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BUSINESS

Retail inflation eases to four-month low in Aug

Experts believe that the economy's inflation potential is still elevated

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Vegetable prices fell by 11.7% in August, making it the ninth consecutive month of disinflation.(HT File)

Retail inflation, as measured by the Consumer Price Index (CPI), grew at 5.3% in August 2021, moderating for the second consecutive month to remain below the upper limit of Reserve Bank of India's (RBI) tolerance threshold of 6%.

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The final figure surprised analysts by underperforming. A Bloomberg poll of economists forecast the CPI growing at 5.6% in August.

To be sure, the latest inflation number should not be seen as a broad-based easing of price pressures in the economy. In fact, a crash in vegetable prices alone has played a big role in

bringing down the headline inflation number. Experts believe that the Indian economy's inherent inflation potential continues to be elevated.

Non-food inflation went up, not down in August. Food items have a share of 39% in the average CPI basket. A food versus non-food comparison of prices shows that the former more than compensated the rising trend in the latter. Food inflation came down from 4% in July 2021 to 3.1% in August 2021. This made sure that headline CPI growth came down from 5.6% in July 2 5.3% in August 2021 despite an increase in non-food inflation from 6.7% to 6.8%.

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Even the fall in food inflation in August is a result of fall in vegetable and cereal prices. Vegetable prices fell by 11.7% in August 2021, making it the ninth consecutive month of disinflation. The cereals and products sub-category saw a price drop by 1.4% in August 2021.

This is the seventh consecutive month of fall in cereal prices. Prior to February 2021, this category had not seen disinflation even once under the current CPI series. Prices of other important food items such as edible oil (33%) and pulses (8.8%) etc continued to grow at a fast pace. Cereals and vegetables account for over half of the value of production in Indian agriculture. So, a fall in their prices at a time when other prices are rising is bound to put pressure on farm incomes.

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Core inflation, which is inflation sans food and fuel, grew at 6% in August 2021. This is the third consecutive month of decline in core inflation, which was at 6.4% until June 2021. At 4.4%, non-core inflation was significantly higher than the food inflation value of 3.1%, primarily a result of 13% growth in prices under the fuel and light category.

Prices of miscellaneous items, which include services, grew at 6.4% in August 2021, continuing a trend of moderation in prices.

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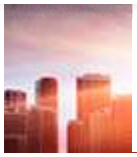
"While a downward movement from July (5.6%) is a welcome sign, we believe this is more due to base effects as inherent inflation potential is elevated. Therefore, on the whole the comfort level from the lower CPI inflation is not commensurate with the level of decline. For the next two months, inflation will trend downwards as the base effect will provide this support. We do believe inflation for the year will average around 5.5% with an upward tendency" said Madan Sabnavis, chief economist at CARE Ratings.



In its August 2021 meeting, the Monetary Policy Committee of the RBI had projected annual CPI growth in 2021-22 to be 5.7% with a 5.9% growth in the quarter ending September 2021.

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