

GUARDED OPTIMISM OVER INFLATION

Prices stabilizing; will they hold?

Slew Of Govt Measures Bear Fruit, But Not Enough To Ease Pressure

TIMES NEWS NETWORK

New Delhi: There is a thin silver lining on the food price front with some signs of stability in rates though it is still too early to say whether the trend will hold long enough to enable the Manmohan Singh government to pull its chestnuts out of the fire stoked by rising inflation.

After Centre sent out a political signal on January 13 that it was prepared to fight inflation through a slew of price control measures including calling a meeting of chief ministers and later announcing an increase in wheat and rice PDS quotas, prices have remained more or less stable. In comparison to a week ago, only wheat is dearer by 50 paise a kg.

What may give Congress managers some reason for cautious anticipation is that prices also seem to be levelling off when compared to a month ago. Rice has stayed at Rs 23 a kg for a month since December 21, 2009 while wheat was Rs 15 a kg, dipped to Rs 14.50 a kg and is now again at Rs 15 a kg in the same span of time. Atta has remained at Rs 17.50 a kg through this time period.

The comparative retail prices for Delhi compiled for the Cabinet Committee of Prices shows that in the month gone by gram dal has declined from Rs 40 to Rs 39 a kg, tur dal from Rs 88.50 a kg to Rs 88 a kg, urad dal from Rs 76 a kg to Rs 74 a kg, masoor dal from Rs 66 a kg to Rs 63 while moong has remained at Rs 81 a kg. Milk has been at Rs 22 a kg while groundnut oil increased from Rs 112 a kg to Rs 113 a kg.

Sugar has declined from Rs 47 a kg a week ago to Rs 44 a kg though it is higher than what it was a month ago at Rs 37 a kg. Mustard oil has remained at Rs 71 a kg while vanaspati went down to Rs 56 a kg from Rs 57 a kg. Potato is at Rs 10 a kg from Rs 12 a kg a month back but onion is more expensive at Rs 23.50 a kg than Rs 22 a kg. Apart from it being early days, a comparison over prices three months ago shows clearly how retail rates have gone up. Wheat was then Rs 13 a kg, atta Rs 15 a kg, gram dal Rs 35 a kg, tur dal Rs 83 a kg, urad dal Rs 63 a kg, sugar was Rs 32 a kg, milk Rs 21 a kg, groundnut oil Rs 94 a kg, mustard Rs 62 a kg and vanaspati at Rs 51 a kg. But potatoes and onions were costlier at Rs 22 a kg and Rs 24 a kg.

What is really worrying the government are signs that inflation is becoming more generalized beyond food prices that it can hope to control through supply side interventions. Not only are food prices still high and the comparison over a three-month period shows this clearly, a gradual increase in demand is also now pushing up core sector inflation. Official sources point out that the government may well be a victim of its success in pushing more money into the rural economy through programmes like MNREGA and steadily rising minimum support prices not to speak of other state-level subsidies. This combined with a rise in industrial production and consumption in urban areas has pushed growth back onto an upward curve.

If food inflation actually begins to taper off, it will ease the pressure on government and hold off demands for increasing interest rates. While the January 29 Reserve Bank of India review may not touch interest rates, the possibility of this happening soon thereafter cannot be ruled out if WPI continues to head for the 10% mark by March, much above the central bank's 6.5% prediction in October last year.

