting any concern on policy changes for now."

Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research, said, "Core inflation continues to be elevated and at 6.2 percent for January 2022, almost at similar levels as in the previous month. Higher oil and other commodity prices and its transmission to prices of manufactured products with gradual demand revival, is reflected in the elevated core inflation levels."

**Dr. M Govinda Rao, Chief Economic Adviser at Brickwork Ratings, said, "CPI Inflation crossed MPC's upper target of 6 percent in January 2022 in line with BWR's projections. The CPI inflation rate increased to 6.01 percent in January 2022 from the revised 5.66 percent in December 2021. The current level of inflation is the highest in the last seven months and also higher than the 4.06 percent in January 2021. Core inflation moderated to 5.96 percent from 6.01 percent.**

The prices of food items have shown a steep rise from 4.05 percent in December to 5.43 percent in January, due to rising global commodity prices and continued supply bottlenecks. Higher food inflation has accelerated the overall inflation rate, in addition to higher core and fuel inflation which are already at elevated levels.

Rising International crude oil prices remain a huge threat accentuating inflationary pressures. Although the fuel inflation eased in January 2022 (9.32 percent) compared to December 2021 (10.95 percent), we expect the pressure on prices likely to remain till there is some respite from the rising international crude oil prices. The ongoing Ukraine crisis is likely to escalate the international crude oil prices higher, hence the central government may have to lower the excise duties in the coming months to control inflation. However, in the next few months, the base effect is likely to reduce the inflation rate because the retail prices had remained elevated during the second wave of the pandemic and the third wave is almost over. On the whole, the price level is likely to remain close to RBI's projections for Q4.