Easing the Retail Inflation

Why in news?

India's retail inflation eased marginally to 7.04% in May from the nearly eight-year high of 7.79% in April.

What is retail inflation?

- The CPI monitors
  - retail prices at a certain level for a particular commodity;
  - price movement of goods and services at rural, urban and all-India levels
- The change in the price index over a period of time is referred to as CPI-based inflation, or retail inflation.
- CPI is used as a macroeconomic indicator of inflation, as a tool by the central bank and government for inflation targeting and for inspecting price stability, and as deflator in the national accounts.
- CPI also helps understand the real value of salaries, wages, and pensions, the purchasing power of the nation's currency, and regulating rates.
- It ascertains economic health and gives an idea of the cost of the standard of living.

CPI = (Price of basket in current period / Price of basket in base period) x 100

What is the statistics on inflation?

- Inflation measured by the Consumer Price Index (CPI), slowed 75 basis points from April's 95-month high of 7.79%, to 7.04% in May.
- Inflation faced by rural consumers fell from 8.38% in April to 7.01% in May, but for households in urban areas, the pace of price rise was virtually flat month-on-month.
- Food price inflation eased a little but the Consumer Food Price Index surged further for urban India.
- Inflation in the transport and communication category of the CPI slowed last month.
- The mild moderation in the retail inflation rate is attributed to
  - base effects (May 2021 had recorded high inflation at 6.3%)
  - lowering of excise duties on fuel products by the Centre

What does the data indicate?

- Despite the easing of retail inflation, there are several concerns that needs to be addressed.
- **Nutrition security**- Prices of vegetables and those of meat and fish surged from their year-earlier levels, adding to the nutritional insecurity of low-income households.
- **Fuel reliance**- Rural consumers who have comparatively lower purchasing power than their urban peers and heavily reliant on the fuels for farm operations, experienced a significantly

slower softening in the year-on-year pace.

- **Oil supply**- Even though inflation in edible oils slowed from April's pace, there is no room for complacency amid persistent supply concerns in the wake of the Ukraine war and the disruption in sunflower oil imports.
- **Consumer confidence**- With the RBI's consumer confidence survey showing deterioration in households' expectations of the one-year ahead price level, authorities must stay focused on the battle to tame inflation.

Reference

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