

Recovery picks up pace again, inflation softens

Synopsis

Retail inflation cooled more than expected to a four-month low in August, data released on Monday showed, while a private tracker indicated economic recovery picked up pace in September after a brief dip.



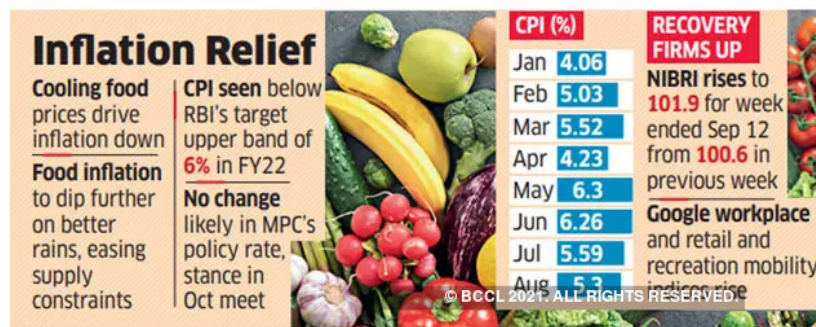
Data released last week showed industrial production increased 11.5% in July and growth is expected to be higher in the current month.

Retail **inflation** cooled more than expected to a four-month low in August, data released on Monday showed, while a private tracker indicated economic recovery picked up pace in September after a brief dip. Retail inflation, as measured by the consumer price index (CPI), eased to 5.3% in August from 5.59% in July, helped by a decline in food inflation to 3.11% from 3.96%. Retail inflation was 6.69% in August last year.

The Nomura **India** Business Resumption Index (NIBRI) rose to 101.9 for the week ended September 12 from 100.6 in the prior week, marking further progress from the pre-pandemic base of 100.

Experts said the softer inflation will allow the Reserve Bank of India (**RBI**) to maintain low interest rates to bolster the economic recovery. "The headline inflation came in softer than our expectations... (it) would provide relief to the policymakers and more room to move much slower in terms of policy normalisation," said Upasna Bhardwaj, senior economist at Kotak Mahindra Bank.

CARE Ratings **NSE 0.10 %** expects inflation for the year to average 5.5%, within RBI's target rate band of 2-6%. The RBI had last month raised the inflation forecast for this fiscal to an average of 5.7% from 5.1%, earlier.



Mobility Indices Rise

It had noted that the current trend is driven by “exogenous and largely temporary supply shocks.”

“Favourable base effects are expected to soften inflation readings to sub-5% in 4Q21, lending downside risks to the RBI’s projection for this quarter and the next,” said DBS Singapore economist Radhika Rao.

Following the softer CPI print, India Ratings expects the RBI to remain in pause mode for the rest of FY22. There were apprehensions the RBI may be forced to tighten monetary policy earlier than expected after retail inflation crossed 6% earlier this year.

ICRA expects policy normalisation could commence in February 2022, with a change in the monetary policy stance to neutral from accommodative, followed by a hike in the repo rate of 25 bps each in April and June next year. The next monetary policy review will be held October 6-8.

Economic recovery

Nomura’s recovery tracker had hit a post-pandemic high of 102.8 for the week ended August 29 before easing to 100.6 in the following week.

Nomura said the Google workplace and retail and recreation mobility indices rose by 3.6 percentage points (pp) and 2.3pp, respectively, while the Apple driving index rose by 4.1pp.

“The growth cycle is improving. Bank credit growth rose to 6.7% year-on-year at end-August from its trough of 5.5%, and a further lift is likely as the festive season kicks in,” Nomura said.

Lower Covid cases and faster vaccination should aid the recovery in consumption and services, even as a third wave remains a risk, it added.

India’s vaccinations crossed 750 million on Monday as new Covid cases slid further.

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Economists expect the festive season to provide a clearer signal of the strength of the demand revival.

Noting that supply bottlenecks are impacting the auto sector and could weigh on manufacturing output in coming months, Nomura expects FY22 GDP growth to average 9.2% on-year.

Softer food inflation

Inflation in food and beverages fell to a seven-month low of 3.8% in August from 4.5% in July. Fuel and light inflation remained high at 12.95%, while services inflation was at 6.4% in August.

Inflation for clothing and footwear firmed up in August at 6.8% from 6.5% last month, a signal of a demand recovery. As per the data, inflation in oils and fats was 33% compared with 32.5% in July 2021 while that for pulses was 8.8% as against 9% last month. Vegetables saw disinflation, with prices falling 11.7% compared with a drop of 7.75% in the preceding month. Core inflation eased to 5.5% in August 2021 from 5.7% in the previous month.

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