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India's retail inflation rises to 6.95% in March; IIP remains muted

Food and oil prices push inflation to 17-month high

Asit Ranjan Mishra | New Delhi April 12, 2022 Last Updated at 18:05 IST

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India's annual retail inflation shot up to a 17-month high in March while factory output contracted sequentially in February, complicating policy choices for the central bank.

The data released by the National Statistical Office (NSO) on Tuesday showed that the retail inflation rate rose to 6.95 per cent in March from a year ago, remaining above the tolerance limit of the Reserve Bank of India (RBI) for the third straight month. The Index of Industrial Production (IIP), on the other hand, grew 1.7 per cent on an annual basis in February but contracted 4.7 per cent month on month, signalling that economic revival is yet to find a strong footing.

The Consumer Price Index (CPI)-based inflation was led by the edible oils (18.79 per cent), vegetables (11.64 per cent), meat and fish (9.63 per cent), footwear and clothing (9.4 per cent), and fuel and light (7.52 per cent) segments.

Core inflation, which excludes the volatile food and fuel items, jumped to a 10-month high of 6.29 per cent in March from 5.96 per cent in the previous month.

Sunil K Sinha, principal economist at India Ratings, said that though the gradual fuel price increase from end-March had a limited impact on inflation, structural health inflation, higher commodity prices, and a weak currency would keep the inflation rate elevated at least in the first quarter of FY23.

Russian invasion of Ukraine has put upward pressure on food and commodity prices, forcing the RBI to reassess its accommodative policy stance. In its latest monetary policy review, the central bank kept key policy rates unchanged but signalled that it would now prioritise keeping inflation in check over incentivising growth. The RBI revised downwards its growth projection for FY23 to 7.2 per cent from 7.8 per cent while raising its inflation forecast for the year to 5.7 per cent from 4.5 per cent, assuming crude oil prices at $100 per barrel.

Out of the six segments by use-based classification of the IIP, four -- primary goods, capital goods, intermediate goods, and infrastructure goods -- witnessed positive growth in February. However, consumer durables (-8.2 per cent) contracted for the fifth consecutive month while consumer non-durables (-5.5 per cent) shrank after a month's gap.

Aditi Nayar, chief economist at ICRA, said the surge in global commodity prices, disruptions caused by the Russia-Ukraine conflict, and supply-chain implications of the continued lockdowns in China since March following the outbreak of a fresh Covid-19 wave did not augur well for sectors like automobiles that were dependent on key raw materials provided by Russia, Ukraine or China, in the absence of any other alternatives.

Rajani Sinha, chief economist at Care Ratings, said though demand was expected to improve for the industrial sector with the economy opening up, in coming days, the manufacturing sector would further feel the pinch of the rising raw material prices and supply bottlenecks due to the ongoing geopolitical conflict. "The rising inflationary pressure will also dampen consumer sentiments and consumer spending, which has already been weak. A pick-up in consumption spending is the most critical aspect for capacity utilisation levels to improve and for private capex cycle to pick-up," she added.