Where and How Inflation Hits

Why in news?

Over the last few months, as most economies have started to recover, inflation has emerged as an important challenge.

What is the issue?

- Data from October showed the highest year-on-year spike in inflation in over 30 years in the United States.
- There are other countries too - inflation in Germany is 4.5%, Russia over 7%, Brazil 10%, Turkey 20%, and Argentina over 50%.
- The sharp and steady increase in prices has been mainly due to the unexpectedly fast demand recovery along with supply bottlenecks.
- The term "**stagflation**" which was popular in the 1960s and the 70s has regained currency.

Inflation is the rate of increase in prices over a given period of time.

Stagflation describes a situation of stagnant economic growth, along with persistently high inflation.

What is the situation in India?

- India does not face a serious stagflation situation, but it has its own set of inflation worries.
- Over the past few months, headline retail inflation measured by the Consumer Price Index (CPI) has been well within the RBI's comfort zone of **6% at the upper end.**
- But Indians are likely to face sustained inflationary pressures till the next financial year (2022-23).
- In India, high inflation occurred even before the start of the pandemic, mostly in food and fuel prices which is usually a temporary phenomenon due to short-term or seasonal factors.
- But if these prices stay up for long, they tend to seep through the **core inflation which is now higher than headline inflation**.

- A major reason for high headline inflation in India was the high inflation in food prices but food price inflation has simmered down over the past few months.
- Core inflation is close to 6% now, and unless international crude prices come off sharply, core goods inflation may stay elevated.

The headline inflation measure demonstrates overall inflation in the economy. It is more volatile compared to core inflation.

Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors.

Who has been worst affected by high inflation of late?

- Crisil Research published a detailed paper explaining how the same level of inflation affects different sections of India differently.
- During the last of 2020-21 and in the first half of 2021-22, it was the urban poor (bottom 20% in the income category) that faced the highest inflation rate.
- But since April, food prices inflation have come down sharply, fuel inflation has soared, while core inflation has stayed high.
- In the urban areas, fuel price inflation has been soaring at almost 15% and the worst affected are the urban poor who spend almost 11% of their income on buying fuel.
- In rural areas, people belonging to the bottom 20% income bracket have some relief as food and beverages which account for over 60% of their total consumption, has an inflation rate of just 3.5%.
- The rich who spend much of their total consumption on goods and services that are neither food nor fuel will face a tougher time since core inflation is likely to stay high for some time.

Reference

1. https://indianexpress.com/article/explained/explainspeaking-why-high-prices-are-here-to-stay-inflation-india-7623034/



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