

## **November retail inflation eases to 11-month low of 5.88%**

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**NEW DELHI** : Consumer price index (CPI) based inflation eased to an 11-month low of 5.88% in November, coming within the upper limit of Reserve Bank of India's tolerance band for the first time since last December amid consistent interest rate increases.

Official data from the ministry of statistics and programme implementation showed that cooling food price inflation contributed to the overall moderation in the headline inflation. Retail inflation was at 6.77% in October and 4.91% last November.

The data on moderating inflation comes days after the RBI increased the repo rate by 35 basis points to 6.25% on 7 December, its fifth increase in eight months. Experts expect another 25 basis points increase in February.

Reacting to the inflation figure, finance ministry said in a social media post that the drastic decline in retail inflation is mainly due to a sharp decrease in food price inflation. The ministry pointed out that consumer food price inflation moderated significantly in November 2022, to 4.67%, which is way lower than the 7.01% recorded in October. The absolute decline in prices of vegetables, 'oils and fats' and 'sugar and confectionery' contributed significantly to the reduction in food price inflation, it said.

"The measures taken by the government to contain food prices helped to bring inflation below the RBI tolerance limit of 6%. To soften the prices of cereals, pulses and edible oils,

appropriate trade-related measures have been undertaken. The impact of these measures is expected to be felt more significantly in the coming months," the ministry said. India, like several other countries, imposed export curbs on select commodities to improve domestic supplies and reduced import duty on select edible oils to fight inflation.

"In case of fuel and lighting as the government has not altered the taxes, we have not been able to derive any benefit from lower global crude prices. The advantage of the base effect will not be available in December and we can expect a number above 6.5%. We may expect RBI to continue to increase rates by another 25 bps in February as inflation will be above 6%," said Madan Sabnavis, Chief Economist at Bank of Baroda.

Aditi Nayar, Chief Economist at rating agency ICRA said that the sharp easing in CPI inflation reflected a base-effect led cooling in food inflation and a correction in vegetable prices.

With the sharp correction in food inflation unlikely to sustain at a similar pace, the year-on-year inflation for December is projected at 5.9-6.1%, resulting in an average CPI inflation for the December quarter at 6.2%, well below the estimate pegged by the monetary policy committee for the quarter at 6.6%, said Nayar.

"How much the CPI inflation eases further in December 2022 will hold the key to the monetary policy committee's February policy decision on rates, as the contraction in the index of industrial production (IIP) is expected to be transitory, reversing after the festive holiday period," she said. IIP had contracted 4% in October, dragged down by a 5.6% contraction in manufacturing output.

Experts also said that though the inflationary pressures are on a declining trend, the war against inflation is still not over. The moderation in food inflation is comforting but it is mostly led by vegetables which is susceptible to weather fluctuations, said Rajani Sinha, Chief Economist, CareEdge Group. "RBI will remain cautious to prevent inflationary expectations from spiralling upwards. However, with disappointing data from the manufacturing sector, the Central Bank's decision to go for another rate hike in the February meeting will be a close call," said Sinha.