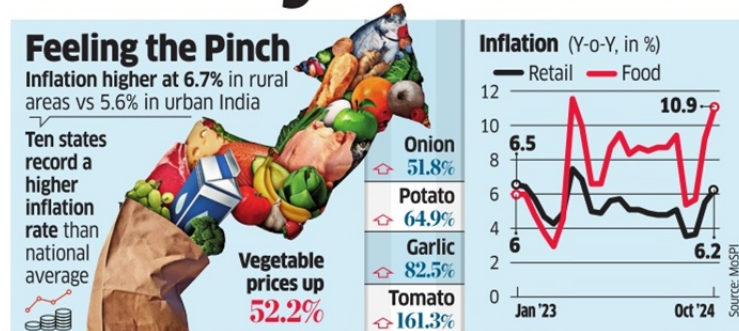


AS FOOD PRICES REMAIN ON THE BOIL IN OCT

Retail Inflation at 6.2% Dims Hopes of Early Rate Cut



Our Bureau

New Delhi: India's retail inflation unexpectedly surged to a 14-month high of 6.2% in October, up from 5.5% in September, further delaying the prospect of monetary easing by the Reserve Bank of India (RBI) amid the economy showing signs of slowing.

An increase in vegetable, fruit and edible oil prices was the primary driver of the spike, official data released Tuesday showed.

The rate breached the outer bounds of the central bank's inflation target — 4% with a two percentage point tolerance band on either side—for the first time since August 2023. The higher print could act

as a further drag on the sliding stock market, which fell 1% on Tuesday. The inflation data was announced after market hours. The RBI Monetary Policy Committee (MPC) is scheduled to meet December 4-6.

“With inflation breaching the 6% mark in October and expected to exceed the MPC's estimate for Q3FY25 by at least 60-70 bps, a rate cut in the December meet appears ruled out,” said Aditi Nayar, chief economist and head of research and outreach at ICRA.

Crisil expects the MPC to only cut rates toward the end of the fiscal year.

Ind-Ra and CareEdge see the rate-setting committee maintaining the status quo, as do others.

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Core Inflation at 10-Mth High

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“We are now less hopeful of a February rate cut,” SBI Research said in a note. “We believe the first rate cut is now effectively pushed back beyond February 2025.”

RBI governor Shaktikanta Das had warned last week that inflation levels in October may exceed those in September, adding that a rate cut would only be considered once the measure approached the 4% target level.

Inflation as measured by the consumer price index (CPI) was 4.9% in October 2023, while the average rate was 4.2% in the second quarter of the current fiscal. The CPI was higher in rural areas at 6.7% compared with 5.6% in urban ones. Core inflation—which excludes the volatile food and energy component and is seen as an indicator of demand pressure—hit a 10-month high of 3.7%.

FOOD, SERVICES

Food inflation surged to a 15-month high of 10.9% compared with 9.2% in September. Vegetable prices surged to a



57-month high of 42.2%, while the index for fruits was up 8.4% from a year earlier.

Other key contributors to food inflation were oils and fats (9.5%) and pulses (7.4%).

“The surge in vegetable prices, particularly tomatoes and onions, can be attributed to unseasonal rains and extended monsoons in certain parts of the country,” said Rajani Sinha, chief economist at CareEdge Ratings.

Edible oil inflation was driven by global prices that saw a steep rise due to supply disruptions in Southeast Asia, said Joshi.

Among vegetables, the highest rate was recorded by tomatoes (161.3%), garlic (82.5%), potatoes (64.9%), and onions (51.8%).

Services inflation shot up to an 11-month high in October. Within miscellaneous items, personal care and effects recorded the highest increase of 10.99%.

OUTLOOK

Economists expect inflation to remain elevated for a few months before easing toward the central bank’s target rate.

“Going forward, while vegetable prices may remain elevated, vegetable inflation is expected to decline due to fa-

vourable base effect and onset of winter,” said Paras Jasrai, senior economic analyst at India Ratings and Research.

Ind-Ra expects retail inflation to hover around 6% in November.

To achieve the RBI’s inflation forecast of 4.8%, average inflation in November and December must be 4.1%, which appears to be difficult, noted DK Pant, chief economist at India-Ra.

“Data for November suggests some moderation in vegetable prices. This, in addition to a favourable base, can lend some downside to vegetable inflation,” said Crisil chief economist DK Joshi.

ICRA projects inflation softening to 5.5-5.7% in November. SBI Research projects 5.4% for November and 4.8% for FY25.