

ECONOMY

Retail inflation slows to 3.17% in January

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Retail inflation eased in January to 3.17% on the back of a sharp slowdown in food price inflation.

Growth in the consumer price index (CPI) slowed from the 3.4% seen in December 2016, extending the streak of easing retail inflation to six months. The food and beverages category registered an inflation rate of 1.3% in January, down from the 2% witnessed in December 2016. Food prices have also been easing for six consecutive months.

Inflation in the fuel and light segment slowed to 3.4% in January from 3.7%, while the housing segment saw inflation quicken marginally to 5.02% from 4.98% over the same period.

“The curious part of this inflation rate is that the non-food components have shown higher price increases such as pan, intoxicants (6.4%), clothing and footwear (4.7%), housing (5.0%), fuel and light (3.4%), and miscellaneous items (5.1%),” Madan Sabnavis, chief economist at Care Ratings said.

Reserve Bank Of India Governor Urjit Patel had noted on Saturday that “CPI ex-food and fuel has been difficult to bring down since September,” and it is necessary that this inflation goes down for headline inflation to move towards 4% inflation on a durable basis. The central bank had decided to leave benchmark interest rates untouched in its monetary policy review last week.

“Clearly the non-food components have registered an increase and going ahead would tend to be upward moving,” Mr. Sabnavis added. “Higher global commodity prices will get ingrained in these components while food items will be unaffected.” “Also, as the economy is remonetised, some pent-up demand will have returned,” Crisil Research said. “The stickiness in core inflation despite continued decline in other parts of the index is a worry since wage-price negotiations based on a sticky core can potentially lift overall inflation.”

According to Care Ratings, CPI inflation is expected to accelerate 3.5-3.6% in the next couple of months.

“The rate has bottomed out for this year and the movement will be guided by the crude oil prices and the transmission at the retail level to a large extent. The base effect too would have been exhausted by this time,” Mr.Sabnavis said.

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