

Mixed signals on the inflation front

Why in news?

Although Covid-19 infection rates fall and demand revives the world over, the persisting supply chain disruptions could trigger inflationary trends.

What is the recent trend in inflation?

- The Consumer Price Index (CPI) that was on the rise between January and July 2021 has since been in decline.
- The inflation rate has been falling from 6.3 per cent in June 2021 to 4.3 per cent in September 2021.



- **Fuel inflation** - The spike in the prices of petroleum products has led to a persistent rise in the Fuel and Light component of CPI.
- A combination of rising global prices and hikes in government taxes were the leading drivers of fuel inflation.
- Between November 1, 2019 and October 16, 2021, excise duty on petrol in Delhi was increased by 65 per cent.
- **Food inflation** - India is still dependent on imports to meet up to two thirds of its edible oil consumption and the rising global prices of palm oil are contributing to a domestic price spike as well.
- Other products in the food and beverages group record a fall in inflation rate but are still characterised by absolute price increases.
- Consecutive good monsoons, good harvests, government procurement, increased MSP, etc. eased the food inflation at 4.1 per cent.
- Import prices of fertiliser have risen sharply and subsidy increases have only partially neutralised the increase in inflation.



Headline inflation is the raw inflation figure reported through CPI that is released monthly by the Bureau of Labor Statistics.

Core inflation removes the CPI components such as the cost of food and energy that can exhibit large amounts of volatility from month to month and cause unwanted distortion to the headline figure.

What does this trend signal?

- The benefit of a cereal price buffer against inflation is difficult to sustain because of the government's reluctance to burden the budget with larger fertiliser and food subsidies.
- Government plans to enhance output of palm oil to reduce import dependence have come a little too late to deal with price rise in vegetable oils.
- The cost push is a crucial driver of current inflationary trends, hence no benefit can be derived from interest rate hikes.
- For households still recovering from multiple blows of the pandemic, the threat of inflation is a great concern.

Source: The Hindu Businessline