

Retail Inflation Dips To 6.83% In August As Food Prices Cool Down

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by Sangeet Kumar Sanu

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India's retail inflation eased in August as food prices moderated, but remained above the upper end of the Reserve Bank of India's target band for a second consecutive month, keeping policymakers watchful.

Annual Retail inflation in August was 6.83 per cent, compared with 7.44 per cent in July - a 15-month high, according to data released by the ministry of statistics on Tuesday.

Food inflation, which accounts for nearly half of the overall basket, was up 9.94 per cent in August compared with a rise of 11.51 per cent in July.

"Offering a modicum of relief, the CPI inflation eased below the 7 per cent mark... largely led by vegetables, amidst some moderation in the prints for clothing and footwear, housing and miscellaneous items as well," said Aditi Nayar, economist at Ica.

While we expect the CPI inflation to print in the range of 5.3-5.5 per cent in September 2023, this will still entail an average of 6.6 per cent for Q2 FY2024, well above the MPC's August 2023 forecast for this quarter, Nayar added.

She also said that we expect the MPC to remain on hold in October 2023, while continuing to demonstrate caution amid a cloudy outlook for food inflation and elevated crude oil prices.

Food prices have been a key concern for policymakers since last year as erratic weather conditions have hurt the output of vegetables, milk and cereals.

Inflation has been above the central bank's 2-6 per cent target band for seven months out of the last 12.

"Even though inflation has been above the RBI's tolerance band of 6 per cent for the last two consecutive months, we don't expect the Central Bank to further tighten policy in the October Monetary Policy meeting as this phase of high inflation is widely expected to be transitory in nature," Chairman of MVIRDC WTC Mumbai, Dr Vijay Kalantri said.

We expect inflation to fall near the RBI's upper tolerance band of 6 per cent from next month onwards led by softening of vegetable prices, Kalantri added.

Earlier this month, RBI Governor Shaktikanta Das said that India's monetary policy committee would remain watchful of the evolving inflation situation, but the recent spikes in vegetable prices would start to ebb.

Vegetable inflation eased to 26.14 per cent in August from 37.34 per cent in the previous month. Cereal inflation in August eased to 11.85 per cent from 13.04 per cent in July.

In its efforts to rein in domestic inflation, India's government banned exports of non-basmati white rice last month and imposed a 20 per cent duty on exports of parboiled rice, while imposing a 40 per cent tax on onion exports. It has banned exports of wheat since last year.