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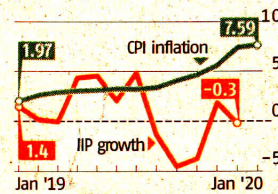
Retail inflation hits near 6-year high; IIP contracts

INDIVJAL DHASMANA
 New Delhi, 12 February

A slim revival in industrial production in November had prompted Finance Minister Nirmala Sitharaman to see green shoots of recovery. But this has turned out to be a temporary blip — factory output has again contracted by 0.3 per cent in December.

The retail inflation rate, however, rose to a 68-month high of 7.59 per cent in January, even as the rate of price rise in food items declined. However, the food inflation rate remained elevated at 13.63 per cent. The consumer price index (CPI)-based inflation rate stood at 7.35 per cent; food inflation was at 14.19

MACROECONOMIC WOES (In % YoY)



Note: Base year is 2011-12 Source: MoSPI

per cent in December.

The index of industrial production (IIP) fell from a growth rate of 1.8 per cent, as the manufacturing sector slipped into negative territory again. Electricity generation

continued to decline at a reduced rate in December. It shrank 0.1 per cent in December from 5 per cent in November. Manufacturing declined 1.2 per cent in December from a growth rate of 2.7 per cent in the previous month.

It was only mining which redeemed IIP numbers, rising by 5.4 per cent, against 1.7 per cent in November.

Before November, IIP had contracted three months on the trot.

Capital goods continued to decline at an accelerated rate in December. Production of these items fell 18 per cent in the month, from a contraction of 8.6 per cent in the previous month. This will impact industrial production in the coming months. Turn to Page 16 ▶

Retail inflation...

Madan Sabnavis, chief economist at CARE Ratings, said this is a reflection of low investment activity due to low capacity utilisation (70 per cent in the second quarter of 2019-20, according to the Reserve Bank of India, or RBI) and banks' reluctance to lend.

Consumer goods — both fast-moving and durables — contracted. Sabnavis said this reflects low demand due to stagnant incomes and torpid job creation, further activated by high food inflation.

On Tuesday, Sitharaman had said 'green shoots' were visible in some sectors, including industrial production.

Sunil Kumar Sinha, principal economist at India Ratings and Research, said the turnaround in industrial production is still not visible and the wait for green shoots is getting longer.

The inflation rate in vegetables came down from 60 per cent in December, but it still stood at 50 per cent in January.

Pulses saw the inflation rate rising to 16.71 per cent in January, from 15.44 per cent in December. In its monetary policy statement, the RBI had pointed to rising pressure on inflation rate of pulses.

The core inflation, which is non-food and non-fuel one, rose to 4.1 per cent in January from 3.7% in December.

"Core inflation, driven by various services, is a cause for concern," said Aditi Nayar, principal economist at ICRA. She said regardless of the level of CPI inflation, the stance of the monetary policy is likely to be retained as 'accommodative', for as long as the monetary policy committee (MPC) considers the output gap to be negative.

"The timing and magnitude of the next rate cut will depend on how quickly inflation appears to be reverting towards 4 per cent," said Nayar.

The MPC has pegged average CPI inflation in the fourth quarter at 6.5 per cent. For this to fructify, inflation must decline in the next two months.