

ECONOMY

Retail Inflation nears 7% as food prices pinch

SPECIAL CORRESPONDENT

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Retail inflation accelerated sharply to 6.95% in March, the fastest pace of price gains in almost one-and-a-half years, and marked the third straight month when inflation exceeded the Reserve Bank of India's tolerance threshold of 6%.

A surge in food price inflation, which quickened to 7.68% from 5.85% in February, combined with rising fuel prices and producers passing on higher commodity prices and input costs to consumers across goods and services to drive the overall Consumer Price Index (CPI) based inflation print to a 17-month high.

Consumers in rural India faced a higher level of inflation than urban residents, with overall rural inflation 154 basis points higher at 7.66%, as the rural food price index sped past 8% to 8.04% in March, from February's 5.81%.

"Our analysis shows the poor are bearing the burden of inflation the most, given that food – which occupies the largest share of their consumption basket – recorded the sharpest rise," said Dharmakirti Joshi, CRISIL chief economist.

The uptick in fuel prices and their ripple effects on transport and logistics costs are expected to intensify in April, economists said.

"The complete transmission of global fuel prices on domestic prices is expected to be seen in April," said Vivek Rathi, director, research at Knight Frank India. Transport and communication inflation, which reflects the pump prices of automobile fuels, touched 8%.

Health costs, household goods and services, and personal care and effects saw an escalation in price pressures with inflation readings at 6.99%, 7.67% and 8.71%, respectively.

While food and beverages inflation hit 7.47% in March, edible oils and fats quickened appreciably to 18.8% and inflation in vegetables saw the rate almost double to 11.6%, from February's 6.1%. Meat and fish prices recorded 9.63% inflation, up from 7.45% in February. Clothing and footwear inflation touched 9.4%, with footwear alone touching almost 11.3%.

Among the States, West Bengal recorded the highest retail inflation at 8.85%, while Uttar Pradesh and Assam both clocked 8.19% inflation, followed by Madhya Pradesh (7.89%), Telangana (7.66%), and Maharashtra (7.62%). The inflation rate stood between 7.4% and 7.6% for several other provinces, including Bihar, Jammu & Kashmir, Haryana, Jharkhand and Rajasthan.

While economists expected inflation to quicken in March, the pace was higher than "our expectations and alarming", noted CARE Ratings chief economist Rajani Sinha, emphasising the fact that the high inflation had spread across most categories was 'more worrying'.

"This reflects build-up of price pressures in the economy due to persistent commodity price increases and amplified supply bottlenecks," she said, adding that India's high import dependency for edible oils, fertilisers and crude oil, which are at all-time high prices globally, makes the outlook quite uncertain for inflation to dissipate soon.

If retail inflation doesn't significantly cool off from these levels, ICRA chief economist Aditi Nayar reckoned that the central bank could opt to raise interest rates as early as June.

"We now expect to see 50-75 basis points (0.50 to 0.75 percentage point) of rate hikes by the end of the second quarter of this year, and perhaps another 0.50 percentage point hike in 2023-24," she said, adding that yields on government securities were also expected to shoot up to 7.2% and could even reach 7.5%.

Last week, the central bank raised its inflation forecast for 2022-23 to 5.7%, from 4.5% projected earlier. The RBI expects the first quarter of the year to record an average inflation of 6.3%, before it eases to 5.8% in the July to September quarter.

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