

Retail inflation eases to 1-year low in December

Dilasha Seth, Saurav Anand /13 Jan 2023



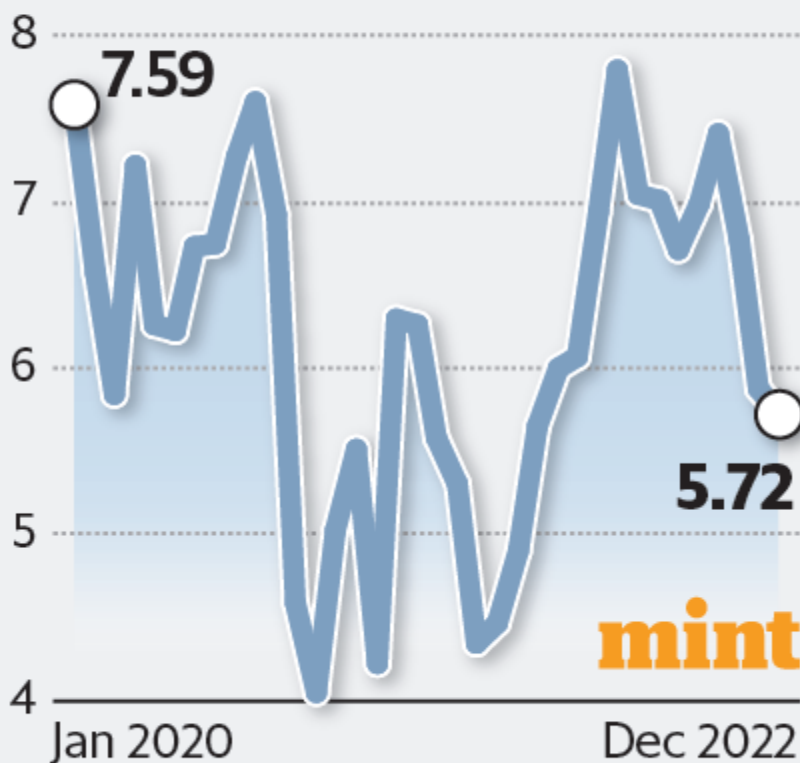
Retail inflation cooled to a one-year low in December, remaining below the Reserve Bank of India's upper tolerance limit of 6% for the second straight month, thanks primarily to lower vegetable prices.

Inflation based on the consumer price index (CPI) eased to 5.72% in December from 5.8% in November, data released by the ministry of statistics and programme implementation (MoSPI) on Thursday showed.

Cooling down

CPI-based inflation eased to 5.72% in Dec from 5.8% in Nov.

Consumer Price Index-based inflation (year-on-year, in %)



Source: National Statistical Office

A Mint poll of 20 economists had predicted inflation at 5.9%.

The overall decline in inflation has raised expectations that the Reserve Bank of India (RBI) may pause its monetary policy tightening, but economists pointed out that core inflation, which excludes food and fuel, stayed high at 6.1% in December. Besides, retail inflation is expected to rise in January as the favourable base effect wanes.

"The softening of retail inflation is largely attributed to the decline in prices of vegetables, which helped offset the rise in costs of other products of the food basket such as cereals, milk and meat. However, the concern is that core CPI inflation remains sticky above 6%, with evidence of high inflation in the services sector. From the policy perspective, we believe RBI's move at the February monetary policy committee meeting will be a close call with core CPI inflation remaining sticky," said Rajani Sinha, chief economist, CareEdge.

Inflation slowed below 6% for the first time in 11 months in November. RBI has projected inflation for FY23 at 6.7%.

The MPC on 7 December hiked the repo rate by 35 basis points (bps) to 6.25%, the fifth raise in the current fiscal, taking the policy rate to the highest level since August 2018.

Food inflation eased significantly to 4.58% in December against 5.07% in November, as vegetable prices fell 15.08% compared to an 8.08% decline the previous month. However, inflation hardened in the case of cereals, eggs, meat and fish, milk products, and oils and fat, which economists cautioned could add to the inflationary pressure.

"Although food inflation has declined, the worrying trend is the continuous increase of cereals inflation, which is trending upwards from May and in the last three months it has remained in double digits... The inflation trajectory is expected to depend on a combination of cereals prices, commodity prices, and core inflation," said Sunil Kumar Sinha, principal economist, India Ratings and Research.

The consumer food price index, which includes both manufactured and non-manufactured food articles, eased to 4.19% in December from 4.67% in November. Food accounts for 54% of weight in CPI. The rate of price rise in eggs rose from 4.86% in November to 6.9% in December. "Notwithstanding the welcome softening in prices of several essential commodities seen in early-January and the healthy rabi sowing trends, an unfavourable base could cause the food inflation print to harden somewhat in the ongoing month," Aditi Nayar, chief economist of ICRA Ltd. "We expect core inflation to remain elevated in Q4 FY23, given the continued pass-through of higher input costs by producers and sustained robust demand for services," she said.

Nayar cautioned that CPI inflation for January may be 5.8-6.0%, slightly higher than the level in December, given the stickiness in core inflation and an unsupportive base for food inflation.