WEST ASIA CONFLICT MAY PROPEL MARCH PRINT TO ~3.7%

Food, metals push CPI higher

• Retail inflation rises to 3.21% in February

KULDEEP SINGH
New Delhi, March 12

INDIA'S HEADLINE RETAIL inflation rose to a 10-month high of 3.21% year-on-year in February, edging up from 2.74% in January, according to data released by the Ministry of Statistics and Programme Implementation on Thursday.

The increase was largely driven by prices of food and precious metal, along with base effects.

Food inflation was 3.47% in the month, while combined food and beverages inflation stood at 3.35%.

Economists noted that the February print does not reflect any inflation pressures from the West Asia war.

However, they warned that rising crude oil prices amid West Asia tensions pose an upside risk to retail inflation.

Most of them also expect the Reserve Bank of India (RBI) to maintain a long pause on policy rates.

The headline inflation figure remained below the RBI's medium-term target of 4% for the 13th consecutive month.

The February print is only the second reading under the new 2024-base consumer price index series.

The top five items with high inflation in February were silver jewellery (160.84%), gold/diamond/platinum jewellery (48.16%), coconut: copra (46.16%), tomato (45.29%), and cauliflower (43.77%).

Inflation in the personal care segment stood at 19.64%, with other personal effects at 60.80%. Housing inflation was 2.12%.

Apart from food, jewellery prices, particularly gold and silver, also contributed significantly to the February inflation print, reflecting the impact of the global bullion rally on domestic inflation.

Core inflation (excluding food and energy) is estimated at around 3.4%, indicating contained demand-side pressures in housing, health, and communication, said Vikrant Chaturvedi, associate director - research, Brickwork Ratings.

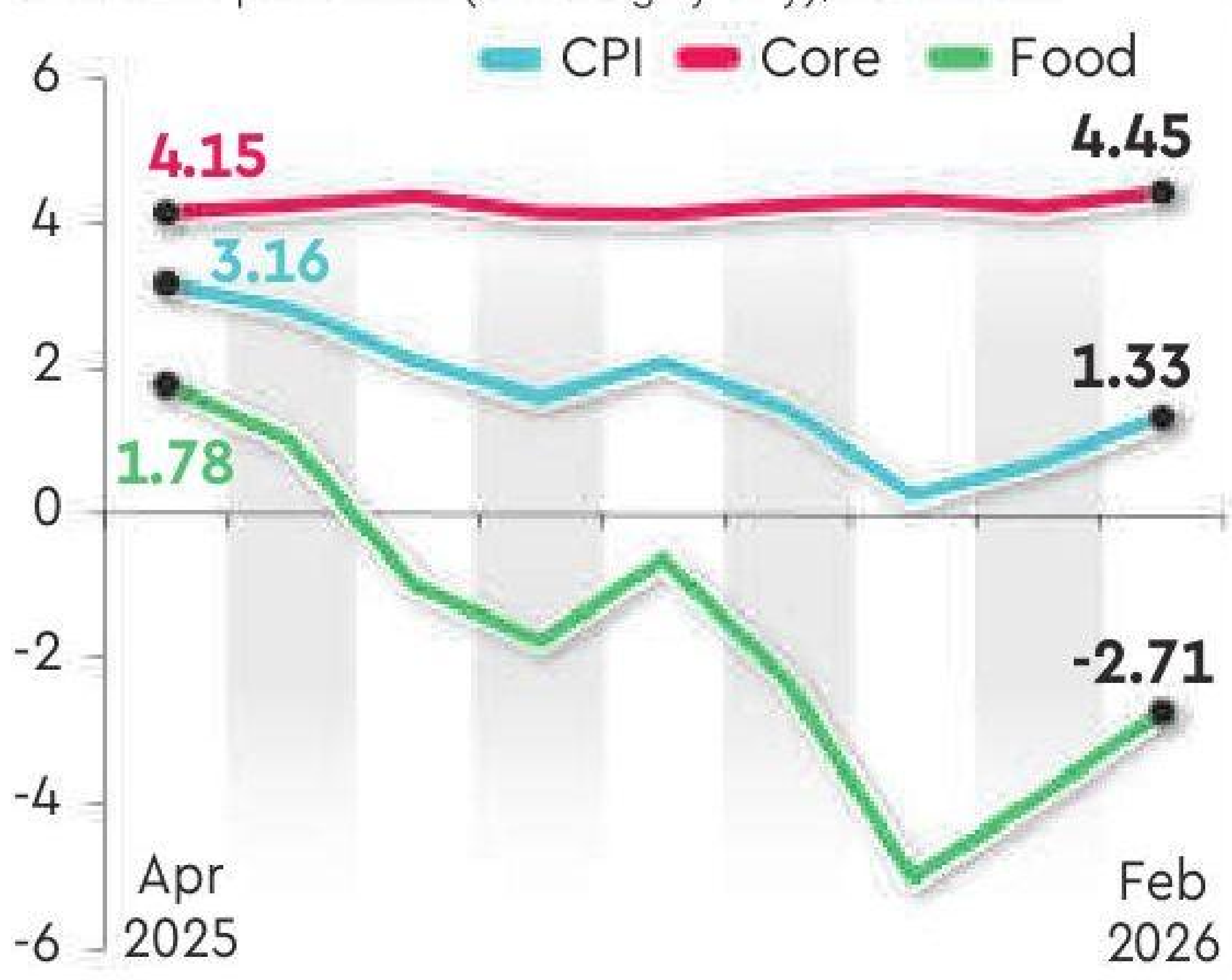
"This divergence between food and precious metals volatility versus relatively stable core highlights that while headline prints remain sensitive to supply shocks and asset price surges, underlying inflation dynamics are still benign."

Aditi Nayar, chief economist at Icra, however, underlined that the uptick in February was almost entirely led by the food and beverages (F&B) segment, which accounted for as much as 44 basis points (bps) of the 47 bps rise in the headline print from January.

Sakshi Gupta, principal economist at HDFC Bank, said the year-on-year increase in the headline print was due to base effects, but on a sequential basis, there was moderation across both core and food.

Rajani Sinha, chief economist at CareEdge Ratings, said oil marketing companies are expected to absorb crude prices up to around $90 per barrel over the medium term.

BASE EFFECTS



Source: MoSPI, FE calculation