

[News](#)[Columns](#)[Interviews](#)[BW Communities](#)[Events](#)[BW TV](#)[Subscribe to Print](#)

Retail Inflation Eases, Will MPC Continue Withdrawal Of Accommodation?



Reserve Bank of India's (RBI's) MPC, in its October meeting, projected CPI inflation at 5.4 per cent for 2023-24

Photo Credit : screengrab/vagmi foods



15 November, 2023
by Sheikh Rishad

Print this article

Font size

Annual retail inflation in India dipped to a four-month low of 4.87 per cent in October, down from the previous month's 5.02 per cent, as revealed by government data on Monday.

Food inflation, constituting nearly half of the overall consumer price basket, increased to 6.61 per cent in October, a slight rise from 6.56 per cent in September.

The Ministry of Statistics and Programme Implementation's data, released on 13 November, indicated a fall in the headline retail inflation rate in October to 4.87 per cent. This decline was attributed to a favourable base effect and reduced prices of certain items. However, the surge in onion prices tempered the overall drop in inflation.

The Consumer Price Index (CPI) inflation print for September stood at 5.02 per cent, remaining below the Reserve Bank of India's upper tolerance band of 4 per cent to 6 per cent for the second consecutive month.

Despite this, the central bank maintained its key lending rate for the fourth consecutive policy meeting, emphasising its commitment to bringing inflation close to the 4 per cent target.

Eggs registered a 3.4 per cent month-on-month price increase, while pulses rose by 2.5 per cent and cereals by 0.8 per cent, highlighting persistent price momentum concerns.

Edible oils, however, countered these pressures with a 0.8 per cent month-on-month decrease in October. Beyond food items, overall price momentum remained subdued, with the housing index increasing by 0.9 per cent month-on-month in October, reversing the 0.1 per cent decline in September.

The 'clothing and footwear' and 'miscellaneous' categories posted modest sequential increases of 0.4 per cent and 0.1 per cent, respectively. Consequently, core inflation, excluding food and fuel, decreased to 4.2 per cent from 4.5 per cent in September.

"The retail inflation rate for October 2023 was both lower than the level recorded in September 2023 and higher than our initial expectations. Yet, since the monthly inflation figures are notoriously volatile, this ought not to elicit apprehension," said Sujan Hajra, Chief Economist & Executive Director, Anand Rathi Shares and Stock Brokers.

As the overarching pattern of declining inflation persists, the central bank would find solace in an inflation rate that has now fallen below 5 per cent.

"As a result of declining inflation and ongoing economic resilience, the Reserve Bank of India will maintain the halt stance for the foreseeable future. We anticipate that inflation will fluctuate between 4 per cent and 5 per cent over the next twelve months. We therefore see little likelihood of any rate action occurring within this time frame," said Sujan Hajra, Chief Economist & Executive Director, Anand Rathi Shares and Stock Brokers.

The October inflation figures were in line with expectations, with food inflation remaining unchanged from September due to offsetting factors within the category.

Vegetables, particularly onions, saw a 3.4 per cent month-on-month increase, while potatoes and tomatoes supported disinflationary trends.

"Retail inflation came in at 4.9 per cent YoY in October, down from 5.0 per cent in the previous month due to a decline in fuel inflation. Meanwhile, food inflation remained stable at 6.6 per cent YoY. While the price of pulses increased 18.8 per cent YoY, cereals witnessed 10.7 per cent YoY inflation. This could be attributed to lower sowing in the kharif season due to erratic monsoon distribution," said Mohit Rahlan, CEO, TIW Capital.

On the positive side, vegetable prices increased only 2.7 per cent YoY. Vegetable prices were the main reason earlier for a spike beyond RBI's CPI upper limit of 6 per cent. Inflation for household services, which tends to be sticky, declined to 3.9 per cent YoY from 4.3 per cent YoY in September.

"CPI has continued on a downward trajectory for the third straight month. Core inflation has also trended down during this period. This lays the ground for RBI to remain on pause at its upcoming meetings. The central bank, though, will remain vigilant for any food or fuel price shocks," Rahlan added.

Overall, food inflation in October held steady at 6.61 per cent, similar to September's 6.62 per cent.

"The drop is primarily attributed to easing food prices, which have reached a four-month low of 6.24 per cent. However, this still exceeds the upper tolerance limit set by the RBI," said MVIRDC WTC Mumbai.

Only seven commodities have an inflation rate above the RBI threshold of 6 per cent, accounting for a weightage of 28.37 per cent in the total basket. Among these commodities, six belong to the food and beverages group, constituting more than half of the food and beverages basket.

Personal care and effects are the only non-food commodities above the RBI's upper threshold of 6 per cent. A concerning aspect is the persistence of inflation in cereals and products (constituting 21 per cent of food and beverages), which has consistently remained above the RBI's threshold of 6 per cent for the past 16 months.

"Inflation in pulses and products has reached a 41-month high, standing at 18.79 per cent, and has remained above the RBI's upper tolerance for the past six months. As these commodities are staples for a large number of people, the consistently high inflation in these segments will disproportionately affect lower and middle-income households," added MVIRDC WTC Mumbai.

The consistent decline in core inflation is encouraging for the economy. However, the persistence of inflation in major staple food products such as cereals and pulses is a cause for concern. We expect inflation for the current quarter to hover around the RBI's prediction of 5.6 per cent. Nevertheless, external factors such as conflicts in the Middle East and the El-Nino effect may adversely impact inflation numbers in the coming months, especially food inflation.