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Retail inflation cools to 3.17% in January on lower food prices

By [Kirtika Suneja](#), ET Bureau | Updated: Feb 14, 2017, 10.36 AM IST

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NEW DELHI: [Retail inflation](#) moderated to 3.17 per cent in January, the lowest since India started putting out consumer inflation numbers in January 2012. The decline was led by a marked fall in [food inflation](#), data released by the Central Statistics Office showed on Monday.

However, the closely watched core inflation rose further, suggesting that a decline in inflation is not likely to fetch a rate cut. The Reserve Bank of India (RBI) last week decided not to cut interest rates while changing its monetary policy stance to 'neutral' from 'accommodative' in keeping with the 4 per cent medium term inflation target.

The inflation reading is not likely to change the central bank's view. RBI's decision "could very well mark the end of the current rate cut cycle, which began in January 2015 – at least in the near term.

The shift reflects the central bank's decision to exert caution on the inflation front in its journey towards the medium-term inflation target," ratings agency Crisil said in a note.

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BUT MAY REVERSE NOW



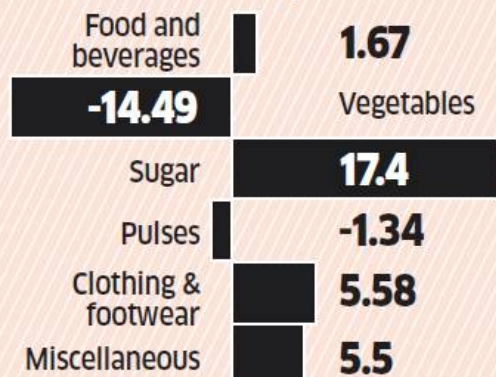
CPI Inflation at Five-Year Low

% Annual Rate (2016)



Lower Food Inflation Helps

% Inflation In January



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expected
to rise
going
ahead

Core inflation
inflation over 5% now

RBI not likely to change
its monetary view soon

Food inflation fell to 0.53 per cent in January compared with 1.37 per cent in December. Consumer inflation in December was 3.41 per cent. Core CPI inflation, excluding food & beverages and fuel & light, rose to 5.1 per cent in January 2017 from 4.9 per cent in December 2016, suggesting stickiness in prices. Most experts expect consumer inflation to inch up going ahead as base effect of high inflation last year begins to wane.

"A reversal in the base effect and the seasonal rise in prices of perishables are expected to push up the next two readings of CPI inflation. We continue to expect March 2017 inflation to exceed 4.5 per cent," said Aditi Nayar, principal economist at ICRA.

The RBI has a 5 per cent inflation target for March 2017. "The prices of nonfood items will continue to remain high and the base effect is

wearing out. So there will be a tendency of prices to go up," said Madan Sabnavis, chief economist at Care Ratings.

Many banks have cut interest rates in the last month following a surge in deposits due to demonetisation, triggering hope that consumption and housing would get a boost.

Industrial production fell 0.4 per cent in December and GDP growth is forecast to slow to 6.5 per cent-6.75 per cent in FY17 from 7.9 per cent in the previous fiscal.

The decline in food inflation was largely driven by the negative 15.62 per cent inflation in the case of vegetables. The lower 1.34 per cent inflation in pulses also helped reduce inflation.

Sugar and confectionery inflation rose 18.69 per cent while cereals inflation was 4.89 per cent. Non-food components showed higher price increases. Clothing and footwear inflation was 4.71 per cent and fuel inflation was 3.42 per cent.

Inflation in the miscellaneous category, largely representing services, was 5.5 per cent in January. Education inflation was 6.74 per cent while personal care and effects was 6.44 per cent. CPI data showed that annual retail inflation for rural India was 3.36 per cent while that for the urban centres was 2.9 per cent.

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