

CORE CPI AT 5.9%

Consumer price inflation jumped by a whopping 100 bps to 5.03% in Feb'21, with the major contributor from food (particularly oils and fats and fruits) and transport and communication. This shows that higher retail prices of petrol and diesel have trickled down. Even core inflation increased to 5.88% in Feb'21 from 5.65% in the previous month. We believe that it will likely persist at high levels as cost-push pressures have further intensified. Interestingly, core CPI in service components like Education is still muted that is likely go up once the service economy opens up. Going forward, with prospects for Rabi harvest getting buoyant on top of a bumper Kharif crop, cereal inflation could remain contained. Onion prices may also start ebbing with Rabi crop arrivals setting in. However, price pressures seen in edible oil are contingent upon softening of international prices.

Meanwhile, IIP also contracted by -1.6% in Jan'21 after a positive growth of 1.6% in the previous month. Both Mining and Manufacturing contracted by 3.7% and 2.0%, respectively, however electricity sector grew by 5.5%.

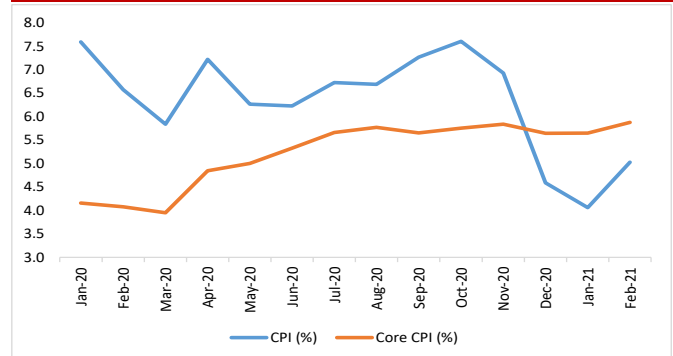
CPI INFLATION INCREASED TO 5.0% IN FEB'21

- ◆ Consumer price index (CPI) inflation which continued to soften till Jan'21, increased almost 100 bps (sequentially) to 5.03% in Feb'21 as compared to 4.06% in Jan'21. Underlying this unwelcome development was a sharp increase of food inflation (4.25% in Feb'21 as against 2.67% in Jan'21). A significant increase in inflation for transport and communication (to 11.36%) is a sign of worry and indicates the fact that increase in retail prices of petrol/diesel are trickling down.
- ◆ Core inflation increased to 5.88% in Feb'21 from 5.65% in the previous month. For the last 8 months core CPI inflation has been hovering in the range of 5.6-5.9%. We believe that it will likely persist at high levels as cost-push pressures have further intensified. With petrol, diesel and LPG prices at record levels and with the broad-based increase in the cost of industrial raw-materials and intermediates, the risk of firms passing on input price increases to final goods and services remain elevated. This will be a serious threat to the nascent economic recovery which is currently trying to normalise to pre-Covid levels.
- ◆ Going forward, with prospects for Rabi harvest getting buoyant on top of a bumper Kharif crop, cereal inflation could remain contained. Onion prices may also start ebbing with Rabi crop arrivals setting in. However, price pressures seen in edible oil are contingent upon softening of international prices.

IIP CONTRACTS

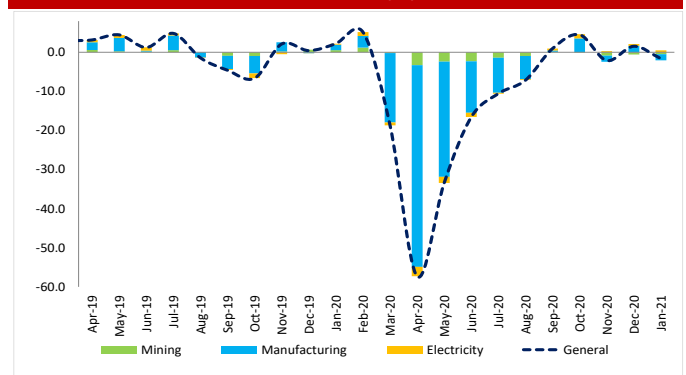
- ◆ After clocking positive growth in Dec'21 (1.6%), the IIP again contracted by 1.6% in Jan'21. Both Mining and Manufacturing contracted by 3.7% and 2.0%, respectively. Electricity sector, however, grew by 5.5%. During Apr-Jan FY21, cumulative IIP declined by 12.2% as compared to 0.5% growth in corresponding period last fiscal.
- ◆ Looking at the use based classification, significant decline is exhibited in Capital goods (-9.6%) and Consumer non-durables (-6.8%). Even the consumer durables witnessed a slight negative growth of -0.2% compared to a healthy 5.7% growth in Dec'20.

CPI & Core CPI Inflation (%)



Source: SBI Research

IIP Growth (%)



Source: SBI Research

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