

DIZZYING CLIMB: THE HINDU EDITORIAL ON RETAIL INFLATION IN JANUARY 2021

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The latest retail inflation readings should, on the face of it, offer monetary authorities a fair amount of comfort given that the [Consumer Price Index \(CPI\) rose by 4.06%](#) in January, marking a deceleration for a second straight month to a 16-month low. Inflation appears to have cooled after having stayed stubbornly stuck above the [Reserve Bank of India's upper tolerance threshold of 6%](#) for six months through November, helped by an appreciable softening in food prices. Specifically, the Consumer Food Price Index reflected a gain of a mere 1.89% last month as vegetable prices saw a disinflation of 15.8% and cereal prices eased considerably for a second month in the wake of *kharif* crop arrivals. The [RBI in its monetary policy statement](#) this month, cited “the bumper *kharif* crop, rising prospects of a good *rabi* harvest, larger winter arrivals of key vegetables and softer egg and poultry demand on avian flu fears” as factors that augured well for the months ahead. But the central bank was mindful of the risks too, especially with regard to food costs where the latest data had brought to the fore concerns over the prices of pulses and edible oils. While inflation in pulses and products was at 13.4%, that for oils and fats stood at 19.7%. Eggs and meat and fish — two other key sources of protein — both posted double-digit rates of 12.9% and 12.5%, respectively, with price gains in the former barely registering any telling impact from the avian flu outbreak.

Now, with the favourable base effect beginning to wane — inflation moderated by more than 100 basis points in February 2020 to 6.58% before slowing to 5.84% in March — the outlook is far from reassuring. Of particular worry is the trend in input costs for multiple sectors in the real economy, including manufacturing. From automobile manufacturers to builders, rising raw material costs are beginning to force them to pass on the impact to the end consumers, and this at a time when demand is still to gain a firm footing. The latest [IHS Markit India Manufacturing Purchasing Managers' Index](#) (PMI) points to the sharpest increase in purchasing costs for more than two years as ‘a lingering supply-side squeeze’ fanned inflationary pressures and manufacturers raised their product prices at the fastest pace in over a year. Add to the mix the unrelenting and dizzying climb in transportation fuel prices to newer and newer record highs in recent days and the outlook for inflation becomes distinctly darker. Diesel, the main fuel for freight carriage, has now exceeded 80 per litre and is bound to feed into prices of almost everything being transported across distances — from fresh produce to intermediate and finished industrial goods. With banks still flush with liquidity, policymakers need to maintain a strict vigil to keep inflation from resurging and posing a threat to macro-economic stability.

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