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Double-digit inflation by Mar?

Jumps To 7.31% In Dec; RBI May Be Forced To Tighten Money Supply

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New Delhi: The annual rate of inflation based on wholesale prices jumped to 7.31% for the month of December, 2009 as compared to 4.78% for November. This is likely to force RBI to follow the tight monetary policy resulting into increase in the interest rates.

At 7.31%, it is already above the Reserve Bank of India's projection of 6.5% with upside bias by March 2010. According to Sonal Varma of Nomura Global Economics, a research firm, at the current pace, inflation is likely to rise above 8% in January and inch closer to double-digits by March, 2010.

Also, data released at December-end showed that consumer price-based inflation accelerated to 13.5% in November, 2009 from 11.5%. Varma said economic activity is accelerating and inflationary pressures are rising. The December figure is on the top of high inflation of 6.15% in December 2008. The latest figure — driven up mainly by sugar, pulses and potato — added to the government's worries over price rise and will push back any effort to free motor fuel prices.

The numbers also reinforced the expectation of a tighter monetary policy by RBI. The last time wholesale inflation exceeded the December level was in November, 2008 when it had reached 8%. A ray of hope, however, came from weekly food inflation that eased a tad to 17.28% in the week ended January 2 from 18.22% a week ago but pulses, potatoes and onions remained expensive. Despite signs of cooling off, overall data does not allow for slack and point towards a deepening food inflation threatening to spill over into the wider economy.

Prices of processed food items, for example, rose 26.40% in December and nonprocessed food items turned expensive by 19.17%. Potatoes rose over 70% during the week ended January 2, onions and pulses over 45% each and cereals by over 14%.

"Week-on-week it (food inflation) is down, which is a very good (sign). There are a whole lot of measures that are going through that have been decided on," chief economic advisor Kaushik Basu said. Earlier, Planning Commission deputy chairman Montek Singh Ahluwalia had also said that food inflation would ease next month as fear of negative impact of poor monsoon on farm produce has eased.

But the worry is now that prices of manufacturing items may rise due to increase in demand because of revival in the economic activities. The weekly inflation data released on Thursday shows a steep increase in naphtha, bitumen and furnace oil prices. Rising prices of fibres and oilseeds have also led to an increase in nonfood primary articles by 3.9% in December from November and an additional 0.7% in the first week of January.

Therefore, Varma said that inflationary pressures are still building and the current input cost inflation is expected to result in higher manufactured product prices in coming months. In addition, while food price inflation appears to be abating, much of the fall is confined to fruits and vegetables. **Costlier Living**

Consumer price-based inflation accelerates to 13.5% in November, 2009 from 11.5% in October, 2009. The latest surge is driven mainly by the price rise in sugar, pulses and potato

Moreover, prices of manufacturing items may rise due to increase in demand because of revival in the economic activities. This may result in inputcost-led inflation in manufacturing sector

