

# Inflation edges past 6% in January, at 7-month high

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## Rural India bears brunt of spike at 6.12%

India's retail inflation accelerated past the 6% mark in January to hit 6.01%, breaching the central bank's tolerance threshold for consumer price inflation for the first time since June 2021. Retail inflation was 5.66% in December 2021.

Rural India bore the brunt of the inflation spike as per official data, with the pace of price rise touching 6.12% from 5.36% in December. Inflation in urban India was virtually unchanged at 5.91% in January, from 5.90% a month earlier.

The Consumer Food Price Index spiked significantly from 4.05% in December to 5.43% in January, with rural India again reporting a sharper rise.

"Food inflation is high mainly due to the higher edible oils component, but the overall basket is below the headline number at 5.6%," said Bank of Baroda chief economist Madan Sabnavis, adding that inflation is over 6% in most States, with Haryana seeing the steepest rate of 7.2%.

Reserve Bank of India Governor Shaktikanta Das said the 6% inflation print should not cause concern or trigger any alarm, because the central bank has already taken its prospect into consideration.

But with global crude oil prices now hitting \$95 a barrel, economists said the government's stance on retail fuel prices after the ongoing Assembly polls — to raise them or pare excise duties — will be critical in determining the inflation trajectory from March.

**"Rising International crude oil prices remain a huge threat, accentuating inflationary pressures, even though fuel inflation eased in January to 9.32% from 10.95% in December," said M Govinda Rao, chief economic advisor at Brickwork Ratings.**

**"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," Mr. Rao, who was a member of the Fourteenth Finance Commission, said.**

Clothing and footwear inflation accelerated to 8.84% in January from 8.3% in December, following the introduction of a higher GST rate on footwear products. A proposed GST hike on clothes from January 1 had been called off by the government after a GST Council meeting in late December.

Mr. Sabnavis said the main challenge thrown up by the January data is the high 6% plus inflation in non-food segments like clothing, fuel and light, household goods, health, transport and communication and recreation.

"These prices are based on the maximum retail price principle and will not come down once increased, and manufacturers are expected to pass on higher input costs to consumers for the next two months too," he said.

Wholesale price inflation, reflecting producers' cost pressures, stayed above double digits for the tenth month in a row, at 12.96% in January. Food inflation at the wholesale level hit a 24-month high of 9.6%, as per data released separately on Monday.

While retail inflation may slide back to the 5% range in February and March, the critical moment will be in March after the elections conclude as there can be a fresh round of increase in fuel prices, he emphasised.

Even if retail inflation peaks in the current quarter, ICRA chief economist Aditi Nayar said it may not moderate quickly. Ms. Nayar now expects a change in the monetary policy stance only in June 2022, followed by two repo rate hikes of 25 basis points each in August and October.

"This is guided by our view that inflation will not moderate appreciably in the first half of 2022-23," she noted.