December retail inflation dips to 4.59% on cheaper vegetables; Nov IIP shrinks to 1.9%

Industrial growth pulled down by manufacturing & mining; interest rate cut unlikely

OUR BUREAU

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Two key economic indicators — headline inflation rate and industrial growth rate — registered a decline, but with a difference. While the headline retail inflation slipped to 4.59 per cent in a positive development, the industrial growth number contracted to 1.9 per cent, with manufacturing sputtering.

Although new headline retail inflation rate is within the targeted range of 2-6 per cent with a median rate of 4 per cent, still the Monetary Policy Committee (MPC) is unlikely to cut policy interest rates. Experts feel the Committee would wait for some more time before ending the pause. The MPC is expected to meet next month. It will be the last meeting with the current target interest rate. The target rate is to be reset from April 1.

Key economic indicators

(in %)

Retail inflation *based on CPI*	Nov	Dec
Headline inflation	6.93	4.59
Food inflation	9.5	3.41
Rural inflation	7.2	4.07
Urban inflation	6.73	5.39

Industrial growth *based on IIP*	Oct	Nov
Manufacturing	4.11	(-) 1.7
Mining	(-) 1.3	(-) 7.3
Electricity	11.24	3.5
General	4.19	(-) 1.9

Retail inflation based on the Consumer Price Index (CPI) dipped sharply in December to 4.59 per cent from from 6.93 per cent mainly on account of vegetable prices. Retail inflation rate saw a decline of over 10 per cent in the last month of calendar 2020. Prices of onion, potato and various other vegetables saw a sharp decline. Fruit prices did rise, but it was less than 3 per cent. The inflation rate for protein-based items such as egss, fish and pulses was in double digit, but not high enough to push the food inflation.

There is also thinking that decline in December may not sustain. Samer Narang, Principal Economist with Bank of Baroda, says even a favourable statistical base may have brought down the headline CPI print in December. "However, international commodity prices are rising (3.6 per cent increase month-on-month). So are domestic petrol and diesel prices (7.9 per cent and 11.4 per cent, receptively). While food inflation is coming-off, we expect core to remain sticky," he said.

Aditi Nayar, Principal Economist with ICRA, said that with the CPI inflation expected to continue to exceed the MPC's 4 per cent target during FY2022, "we do not expect any more rate cuts in this cycle, despite the sharp slackening in the headline inflation rate in December 2020."

Manufacturing & mining

After two months (September and October) of festival demand induced recovery in industrial growth rate, November saw a decline. Industrial growth based on the Index of Industrial Production (IIP) contracted by 1.9 per cent. Both manufacturing and mining were in the negative zone with a contraction of 1.7 per cent and 7.3 per cent, respectively, electricity continued to grow (3.5 per cent).

Sunil Kumar Sinha, Principal Economist with Indian Ratings, said: "The November data once again show that the uptick witnessed in September and October was due to a combination of festival and pent-up demand and the recovery is still shallow and fragile."