

January inflation dents recovery in domestic economy; CPI crosses 6%

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Rising global commodities' prices as well as supply-side bottlenecks kept India's main inflation gauges -- CPI and WPI -- at elevated levels during January 2022 denting the recovering domestic economy.

Notably, high commodities cost especially of transport fuel prices triggered a wider inflationary trend. As a result, India's main inflation gauge -- Consumer Price Index (CPI) -- which denotes retail inflation surged on a sequential as well as year-on-year basis.

The index rose to 6.01 per cent last month from 5.66 per cent in December 2021 and 4.06 per cent recorded for January 2021.

Accordingly, the retail inflation rate crossed the target range of the Reserve Bank of India.

The central bank has a CPI target range of 2-to-6 per cent.

Besides, the rate of rise in the Consumer Food Price Index, which measures the changes in retail prices of food products, increased to 5.43 per cent last month from 4.05 per cent in December 2021.

On the other hand, India's January 2022 wholesale inflation eased on a sequential basis but remained at an elevated level.

However, on a year-on-year (YoY) basis, the Wholesale Price Index (WPI) data furnished by the Ministry of Commerce and Industry showed an exponentially rise last month over January 2021, when it stood at 2.51 per cent.

"The high rate of inflation in January, 2022 is primarily due to rise in prices of mineral oils, crude petroleum and natural gas, basic metals, chemicals and chemical products, food articles etc as compared the corresponding month of the previous year," the Ministry said in its review of 'Index Numbers of Wholesale Price in India' for January.

"The month over month change in WPI index for the month of January, 2022 stood at 0.35 per cent as compared to December 2021."

According to India Ratings and Research's Principal Economist, Sunil Kumar Sinha: "Though, Covid cases are ebbing, 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.

Furthermore, Acuite Ratings & Research said: "Going forward, as the recovery turns more sustainable given strong progress in vaccination, decline in Covid caseloads along with gradual unwinding of lockdown restrictions by states we expect the RBI to gradually revert to its pre-pandemic policy corridor by hiking the reverse repo rate between April-22 and June-22 policy meeting."

"However, the timing on the upward adjustment in the repo rate is difficult to comment on, given RBI's thrust on growth facilitation vs the timeliness of monetary policy normalisation."

In addition, Brickwork Ratings' Chief Economic Adviser M. Govinda Rao said: "The prices of food items have shown a steep rise from 4.05 per cent in December to 5.43 per cent 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."