On retail inflation - February 2021

What is the issue?

- India's retail inflation - Consumer Price Index (CPI) - slowed to a 16-month low of 4.06% in January 2021.
- However, various factors make the inflation outlook for the coming months less encouraging, calling for a cautious approach.

What is the inflation scenario?

- Inflation appears to have cooled after having stayed stubbornly stuck above the RBI's upper tolerance threshold of 6% for six months through November 2020.
- The latest retail inflation readings offer monetary authorities a fair amount of comfort.

What was the driving factor?

- The deceleration was helped by an appreciable softening in food prices.
- Specifically, the Consumer Food Price Index reflected a gain of a mere 1.89% in January 2021.
    - vegetable prices saw a disinflation of 15.8%
    - cereal prices eased considerably for a second month in the wake of kharif crop arrivals
- The RBI in its recent monetary policy statement, cited the below as factors that augured well for the months ahead-
    1. the bumper kharif crop
    2. rising prospects of a good rabi harvest
    3. larger winter arrivals of key vegetables
    4. softer egg and poultry demand on avian flu fears

What is the need for caution though?

- **Food costs** - The central bank was mindful of the risks too. This is especially with regard to food costs.
- The latest data on this 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, both posted double-digit rates of 12.9% and 12.5%, respectively.
- **Base effect** - Inflation moderated by more than 100 basis points in February 2020 to 6.58% before slowing to 5.84% in March 2020.
- This favourable base effect is also beginning to wane.
- So, the outlook for the coming months is far from reassuring.
- **Input cost** - 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 is going on when demand is yet to pick speed.
- The latest Purchasing Managers' Index (PMI) points to the sharpest increase in purchasing costs for more than 2 years.
    - This is because of the continuing supply-side squeeze.
    - The resulting inflationary pressures made manufacturers to raise their product prices at the fastest pace in over a year.
- **Fuel price** – Adding to the above concerns is the rising transportation fuel prices to newer and newer record highs in recent days.
- Diesel, the main fuel for freight carriage, has now exceeded Rs.80 per litre.
- This is bound to feed into prices of almost everything being transported across distances.
- With this, the outlook for inflation becomes distinctly darker.
- Policymakers need to maintain a strict vigil to keep inflation from resurging and posing a threat to macro-economic stability.

Source: The Hindu