

Inflation dips marginally to 5.3% in August

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Easing led by food inflation; experts flag base effect

India's retail inflation cooled to 5.3% in August from 5.6% in July, thanks to food price inflation falling to 3.11% from nearly 4% in July and the effect of a high base last August.

This marks the second month of marginal moderation in the Consumer Price Index (CPI), keeping retail inflation below the central bank's upper tolerance threshold of 6% after hitting 6.3% in May and June this year. The Reserve Bank of India is expected to continue with its accommodative monetary policy stance, with the headline inflation number edging lower.

However, economists warned that inflationary risks persist and could dampen the fervour for festive spending as inflation in health (7.8%), transport and communication (10.2%), fuel and light (almost 13%), remains high. They attributed the downward movement in inflation largely to the base effect — CPI inflation was at 6.7% in August 2020, with the Consumer Food Price Index rising 9.05%.

The pace of price rise in protein sources and oils remained a concern, even though overall food and beverages inflation stood at 3.8% this August. After moderating last month, oils and fats inflation zoomed to 33%, while inflation in eggs, meat and fish and pulses hit 16.3%, 9.2% and 8.8%, respectively, as per the National Statistical Office (NSO).

"On the whole, the comfort level from the lower CPI inflation is not commensurate with the level of decline. For the next two months, inflation will trend downwards as the base effect will provide this support," said CARE Ratings chief economist Madan Sabnavis, adding that the dip in food inflation was 'more due to the fall in vegetable inflation which has moved to -11.7%'.

The inherent inflation potential is elevated, Mr Sabnavis said, stressing that high inflation in household goods and health can 'militate against demand' this festival season.

"Health inflation is a worry again as households have been spending a lot on healthcare which in turn will reduce the purchasing power and can affect demand this festival season. This holds for rural India too this time," he emphasised.

"Inflation for clothing and footwear firmed up to 6.8% in August 2021, which may be a signal of a demand recovery," said ICRA chief economist Aditi Nayar, estimating that core-CPI inflation eased to 5.5% in August 2021 from 5.7% in July.

The positive 'surprise' from the August retail inflation notwithstanding, DBS Singapore economist Radhika Rao said the pass-through effects of inflationary pressures from high fuel and commodity prices remain a headwind for coming months.

"On a sequential basis, the pipeline forces remain under watch, particularly due to the domestic fuel tax rigidity, service reopening gains and passthrough of higher costs on account of supply bottlenecks alongside firm input prices," said Ms. Rao.

Fourteenth Finance Commission member, M. Govinda Rao, said he expects inflation will remain below 6% through 2021-22 owing to the 'favourable base effect'. Mr Rao, who is now chief economic advisor at Brickwork Ratings, said the recent import duty cuts on crude palm oil may help arrest domestic edible oil prices and fuel inflation may also ease in tandem with the recent correction in international crude oil prices.

"We do not expect any changes in the Monetary Policy Committee's policy rate and stance when it meets in October," he concluded.