

Retail inflation inches up to 7% in August led by food price rise

The Hindu Bureau

SEPTEMBER 12, 2022 17:59 IST

UPDATED: SEPTEMBER 13, 2022 10:34 IST

The RBI has estimated a 7.1% inflation rate for the July to September quarter



India's retail inflation touched 7% in August, up from **6.71% in July**, fuelled by a 7.62% pick-up in **food prices** paid by consumers, even as industrial production growth in July had dropped to the lowest level since April at just 2.4%, with output levels dropping 2.75% month-on-month.

This is the eighth successive month that retail inflation has stayed above the central bank's upper tolerance threshold of 6% inflation for the economy, and constitutes a setback to households' spending power among the poorer sections of the population.

The combination of buoyant inflation and a tripping industrial recovery would make the central bank's task trickier at the upcoming monetary policy review at the end of this month, where economists expect a fresh interest rate hike ranging from 35 to 50 basis points. One basis point equals 0.01%.

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Rural inflation which was at 6.8% in July, saw a sharper rise than urban inflation in August, rising to 7.15%. Urban consumers' inflation rate moved up from 6.49% in July to 6.72%.

Consumer non-durables' production dropped 2% in July from a 2.96% uptick in June. Capital goods production recorded the highest growth among use-based categories at 5.8%, but contracted sequentially in July by 6.7% from June levels.

Rural stress

The low industrial growth is likely a function of the base effect, as the Index of Industrial Production (IIP) had **grown 11.5% in July 2021**. Deloitte India economist Rumki Majumdar linked the contraction in non-durable goods to rural households being under stress, which has impacted demand.

The elevated inflation also means household budgets would be affected, particularly lower income segments as food and related items make up a higher share of their consumption basket, said D.K. Srivastava, chief policy adviser at EY India.

The uptick in inflation was largely driven by 'a broad-based rise across the food segment', with a higher inflation in cereals, pulses, milk, fruits, veggies and prepared meals and snacks, said ICRA chief economist Aditi Nayar.

Inflation measured by the Consumer Food Price Index surged to 7.6% in rural India and 7.55% in urban parts of the country, from around 6.7% in July.

Rural inflation rose to 7.15% in August from 6.8% in July, while urban inflation rose to 6.72% from 6.49% in July.

13.23% uptick in August. Mr. Srivastava said domestic causes, especially the uneven monsoon and its adverse impact on food prices, had flared up inflation.

Kharif sowing

With kharif crop sowing “increasingly unlikely” to touch last year’s levels, food inflation could remain a problem even though healthy reservoir levels augur well for timely rabi sowing, said Ms. Nayar.

A rebound in demand for services also lifted miscellaneous and housing inflation, and is likely to persist, she said, reckoning retail inflation could rise further to 7.1% in September. The RBI has estimated a 7.1% inflation rate for the July to September quarter.

Ten of 22 major States recorded inflation over 7%, with West Bengal recording the highest price rise at 8.94% in August. Gujarat’s inflation rate also shot past the 8% mark at 8.22% in August from 7.85% in July, while Telangana’s price rise dropped marginally from 8.58% in July to 8.11% in August.

Maharashtra recorded higher inflation than July at 7.99% in August, while Madhya Pradesh (7.83%), Assam (7.73%), Haryana (7.71%) and Uttar Pradesh at 7.62%, were some of the other States seeing the highest price rise during the month.

Manufacturing sector growth dropped to just 3.2% in July, while electricity output grew just 2.3%, moderating sharply from double-digit growth in June. Mining sector output contracted 3.3% during July, compared to a 7.8% rise in June on a year-on-year basis.

The intermediate goods segment was the only one to clock growth from July 2021 as well as June 2022 output levels – rising 3.6% and 1.6%, respectively. Production growth in the consumer durables sector, which had led industrial growth in June with a 25.07% surge, sobered to 2.4% this July, with total output reported nearly 3% lower than June 2022 levels.

While the slow manufacturing growth and poor performance of consumer goods is particularly concerning, the festive season should abet some revival of consumption spending, said CARE Ratings’ chief economist Rajani Sinha. “However, the downside risks emanating from elevated domestic inflation and global growth slowdown would continue to persist.”

The National Statistical Office, [which released the inflation and IIP numbers on Monday](#), also revised downward the IIP for April to reflect a growth of 6.66% compared to 7.1% estimated earlier.

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