

Retail inflation drops to 18-month low of 2.19% in Dec

Fallout of lower food, sluggish fuel prices; will pave way for rate reduction by RBI, say experts

OUR BUREAU

New Delhi, January 14

Rates of inflation for both — producers and consumers — moderated further in December.

Consumer's inflation rate, based on the Consumer Price Index (CPI), slipped to 2.19 per cent in December from 2.33 per cent in November, according to government data. This is the lowest since June 2017.

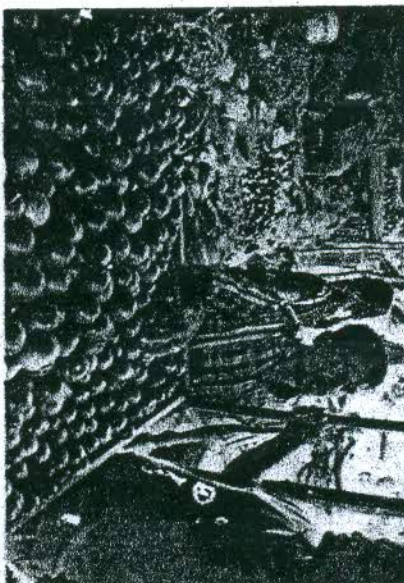
The decline was helped by a lower food prices and sluggish fuel costs.

Now all eyes are on the Monetary Policy Committee (MPC) on whether it will lower the policy rate further or not. MPC takes CPI and inflationary expectations into cognizance before deciding any change in the policy rate,

which is better known as repo rate (the rate at which central bank lends to commercial banks for a short period).

Since the rate is continuously below 4 per cent, there is pressure on MPC to lower the rate. According to the agreement between the government and the RBI, the targeted retail inflation is 4 per cent with movement of 2 per cent in both directions. This means inflation should be between 2 and 6 per cent.

The MPC is scheduled to announce its decision during a review on February 7, after its sixth and final meeting during the current fiscal. The committee has already raised the policy rates twice to take it to 6.5 per cent. Since, inflationary expecta-



The Consumer Food Price Index, better known as food inflation, continues to be in the negative zone

tions also appear to be moderate, there is possibility that rates could be lowered. If it happens, this will be big boost for the government before the general polls.

December as against (-) 2.61 per cent in November. This shows that price level for farm products has not accelerated, which is not good news for the farmers.

WPI numbers

Earlier in the day, the Commerce and Industry Ministry released data for producers' inflation, based on wholesale price index (WPI). This rate of inflation, stood at 3.80 per cent for December as compared to 4.64 per cent (provisional) for the previous month and 3.58 per cent during the corresponding month of the previous year. The latest rate is at an eight-month low. Build up in inflation rate in the financial year so far was 3.27 per cent compared to a build up rate of 2.21 per cent in the corresponding period of the previous year.

Industry bodies are optimistic that lower inflation will pave the way for rate reduction.

Chandrajit Banerjee, Director-General of GIL, said that fall in both inflation rates would help boost sentiments. "The decline in the inflation reading, which is well within the central bank's medium-term inflation target, should induce the RBI to resume the accommodative policy stance to trigger the investment cycle and support growth by lowering the borrowing costs of industry," he said.

Similar sentiments were echoed by another industry chamber, ASSOCHAM. "The continuing deceleration in the growth of WPI and softening of global fuel prices provide ample opportunity to MPC (monetary policy committee) to cut down policy rate at earliest which will kick start investment and revival in overall industrial growth," it said.

One key reason for lower retail inflation is continuation of the Consumer Food Price Index, better known as food inflation, in negative zone. This rate of inflation was (-) 2.51 per cent for

From PT

According to the data released by the Ministry of Statistics and Programme Implementation, food inflation remained in the negative zone at 2.51 per cent compared to (-) 2.61 per cent in November.

The rate of price rise in vegetables, fruits and protein-rich eggs continued to decline. However, there was a marginal increase in the prices of meat, fish, and pulses. Fuel and light inflation was 4.54 per cent in December, down from 7.39 per cent in November on back of reduction in prices of petrol and diesel.

The Reserve Bank of India, which mainly factors in retail inflation, has been tasked by the government to maintain the inflation near 4 per cent. The central bank, under new Governor

Shaktikanta Das, is scheduled to announce the next set of bi-monthly monetary policy on February 7 and industry expects that it will cut the key lending rate.

Commenting on the data, industry chamber CII said the decline in the inflation reading, which is well within the cent, bank's medium-term inflation target, should induce the RBI to resume the accommodative policy stance to trigger the investment cycle and support growth by lowering the borrowing costs of industry.

The factory output based on movement in Index of Industrial Production (IIP) slumped to a 17-month low of 0.5 per cent in November on account of contraction in the manufacturing sector,

Industry calls for rate cut by RBI



particularly consumer and capital goods.

Another industry body Assocham also made a case for easing of policy stance by the RBI. In its December monetary policy review, the RBI had kept interest rates unchanged but held out a

promise to cut them if the upside risks to the inflation do not materialise.

