

Inflation: Acceleration foretold

Posted at: 16/12/2023

Context:

If inflation is not tamed, there is risk to consumption and growth

Introduction:

November's resurgence in headline retail inflation, while clearly not unexpected after the RBI just last week predicted a likely 'uptick', is a stark reminder of the risks volatile food prices pose.

Rise in Consumer price index:

While the National Statistical Office's provisional reading of headline inflation shows the Consumer Price Index rose by 5.55% year-on-year to a three-month high, from October's 4.87%, food price gains measured by the Consumer Food Price Index accelerated by a steep 209 basis points to 8.7% last month.

What caused the rise?

1. Propelling the upsurge in food prices were cereals and vegetables, constituents of the 'food and beverages' subgroup, that logged 10.3% and 17.7% inflation, respectively.
2. Cereals, that account for almost one-tenth of the CPI and logged double-digit inflation for a 15th straight month, also saw a month-on-month acceleration in inflation with rice, wheat, and the coarse cereal of jowar, a rural hinterland staple, all registering palpable sequential price gains.
3. Vegetable prices were back on a boil with the year-on-year inflation rate surging by almost 15 percentage points from October's 2.8%.
4. While price gains in the perishable tomato swung from two straight months of sizeable deflation to a more than 11% year-on-year rate of inflation last month, the extent of increase could be truly gauged from the fact that prices surged a steep 41% from the preceding month's levels, as per data aggregated on the Centre for Monitoring Indian Economy's website.
5. And the key masala essentials of ginger and garlic registered more than 100% rates of inflation for the seventh and third months, respectively.

The biggest source of concern:

1. From the TOP or tomato, onion and potato triumvirate of India's most widely consumed vegetables, onion prices remained the biggest source of concern as year-on-year inflation ballooned to 86%, from October's 42% pace, and the sequential pace swelled to 48%.
2. With reports that inclement weather and depleting groundwater are likely to cause a near 25% shortfall in onion output during the key rabi season, the outlook for prices of the nutrient-dense bulb moderating in the near future appears bleak, the government's move to impose a ban on its exports notwithstanding.

Other things:

1. Only potato prices, which continued to remain in deflationary territory, offered some respite. Pulses and sugar are other areas of concern, with the first witnessing more than 20% inflation and the sweetener also experiencing an uptick in the pace of price gains to 6.55%.
2. With sugar production also expected to take a hit due to lower rainfall, the number of supply-related challenges policymakers face to rein in price gains is rising.

Conclusion:

With the RBI having opted to refrain from raising rates for now, the onus is squarely on the government to help temper inflation, or risk suffering an erosion in broader consumption and economic growth.



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