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Vegetables, pulses still keeping inflation high; manufacturing, electricity trip up factory output

Experts raise doubts over economic recovery

OUR BUREAU

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A day after the Finance Minister Nirmala Sitharaman assured in Parliament that economic growth was rebounding, the monthly data of food inflation and industrial production, which was released on Wednesday, indicated that all is not well.

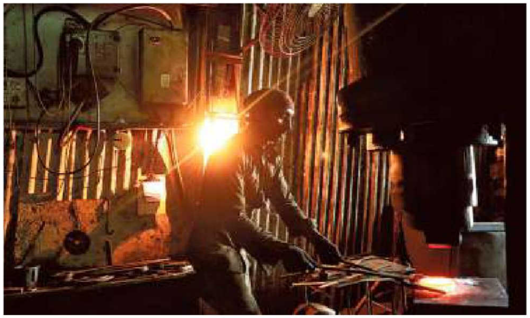
While the rate of retail inflation surged to a new high of 7.59 per cent in January, the rate of industrial growth contracted 0.3 per cent in December as against a rise in November. The surge in the rate of retail inflation also poses a real challenge for monetary policy-makers to find innovative means like using CRR (cash reserve ratio) through incremental lending, so that more liquidity can be provided for consumption.

According to data released by the Central Statistical Office (CSO), all-India inflation rate based on CPI (Consumer Price Index) rose to 7.59 per cent in January as against 7.35 per cent in December 2019 and 1.97 per cent in January last year. In the mean time, retail inflation based on CFPI (Consumer Food Price Index), came down slightly to 13.63 per cent in January, from 14.19 per cent in December.

Vegetables (including onion) and pulses still contribute in a big way to the rise in inflation, though the rate of inflation of the former did come come down slightly. Data showed the rate of inflation of the vegetable group at 50.19 per cent in January, against 60.5 per cent in December.

However, the inflation rate for pulses moved up a tad to 16.71 per cent, from 15.44 per cent in December. Experts feel that with vegetable prices, especially that of onion, potato and garlic, coming down sharply, there will be some impact on the overall rate of inflation in the coming months.

Aditi Nayar, Principal Economist with ICRA, said with



Global headwinds are already posing significant challenges to overall industrial growth REUTERS

the further hardening of the headline CPI inflation, driven by a rise in the core print, coupled with only a mild decline in the food inflation, which persists in double-digits, the inflation for January 2020 is entirely unpleasant. "It is unlikely to materially alter the direction of monetary policy... However, Wednesday's data suggests that the pause is likely to be extended further," she added.

"The internals of the food inflation are worrying, given a broad-based up-stick across categories that tend to be sticky, such as proteins, and a narrower-than-expected reduction in the inflation for vegetables," she said

Industrial growth

The rate of industrial growth based on changes in the Index of Industrial Production (IIP) showed a contraction of 0.3 per cent in December as against an expansion of 1.8 per cent in November.

The Indices of Industrial Production for the Mining, Manufacturing and Electricity sectors for the month of December 2019 stood at 120.6, 134.2 and 150.2 respectively, with the corresponding growth rates of 5.4 per cent, (-) 1.2 per cent and (-) 0.1 per cent as compared to December 2018.

Rumki Majumdar, Economist at Deloitte India, said the contraction in IIP in December raises concern over the sustainability of the green shoots in industrial activities that were visible till last month. The contraction does not bode well for the overall economy as global headwinds already pose significant challenges to the overall industries.

"The outbreak of the coronavirus in China can adversely impact India as China is one of the largest trading partners. With several factories being closed down in China temporarily, the electronics and auto industry in India will likely be hit because of their dependence on Chinese imports of components and raw materials," she said.