

INFLATION ALERT: THE HINDU EDITORIAL ON RISING PRICES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

The last thing that India's pandemic-hit economy needs is accelerating inflation. And, yet, that is precisely what the latest data point to. June's retail inflation reading of 6.1% is worrying, particularly since it was the first month when the economy reopened from the crippling lockdowns of the preceding two months. While the disruptions caused to the supply of goods and services as a result of the nationwide shutdown can to an extent explain the acceleration in price gains, that this happened despite depressed demand is cause for disquiet. A closer look at the Consumer Price Index reveals that prices in the food and beverages group rose an average 7.3% year-on-year, with the key protein sources of pulses and products surging 16.7%, meat and fish climbing 16.2%, and milk and its derivatives rising 8.4%. Inflation in the food category would have been much faster but for vegetables and fruits moderating the gains as anxious growers likely sold the perishables at distress rates resulting in fruits showing a 0.7% deflation and vegetables posting a marginal 1.9% gain. Transport and communication, which includes petrol and diesel, also posted a 7.1% jump. The recent sustained increase in fuel prices is expected to feed through into higher costs for transporting farm produce and it is therefore hard to envisage food prices softening, at least in the near term.

The rapid and timely onset of the monsoon in June, with higher rainfall, does offer some reassurance. If the rains sustain the early momentum and cover the key agrarian heartland adequately, the prospects for a bountiful harvest and a resultant moderation in food prices later in the year are bright. Still, for now, vegetable prices are reported to be surging and providers of goods and services are exploring ways to insulate their businesses financially from the weak demand. Steel companies recently announced they were raising prices in response to rising costs related to iron ore and the COVID-19 pandemic. Researcher IHS Markit's latest India Business Outlook survey released on Monday paints a dismal picture with sentiment having turned negative in June for the first time in the 11 years since it began polling businesses in the country, and firms reporting a steep drop in confidence. Significantly, the survey shows that while employers are set to cut jobs to cope with faltering demand, companies also plan to raise selling prices over the next 12 months to protect profitability. With inflation already above the RBI's 6% target upper bound, monetary policy makers face an unenviable choice. A further rate cut to help revive economic momentum risks fanning faster price gains and putting the economy on a path to stagflation.

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