

[Home](#) / [Business](#) / [Economy & Business](#) / Double whammy: Inflation rises, IIP growth slows

Double whammy for economy: inflation rises, IIP growth slows

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Retail inflation rose to 7 per cent in August on higher food prices, ending a three-month downtrend and threatening to further destabilise household budgets and hurt consumer spending.

The numbers, which came above the Reserve Bank of India's 2-6 per cent tolerance band yet again, might force it to aggressively raise interest rates further in its month-end policy review. India's central bank has hiked key policy interest rates by 140 basis points to 5.4 per cent since May.

The news coincided with the release of weak industrial production data for July, dealing a one-two punch to Asia's third-largest economy.

"Inflation levels in the economy remain elevated despite a considerable reduction in crude oil price from its recent highs. Rise in food prices, domestic fuel price level and pressure on the Indian currency continue to pose a near-term threat to inflation trajectory," said Vivek Rathi, Director Research, Knight Frank India. "These will also guide the upcoming monetary policy action, which has so far witnessed three policy rate hikes in the past five months."

"However, the strong sentiment on both the business and consumer front highlights the economic resilience, which domestic and global business participants are expected to take note of for their India plans," Rathi added.

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Food inflation, which has nearly 50 per cent weight in the inflation basket, rose 7.62 per cent in August, from 6.7 per cent in July, the government data showed. Prices of wheat, rice, pulses, milk, fruits and vegetables rose.

Meanwhile, industrial production growth plunged to a four-month low of 2.4 per cent in July compared with 12.3 per cent in June. Manufacturing sector, which constitutes over 75 per cent of the index of industrial production, rose only 3.2 per cent in the month under review compared with over 12 per cent in the previous month.

After two months of a double-digit growth, industrial output slowed mainly due to high crude in industrial commodity prices during July.

“The falling crude and commodity prices will help recovery in the industrial activity. IIP in higher single digits is crucial for overall economic recovery,” said Raheel Shah, Director, BDR Pharmaceuticals.

Some others zoomed in on the base effect.

“The normalisation of base effect has pulled down IIP growth sharply in July. The commencement of (the) festive season should aid in some revival of consumption spending. However, the downside risk emanating from elevated domestic inflation and global growth slowdown would continue to persist,” said Rajani Sinha, Chief Economist at CareEdge.

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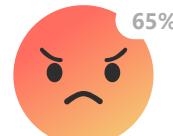
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