

Vegetable prices help cool inflation

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A steep 15.1% fall in vegetable prices in December 2022 drove down India's retail inflation to a 12-month low of 5.72% — keeping it below the central bank's 6% tolerance threshold for the second straight month after a ten-month streak above it.

There was, however, little relief beyond vegetables as inflation in food items such as cereals, milk, spices accelerated further to 13.8%, 8.5% and 20.3%, respectively. For rural consumers, inflation remained high at 6.05%, with food prices rising over 5%, compared to just 2.8% in urban India.

"Excluding vegetables, retail inflation actually rose to 7.2% in December from 7% in November — led by rising prices of cereals, pulses, milk, meat and fish, and fuel," said Crisil chief economist Dharmakirti Joshi. Core inflation, which excludes food and energy, also hardened to 6.1% from 6% in November, which he termed the 'biggest worry'.

Among services, inflation remained high for personal care and effects (8.1%), household goods and services (7.43%), miscellaneous and health services (6.1%). Fuel and light inflation stood at 11%, while clothing and footwear price rise remained sharp at 9.6% in December.

'A close call'

"The concern is that core CPI inflation remains sticky above 6%, with evidence of high inflation in services sector," said Rajani Sinha, chief economist at CARE Ratings. The Reserve Bank of India's Monetary Policy Committee (MPC) meeting in early February to determine if

more rate hikes are warranted to cool price rise, will be 'a close call' amid sticky core inflation, she reckoned.

Consumer price inflation may yet inch back up to 5.8%-6% this month, cautioned Aditi Nayar, chief economist at ICRA, as food inflation will have an 'unsupportive base' and core inflation is expected to remain elevated through this quarter with producers passing on higher costs and the demand for services staying robust.

"Taking into account the lower-than-expected inflation print and the muted average industrial output growth of 1.3% during October and November 2022, we anticipate that the MPC may choose to pause in February," Ms. Nayar said