

Retail Inflation Climbs to 3.21% in Feb

RBI likely to maintain rate pause at April review, experts say

Our Bureau

New Delhi: Retail inflation rose to 3.21% year-on-year in February from 2.74% in January, largely due to a low base effect and higher food prices, official data released Thursday showed. This marks the second reading under the revised Consumer Price Index (CPI) series with 2024 as base year.

Economists expect March inflation to begin reflecting the impact of the Gulf conflict, which began February 28, mainly through higher fuel costs, including that of liquefied petroleum gas (LPG). “The number has increased on a y-o-y basis due to low base effects but on a sequential basis there was a moderation across both core and food reflecting that inflation momentum remained contained,” said Sakshi Gupta, principal economist at HDFC Bank.

Sequentially, retail inflation increased 0.1%, while food inflation fell

0.2%. Core inflation remained steady at 3.4%. “The uptick was almost entirely led by the food and beverages (F&B) segment, which accounted for as much as 44 basis points of the 47 bps rise in the headline print between these months,” said Aditi Nayar, chief economist at ICRA. One basis point is 0.01 percentage point.

Inflation in the food & beverages segment stood at 3.4% in February, with rural areas recording 3.4% and urban areas 3.3%. Food inflation alone rose to 3.47% compared with 2.13% in January and was around 3.5% in both rural and urban regions.

March inflation could range between 3.2% and 3.5%, based on current trends in food prices, said Bank of Baroda chief economist Madan Sabnavis, while India Ratings and Research estimates 3.7%.

Nayar noted that higher LPG prices owing to global energy supply disruptions and rising gold prices could push inflation to 3.3-3.5% in March.

She added that heightened geopolitical uncertainty affecting India’s growth and inflation outlook supports the case for a continued rate pause in the upcoming April monetary policy committee (MPC) meeting. The Reserve Bank of India’s MPC

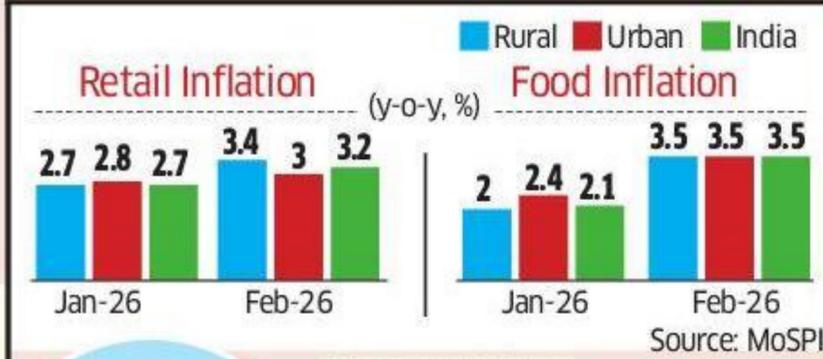
Inflation Inches Up

Food inflation at 3.47%

Economists expect March inflation to reflect Gulf tensions, mainly through higher fuel and LPG prices

March inflation projected at 3.2-3.5% by economists

Precious metals, especially gold & silver, saw sharp price increases, contributing to inflation



Personal care, social protection posted highest inflation of 19.6%

Among states, Telangana recorded highest inflation of 5.02%



kept the benchmark repo rate unchanged at 5.25% in February.

In rural areas, inflation rose to 3.4% in February, up from 2.7% in January, while urban inflation increased to 3% from 2.8%. Across states, Telangana recorded the highest inflation of 5.02%, followed by Rajasthan (3.53%), Kerala (3.5%), Andhra Pradesh (3.45%) and West Bengal (3.44%).

FOOD, SERVICES

Among the 12 divisions, personal care, social protection and miscellaneous goods and services saw the highest inflation at 19.6%. Next was

paan, tobacco and intoxicants at 3.5%, followed by food and beverages (3.35%) and education services (3.33%).

Across 358 tracked items, silver jewellery recorded the steepest price rise at 160.8%, followed by gold, diamond, platinum jewellery (48.2%), coconut, copra (46.2%), tomato (45.3%), and cauliflower (43.8%). Potato and onion prices declined by 18.5% and 28.2%, respectively. The surge in silver and gold prices also contributed to the rise in headline inflation. “This will be a factor that will continue to exert

pressure in March too given the global uncertainty. Further, the rupee depreciation would also add to this cost,” said Sabnavis.

OUTLOOK

Economists warn the West Asian war poses upside risks to the inflation outlook if it doesn’t end soon.

“Inflation trajectory going forward both for CPI and WPI (wholesale price index) could clearly see upside risks in the coming months if the conflict persists,” said Gupta.

According to ICRA, every 10% increase in average crude oil prices could raise inflation by 40-60 bps, assuming full pass-through to retail fuel prices. Higher crude oil prices could also weigh on corporate profitability and household spending, posing a downside risk to GDP growth in FY27, said Nayar.

If average annual crude oil prices remain elevated at \$100 per barrel or higher, inflation could exceed 5% in FY27, compared with the earlier projection of 4.3%, before the current geopolitical tensions, said Rajani Sinha, chief economist at CareEdge Ratings. The higher probability of an El Nino weather event next year could adversely impact food inflation, she said.