Retail Inflation and Industrial Output Data – May 2021

What is the issue?

- The National Statistical Office (NSO) released the retail inflation and industrial output data.
- It offers some relief from the economic impact of second wave of the COVID-19 pandemic, but there are still factors to remain cautious about.

What is the inflation scenario?

- Provisional headline inflation (Consumer Price Index (CPI)) slowed to a three-month low of 4.29% in April, 2021.
- This was a result of softer food prices and a statistical base effect.
- A closer look at the inflation data reveals a substantial cooling in the prices of cereals, milk and milk products, vegetables, and pulses and products.
- Both cereals and vegetables saw a deflationary trend widen to -2.96% and -14.2%, respectively.
- Dairy products, which have the second-largest weight in the food and beverages category, also slid into deflation territory at -0.13%.
- Price gains in pulses decelerated into single digits to reach a 20-month low of 7.51%.
- [Earlier price gains in pulses had been bothering monetary policy makers by having been stuck in the double digits over an 18-month stretch.]
- The combined impact of these slowed inflation across the food and beverages group by more than 250 basis points to 2.66%.

What is the need for caution?

- The same Consumer Price Index data also point to persistent price pressures.
- Price gains in meat and fish increased to 16.7% and was little changed at 10.6% in the case of eggs.
- Inflation in oils and fats accelerated almost 100 basis points to 25.9%.
- Transport and communication also remained in the double-digit range at 11.04%.
- This was despite benefiting from the virtual freeze in the pump prices of

petroleum products that coincided with recent Assembly elections.

- Global crude oil is starting to rise again and local petrol and diesel prices are resuming their upward trajectory.
- So, the prospect of haulage costs — for transporting goods from factory and farm gates — rising in the near term is very real.
- All these could potentially result in faster inflation in the coming months, also amidst the impact of the lockdown in several states.
- This, along with rising international commodity prices, the outlook for inflation gets even more uncertain.

What is the industrial output scenario?

- A separate NSO release showed March 2021 industrial output jumped by 22.4%.
- This again benefitted from the fact that the Index of Industrial Production (IIP) had posted an 18.7% contraction in March 2020 during lockdown.
- But, industrial production numbers may also provide cheer only for a limited period.
- New orders and output have slowed to eight-month lows in April 2021.
- The pandemic-triggered factory shutdowns further threaten supply disruptions, industrial production, and thus, inflation faces challenges.

What is the way forward?

- Measures to bolster demand are the need of the hour amidst the lockdown-induced economic impact.
- Nevertheless, policymakers must stay vigilant to ensure price stability.

Source: The Hindu

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