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INDIA'S RETAIL INFLATION MODERATES IN MAY BUT CONTINUES ABOVE RBI'S TOLERANCE LIMIT OF 6% FOR THE FIFTH MONTH IN A ROW



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India's retail inflation measured by the Consumer Price Index (CPI) moderated albeit marginally to 7.04 percent in May 2022 but continued to remain elevated beyond the 6 percent tolerance limit set by the Reserve Bank of India (RBI) for the fifth month in a row.

When compared with the retail inflation print at 7.79 percent in April this year, the retail inflation for May looks lower by nearly 0.4 percent. While comparing the same from 6.3 percent reported in May 2021, the CPI inflation looks to have risen in May this year, thanks to the price rise of commodities including food and other items globally amid supply disruptions following the ongoing war in Europe. Also, the base effect contributed to the moderation in the retail inflation in May this year.

India's food inflation stood at 7.97 percent in May 2022, marginally lower than 8.31 percent in the sequential previous month of April. The inflation in May was high in all segments except housing which changes only periodically given the way it is defined.

Data compiled by the National Statistical Office (NSO) showed retail inflation for rural India declined to 7.01 percent in May this year as compared with 8.38 percent in the sequential previous month of April. In May 2021, however, rural inflation was reported at 6.55 percent, which indicates a rise in May this year versus the same month last year.

Similarly, the urban retail inflation stood at 7.08 percent in May 2022 versus 7.09 percent in April and 5.91 percent for May 2021. The marginal cooling of the retail inflation can be attributed to the higher base effect and easing of prices of some of the consumer goods in domestic markets.

"The inflation number of above 7 percent was expected and aided by the base effect for the month of May. The base effect will wane from July onwards. Food inflation was high with edible oils, spices, and vegetables pushing it up. It is unlikely that consumers will get a respite from the high inflation trajectory anytime soon, especially from food items," said Madan Sabnavis, Chief Economist, Bank of Baroda.

Besides the base effect, the impact of lowering taxes by the government earlier did play out to a certain extent to lower inflation. This will also help in the coming months. The NSO data showed goods and services under the miscellaneous category were also high with only health and education registering less than 6 percent. The indication is that the transfer of high input costs to consumers is still playing out for household goods and personal care products.

This is worth mentioning here that most states barring Kerala, Tamil Nadu, Karnataka, Delhi, Punjab, Bihar, and Chhattisgarh, registered above 7 percent retail inflation in May.

"With the minimum support prices (MSPs), the minimum threshold at which the government purchases agricultural commodities from farmers, raised significantly this year for the winter kharif crop, the CPI for foodgrains may continue to rule higher even if these crops yield good harvest on expectations of a normal monsoon this year," said Sabnavis.

Rajani Sinha, Chief Economist, CareEdge, said, "The RBI has been proactively taking measures to bring inflation back within its target range and curb rising inflationary expectations. Considering the broad-based nature of inflation, it has also revised the inflation projection for FY 23 up by 100 basis points (bps) to 6.7 percent contingent on the underlying assumption of crude oil at US\$105/bbl."

Core inflation also eased, however, was still close to the 6 percent mark indicating that inflation has become broad-based. With consumer inflation at elevated levels, households' inflationary expectations have been on the rise in recent months.

DILIP KUMAR JHA

Editor

dilip.jha@polymerupdate.com

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