

ASSOCHAM
BUSINESS
BAROMETER

Inflation Outlook

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Inflation to come up to six per cent in four to six weeks: ABB

Majority of the corporate leaders are expecting the inflation rate to come up to six per cent level in view of the fiscal, monetary and administrative measures taken by the government and the normal monsoons forecasted while the crude oil prices may remain an area of concern, an Assocham Business Barometer (ABB) has found.

A quick ABB survey of 240 CEOs and CFOs across various sectors has found that the industry outlook on inflation situation is optimistic as 68 per cent of those questioned believed that the inflation rate would subside and come up to six per cent in next four to six weeks.

Around 68 per cent of the respondents felt that the prices mounting on food grains shall relieve in next one or two months. This is in view of the normal monsoon announcement by the weather department and four per cent rise in food grains production in the fiscal 2008. The CEOs also believed that the global food crisis shall not remain so hot by the next quarter. But a high number of them were concerned over the escalating international crude oil prices.

“The strong measures taken by the government and the industry’s co-operation should help to ease the pressure on prices. The speculative money driving inflation in commodities is also expected to exit the market soon”, said Mr. Venugopal N Dhoot, President, Assocham.

While the government has not passed on the full burden of the oil prices to the consumers, its financials can come under severe strain if the similar situation persists, warned 95 per cent of the respondents. Crude oil prices would continue to drive the inflationary pressures in coming months even if the food and commodity prices ease, about 92 per cent of the CEOs stated.

The speculative money put in the commodity markets world over, played a significant role in raising the prices of agriculture as well as metal commodities. About 74 per cent of ABB respondents stated that this speculative money is expected to exit from the markets and thus easing the price situation.

The government’s intention of not importing the wheat this year would also help in discouraging the speculative interest and thus moderating the price pressure in the international commodity markets.

The industry leaders expressed their faith in the strong measures taken by the government in curbing inflation. As many as 85 per cent of them said that the fiscal and administrative measures would start showing their impact and the wholesale price index shall drop down in next two months time.

The fiscal steps taken by the government included abolition of import duty on steel, fresh ad-valorem duty on cement priced above Rs. 250 per 50 kg bag. The tariffs have been cut to zero, for

rice, wheat, pulses, edible oil and maize. The import duty has been slashed to 7.5 per cent on hydrogenated oils and vegetable oils and to 30 per cent on butter and ghee, and withdrawal of 4 per cent additional countervailing duty on edible oils.

Some of the administrative measures taken by the government includes ban on exports of non-basmati rice, wheat, imposition of stock limit on rice, wheat, edible oils and oilseeds, periodic hike in MSP for rice and wheat, using minimum export price (MEP) to regulate exports of onion and basmati rice and maintaining central issue price (CIP) for rice and wheat, frozen since July 1, 2002.

The cement and steel industry, where high input cost has been driving the prices northward, have announced voluntary price cut in co-operation with the government's efforts of curbing inflation.

The recent reports of food grain production have also lifted the spirits of the industry. Food grain production in FY 2007-08 is estimated to have touched a record of 227.32 million tonnes with increased output of rice, wheat, coarse grains, pulses, cotton, oilseeds compared with the previous year.

Rice production is estimated to touch 76.78 million tonnes compared to the last year production at 75.81 million tonnes, a 1.3 per cent hike. Coarse grain production registered a 17 per cent jump at 39.67 million tonnes, 5.75 million tonnes higher than the previous year production. Oilseeds production pegged at 28.21 million tonnes compared to 24.29 million tonnes in FY 2006-07. However, mustard production registered a decline of 13.6 per cent primarily due to the inclement weather.

The latest data released by International Copper Study Group (ICSG) shows that there would be a surplus in copper availability of close to 80,000 tonnes this year and projections for 2009 are still higher at 4.3 lakh tonnes. There are market expectations of price softening of copper and aluminium.

In the edible oils sector, soya oil and palm oil prices have already eased in anticipation of good harvest from Argentina and Brazil. The global prices are already down 13-14 per cent, as new crop has begun to arrive in these countries.