

Retail inflation breaches RBI's 6% threshold

October print at 14-month high as food prices climbed sharply; IIP picked up in September

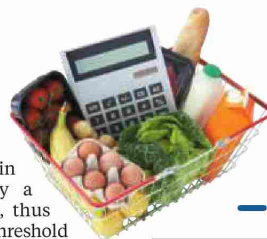
ASIT RANJAN MISHRA
New Delhi, 12 November

Retail inflation galloped to a 14-month high of 6.2 per cent in October, spurred by a spike in food prices, thus breaching the upper threshold of the Reserve Bank of India's (RBI) target range. This sharp increase apparently extinguishes any remaining hopes of a policy rate cut when the RBI's Monetary Policy Committee (MPC) convenes from December 4-6.

Separately, industrial production appears to be on the rebound. The index of industrial production (IIP) grew by 3.1 per cent in September, buoyed by festival-driven demand, reversing a contraction in August.

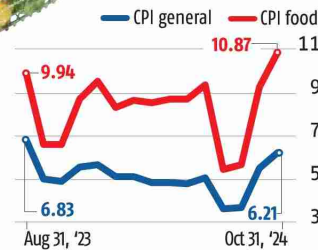
Data released the National Statistical Office (NSO) revealed that Consumer Price Index (CPI)-based food inflation on a year-on-year basis surged to 10.87 per cent in October — the highest in 15 months — fuelled by soaring prices for vegetables (up 42.18 per cent), fruit (8.43 per cent), oils and fats (9.51 per cent), and cereals (6.94 per cent).

ICRA's Chief Economist Aditi Nayar noted that with CPI inflation expected to exceed the MPC's estimate of 4.8 per cent for the December quarter of FY25 by 60-70 basis points, the prospect of a rate cut in the upcoming policy review appears "ruled out", despite her projection of sub-7 per cent GDP growth for the September quarter. "We anticipate a shallow rate cut cycle of 50 basis points may commence in February 2025 or later," she added.



CPI INFLATION MAY TOP MPC Q3 ESTIMATE

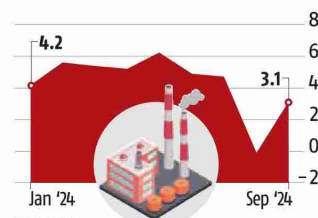
(Inflation: Y-o-Y in %)



Sources: Mospi, Bloomberg

INDUSTRIAL OUTPUT REBOUNDS

(IIP: Y-o-Y in %)



Source: NSO

Core inflation, which excludes the more volatile food and fuel sectors, rose to a 10-month high of 3.67 per cent, driven largely by telecom tariff hikes and increased gold prices.

Turn to Page 6 ▶

Further upside likely in factory output

“The retail inflation in November 2024 is expected to be around 6 per cent,” said Paras Jasrai, economist at India Ratings.

In October, the MPC moved to a neutral stance from its earlier “withdrawal of accommodation” while keeping the policy rate steady at 6.5 per cent for a 10th straight meeting. The committee also maintained its retail inflation forecast for FY25 at 4.5 per cent.

RBI Governor Shaktikanta Das last week had warned that October’s inflation print would likely surpass September’s, suggesting that a rate cut remains off the table despite the MPC’s shift in policy stance.

The revival in IIP growth in September, on the other hand, follows two months of slowing, spurred

by a 3.9 per cent uptick in manufacturing, although mining and electricity growth remained subdued at 0.2 per cent and 0.5 per cent, respectively. NSO data showed that five of the 23 manufacturing sectors tracked by the IIP, including beverages, leather, wood, recorded media printing, and electronics, contracted during the month.

In terms of use-based categories, growth was observed in capital goods (2.8 per cent) and intermediate goods (4.2 per cent), while consumer durables surged by 6.5 per cent as production ramped up ahead of the festival season. Consumer non-durables also saw 2 per cent growth following a three-month contraction.

Dharmakirti Joshi, chief econo-

mist at CRISIL, noted that the IIP’s performance benefited from a recovery in export growth, especially for petroleum and chemical products. “Industrial activity may rise further in coming months as the festival season boosts consumption demand. The second half of this financial year should see the impact of a healthy monsoon on rural demand, supporting consumption. However, the impact of elevated borrowing costs will weigh heavily, especially in urban areas. This is evident from slowing bank credit growth in the past four months. A lower fiscal impulse from the government is expected to have a moderating impact on GDP growth, too,” he added.