

High CPI inflation, falling WPI inflation show pressure on households, cheer for industry; where's money going

The retail inflation in February was 6.44%, slightly lower than in January but still above the RBI's target range of 2-6%. On the flip side, wholesale inflation fell to a 25-month low of 3.85%. The main reason behind the divergence between CPI and WPI is the difference in the weightage of the food basket and fuel prices.



CPI remaining above the RBI's upper band of 6% is a matter of concern. The MPC is likely to raise policy rates by 25 bps in the next policy meeting.

An uncomfortable rise in the CPI inflation and a falling WPI inflation shows the rising pressure building up on households and individuals, while boosting corporate margins. The data shows that retail inflation surged in January and February mainly due to surge in prices of food and other household goods and services. At the same time, wholesale inflation has fallen sharply because of cheaper raw materials and cheaper fuel. The retail inflation in February was 6.44%, slightly lower than in January but still above the RBI's target range of 2-6%. On the flip side, wholesale inflation fell to a 25-month low of 3.85%.

According to analysts the main reason behind the divergence between CPI and WPI is the difference in the weightage of the food basket and fuel prices. "Food prices have been high due to cereals, milk, fruits, spices, etc. which reflects in CPI inflation... With global energy and metal prices cooling off from their highs, WPI inflation has been falling," said Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities.