

Retail inflation soars to 40-month high in Nov at 5.5%

Food prices rose the fastest in 5 years for the month in villages

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The consumer price index (CPI) rose to a 40-month high in November, as prices jumped 5.54 per cent over the same month of the previous year.

Vegetables, which have become costlier in neighbourhood markets, contributed the most to lift the headline number. Vegetable inflation in November touched 30 per cent in villages and a staggering 48.6 per cent in cities and towns, the data by the National Statistics Office (NSO) shows.

Though supply disruption in vegetables, including onions, contributed to the rise, base effect favoured higher number for vegetables, as their prices had remained deflationary in the period from July 2018 and February 2019.

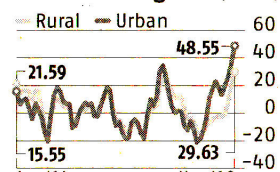


Cheaper vegetables last year are making the pinch of costlier veggies this year feel worse.

At the same time, demand in the economy remained weak as core inflation only marginally increased to 3.6 per cent in November, from 3.34 per cent in October. Core inflation excludes the volatile components of food and fuel, and low core inflation shows weak demand. Inflation in transport and communication, household goods and services, clothing, and recreation

HOW THE PRICES MOVED

Veggies prices grow fastest under Modi regime (% YoY)



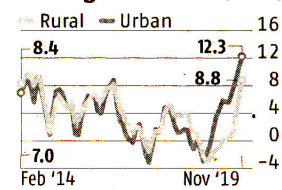
Source: National Statistics Office

remained subdued, showing less spending power of consumers.

Experts said the worrying situation is slated to come down in the coming months as the impact of base effect subsides, but a looming situation of fiscal expansion risks rise in inflation. "The data confirms the worst fears, and the economy may be headed towards a stagflation," said M Govinda Rao, chief economic advisor at Brickwork Ratings.

Food grains production in the

Food prices skyrocket in villages (% YoY)

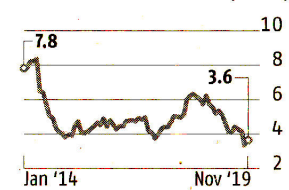


coming months is set to improve, as excess monsoons — though affected the summer crop adversely — would improve yields of the winter crop.

"With inflation perking up, fiscal deficit likely to exceed target and non-transmission of policy rate cut in the real economy, RBI did a balancing act in December 2019 policy review, and will continue to do so in upcoming policy meetings," said Sunil Kumar Sinha, principal economist at India Ratings.

Healthy groundwater and reser-

Demand remains weak in Nov (% YoY)



voir levels bode well for rabi output and yields of various cereals, and moderation in vegetable prices should douse food inflation to a large extent in early 2020, said Aditi Nayar, principal economist at ICRA.

"However, the decline in the area sown under rabi pulses and oilseeds poses a concern, given the high inflation being recorded by some of these items," she said.

Consumer spending on clothing has stagnated in villages, showing weak purchasing power. Inflation is

high because of supply side constraints — lower production and base effect — and not due to rising demand. For revival in growth, rise in core inflation is crucial.

Core inflation, however, remained below 4 per cent for a second consecutive month. Among essential and premium services, prices of health and personal care items rose by 5.5 per cent and 6.3 per cent, respectively. Food inflation in cities touched 12.3 per cent, bagging the highest-since-2014 record once again. That in villages, too, jumped sharply to 8.8 per cent in November, from 6.4 per cent in October.

"Given that the base effect will be unfavourable in January and February, too, we may expect inflation to be in the region of 4.5-5 per cent in coming months even when prices of vegetables moderate when the next crop comes," said Madan Sabnavis, chief economist at CARE Ratings.

Prices of meat fish and eggs remained elevated, stronger in cities than in the rural.