Having raised rates twice this year, the central bank had retained its calibrated tightening policy stance. Shubhada Rao, Chief Economist, Yes Bank ex-

pects that going forward the inflation is expected to be closer to 3.5-3.7 per cent band. "This paves way for the MPC to not just change its stance to neutral but also null over a possible rate cut. The inflation trajectory looks below 4 per cent over the next quarter," he said.

Wholesale inflation continued to decline for the second consecutive month in December due to cheaper fuel and vegetables. The Wholesale Price Index-based inflation was 4.64 per cent in November 2018 and 5.54 per cent in October. In December 2017, WPI inflation stood at 3.58 per cent.

Deflation in food articles stood at 0.07 per cent in December, against 3.31 per cent in November. Vegeta-

bles continued the deflationary trend for six months and prices declined 17.55 per cent in December, compared to 26.98 per cent contraction in the previous month. Inflation in the fuel and power basket in December slumped to 8.38 per cent, nearly half of 16.28 per cent in November. This was on account of lowering of prices of petrol and diesel through December.

"The continuing deceleration in the growth of WPI and softening of global fuel prices provide ample opportunity to MPC (monetary policy committee) to cut down policy rate at earliest which will kick start investment and revival in overall industrial growth," Assocham said.

December retail inflation drops to 18-month low

FC BUREAU

New Delhi

CONTINUED decline in food prices pulled down retail inflation to an 18-month low of 2.19 per cent in December 2018, creating headroom for the RBI to cut interest rate in its monetary policy review next month.

Another set of official data showed that the wholesale inflation too eased to an eight-month low of 3.80 per cent in December on softening fuel and food prices.

The inflation based on the Consumer Price Index (CPI) was 2.33 per cent in November and 5.21 per cent in December 2017.

December WPI inflation at 8-month low of 3.8%, increases rate cut hopes

Second consecutive month of decline in wholesale price index-based inflation... Rate was 4.64% in November and 5.54% in October

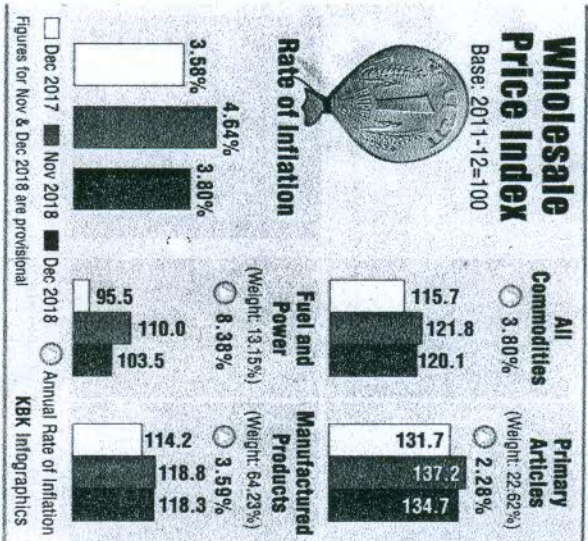
NEW DELHI: Softening prices of fuel and some food articles pulled WPI inflation to a 8-month low of 3.80 per cent in December raising hopes for a rate cut by the RBI.

This is the second consecutive month of decline in Wholesale Price Index (WPI)-based inflation. The inflation was 4.64 per cent in November, 2018 and 5.54 per cent in October.

In December 2017, WPI inflation stood at 3.58 per cent. According to the government data released Monday, deflation in food articles stood at 0.07 per cent in December, against 3.31 per cent in November.

Vegetables continued its deflationary trend for six months and was at 17.55 per cent in December, compared to 26.98 per cent in the previous month.

Inflation in the 'fuel and power' basket in December slumped to 8.38 per cent, nearly half of 16.28 per cent in November. This was on account of lowering of prices of petrol and diesel through December. Individually, in petrol and diesel inflation was 1.57 per cent



inflation at 48.68 per cent in December, as against 86.45 per cent in November.

Inflation in pulses stood at 2.11 per cent, while in eggs, meat and fish' it was 4.55 per cent.

Onion witnessed deflation of 63.83 per cent in December, compared to 47.60 per cent in November. Deflation in fruits was at 3.69 per cent in December, as against 2.49 per cent in the previous month.

The 3.80 per cent inflation is the lowest in 8 months, and a lower inflation than this was last seen in April at 3.62 per cent.

The Reserve Bank of India (RBI) mainly takes into account retail inflation data while formulating monetary policy.

In its fifth monetary policy review for the fiscal last month, the Reserve Bank kept interest rates unchanged, but held out a promise to cut them if the upside risks to inflation do not materialise.

The central bank has lowered retail inflation projection to 2.7-3.2 per cent for the second half of the current fiscal, citing normal monsoon and moderate food prices.

and 8.61 per cent, respectively, and for liquefied petroleum gas (LPG) it was 6.87 per cent during December.

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at earliest which will kick start investment and revival in overall industrial growth," Assocham said.

Inflation in manufactured items slowed to 3.59 per cent in December, from 4.21 per cent in November. Among food articles, potato prices became cheaper substantially with

