

Business Standard

Cooling food prices pull inflation down to five-month low in July

Industrial output stays robust, tops pre-Covid level

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India's headline retail inflation for July came in at its lowest in five months, helped by easing global commodity prices and lower food prices domestically. Still, at 6.71 per cent, it was above the Monetary Policy Committee's (MPC's) medium-term target, thus justifying the recent monetary tightening by the Reserve Bank of India (RBI).

On the industrial production front, official data showed a normalising base effect. According to the Index of Industrial Production (IIP), growth in India's factory output came in at 12.3 per cent year-on-year (YoY) in June, against a 12-month high of 19.6 per cent in the previous month.

Barring capital goods, the industrial output was, in fact, more robust in June than May, when compared with the pre-Covid period of 2019-20.

According to the data released by the National Statistical Office (NSO) on Friday, the Consumer Price Index-based YoY inflation in July was noticeably lower than 7.01 per cent in June. The Consumer Food Price Index (CFPI) was at 6.75 per cent in July, down sharply from 7.75 per cent in June.

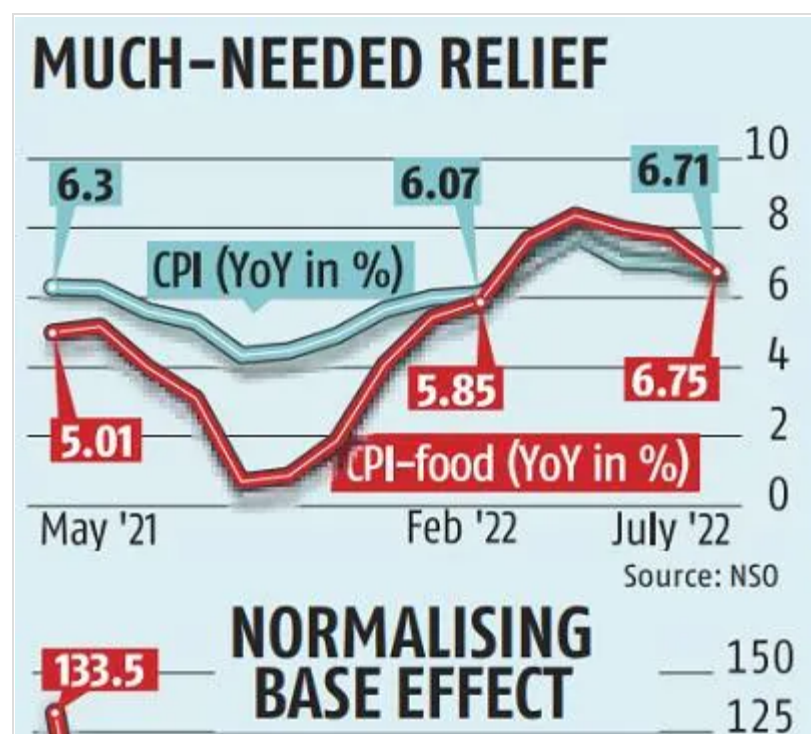
“The slowdown in consumer inflation for the third consecutive month suggests that inflationary pressures, though elevated, are on a downward trend. Encouragingly, households’ inflation expectations also improved in July, reflecting the effectiveness of the RBI’s and the government’s efforts to tame inflation,” said Rajani Sinha, chief economist, CARE Ratings.

Among sub-groups, inflation in vegetables was 10.90 per cent YoY, against 17.37 per cent in June. The edible oil inflation rate was 7.52 per cent, against 9.36 per cent during the previous month; for meat and fish, it was 3 per cent, against 8.61 per cent in June.

CPI-based inflation for fuel and light was 11.76 per cent in July, down from 10.39 per cent in June. With global oil prices coming down due to fears of a recession in advanced economies, fuel inflation is expected to soften further.

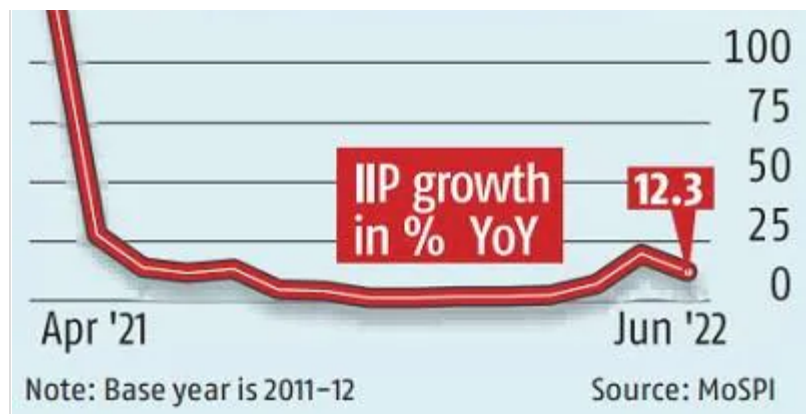
“Many imported components also saw a decline in prices in July, reflecting the lagged pass-through of the moderation in international commodity prices. Today’s inflation print provides further evidence that inflation in India has peaked, and will likely moderate in the coming months,” said Rahul Bajoria, India chief economist with Barclays.

Still, analysts expect the MPC to go for another round of rate hike. “Given the MPC’s focus on anchoring inflation expectations and the RBI governor’s statement on bringing inflation closer to the target of 4 per cent over the medium term, we expect another rate hike of 10-35 bps in the September 2022 policy meeting. Thereafter, we believe the MPC decisions shall be extremely data-dependent,” said Aditi Nayar, chief economist, ICRA.



After the latest round of repo rate hike earlier this month, RBI Governor Shaktikanta Das struck a hawkish tone and said with growth momentum expected to be resilient despite headwinds from the external sector, the monetary policy should persevere further in its stance of withdrawal of accommodation to ensure that inflation moves close to the target of 4 per cent over the medium term.

On the factory output front, IIP rose 6.6 per cent in June, when compared with the corresponding month of 2019-20; in May 2022, it had risen just 1.7 per cent over the corresponding month of the pre-Covid period. The deceleration in growth in June when compared to May was because the strong YoY growth figure for that month came on a low base (the country was battling



a severe second wave of Covid-19 during May 2021).

If one looks at sequential numbers, IIP remained more or less the same in June at 137.9 points, against 137.7 points in May. From a GDP data point of view, the important figure is cumulative growth in IIP at 12.7 per cent in the first quarter of the current financial year, against 44.4 per cent in Q1 of 2021-22.

However, this represents 4.8 per cent growth during April-June of FY23 over the corresponding pre-Covid period of 2019-20. IIP had declined 6.9 per cent in Q1 of 2021-22 over the Q1 of 2019-20. The GDP data for the first quarter will come towards the end of this month.

Further normalisation in the base from July onwards shall give a bit clearer picture in terms of yearly growth in IIP.

“As anticipated, the normalising base resulted in a fairly broad-based dampening of IIP growth to 12.3 per cent in June 2022, although this was appreciably higher than our forecast of 10.2 per cent, led by the manufacturing sector,” Nayar said.

An official press release also cautioned against interpreting the data points on a YoY basis, considering the unusual circumstances on account of the Covid-19 pandemic since March 2020.

It is largely the capital goods segment that is taking time to recover. Though it jumped 26.1 per cent YoY in June, growth was just 0.5 per cent versus the pre-Covid period of 2019-20. There was a decline in production in April and May 2022, over the pre-Covid period.