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Industrial growth slows, inflation soars

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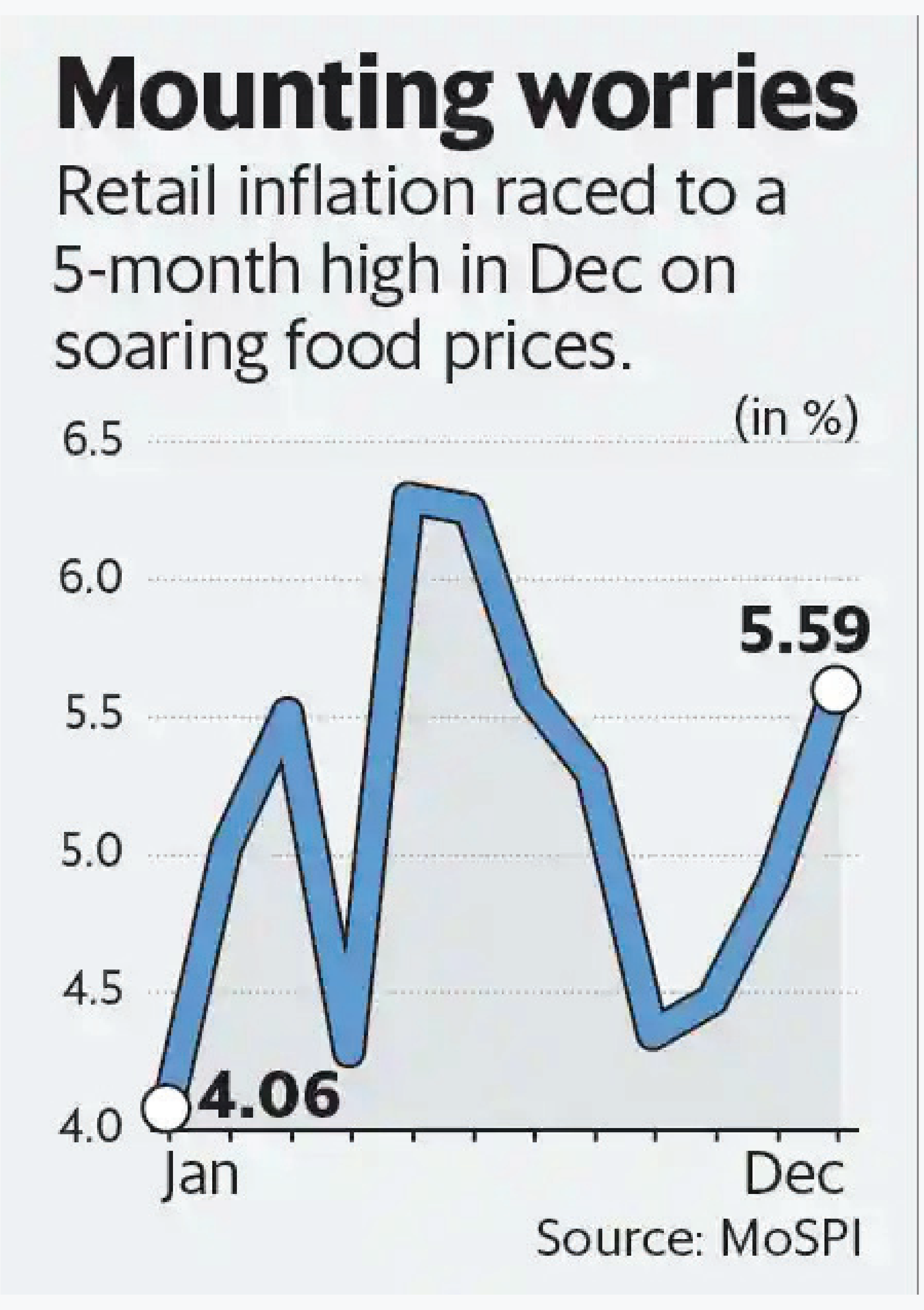
India's December retail inflation quickened to a five-month high of 5.56% amid soaring food prices, while industrial growth slipped to a nine-month low of 1.4% as pent up demand during the festive months failed to sustain in November.

The unwelcome combination poses a dilemma for the Reserve Bank of India (RBI), which needs to raise interest rates to contain inflation even as businesses need monetary support to revive growth and add jobs.

Rising covid cases and curbs on economic activity across states are likely to further complicate the work of economic policymakers trying to sustain growth, cool prices and tackle unemployment. India reported 194,720 fresh covid cases on Wednesday, the most since May, the health ministry said.

"The uncertainty triggered by the third wave is sure to take precedence when the monetary policy committee meets next month. We now see a negligible likelihood of a change in stance or reverse repo hike in the February policy review," said Aditi Nayar, chief economist at rating company ICRA Ltd.



The Consumer Price Index (CPI) accelerated to 5.56% last month from 4.91% in November, data released by the statistics department on Wednesday showed. Food prices, which contribute to nearly half of CPI, rose to 4.05% in December from 1.87% in November, the data showed.

Retail inflation, however, remained within the RBI's medium-term tolerance band of 2-6% for the sixth consecutive month.

With inflation remaining within the comfort zone of RBI, there is no immediate need for the committee to continue with the accommodative stance, although it may continue to drain excess liquidity, said M. Govinda Rao, chief economic adviser at Brickwork Ratings.

The central bank's rate-setting panel has kept policy rates unchanged to strengthen economic recovery. The panel will reassess the policy in February.

In the December meeting, RBI retained the retail inflation forecast for the fiscal year at 5.3%. The central bank expects inflation to peak in the fourth quarter of the current fiscal and soften after that because of the base effect.

Nayar added that the duration of the current pandemic wave and the severity of restrictions imposed would determine whether policy normalization can start in April or be delayed further to June.

The sharp increase in food inflation from 1.87% to 4.05% is a matter of concern, said Brickwork's Rao. He cautioned that food inflation was expected to accelerate further because of supply bottlenecks and adverse weather conditions.

Meanwhile, factory growth slowed in November. The Index of Industrial Production (IIP) grew 1.4% in November, the slowest in nine months. The year-on-year growth rate of 1.4% can be attributed to a negative base of -1.6% in November 2020.

Among sectors, mining witnessed a 5% growth in November, and electricity rose by 2.1%. However, the growth rate in manufacturing was just 0.9%.

Madan Sabnavis, chief economist of Bank of Baroda, noted that the feeble industrial growth despite a negative base of -1.6% indicates "quite clearly that the momentum has dissipated".

He said that while consumer goods demand has weakened as the pent-up demand witnessed earlier failed to sustain in November, capital goods, including vehicles, have witnessed a renewed setback with a negative growth rate.

Textiles witnessed an 8% growth due to higher exports, while metals were propped up by government spending on infrastructure. Consumer electronics and computers continue to do well as remote work has increased the demand for phones and computer-related products.

The surge in covid cases and the restrictions across several states would impact industries again, economists said.

"The lockdown-like conditions, which are in force from mid-December, will keep production levels depressed and growth in the coming quarter would be in the region of not more than 3-5% even on a low base," Sabnavis said.

Nayar of ICRA noted that the IIP displayed an expected moderation to a nine-month low growth in November because of slackening momentum following the festive season and continuing issues afflicting the automobile sector.

"While the performance of several high-frequency indicators such as GST e-way bills, rail freight traffic, electricity generation and non-oil exports displayed a pick-up in December, an unfavourable base may limit the IIP growth to sub-1% in that month," she said.