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Onion prices up 278%, tomato 122% in 1 year

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New Delhi: Inflation as measured by the wholesale price index (WPI) soared to an eight-month high of 7% year-on-year in October on the back of spiralling vegetable prices, raising the prospect of an increase in interest rates when RBI reviews its monetary policy mid-December.

The spike in prices was led largely by a surge in food costs. The increase in the inflation rate both at the retail and wholesale level should come as a fresh policy worry for the government and RBI.

Commerce and industry ministry data on Thursday showed that the WPI rose 7% year-on-year, accelerating

from the previous month's 6.5%. The inflation rate in October 2013 was 7.32%. Vegetable prices shot up 78.4% year-on-year in October — onion prices rose by an annual 278.2% while tomato shot up by 122% over October last year. Overall food inflation remained at double-digit level, rising an annual 18.2%, data released by the commerce and industry ministry on Thursday showed. Eggs, meat and fish rose an annual 17.5% while fruits shot up 15.9% year-on-year. There was some cheer on the pulses front as prices declined 11.2% year-on-year in October.

Policymakers said food inflation was uncomfortable but hoped that the pressure would ease once supplies go up. The government has spoken about easing supplies in the past but the problem of stubborn food inflation has persisted for nearly three years. It has hurt household budgets and the increase in interest rates has heaped more pain on those paying home and vehicle loans.

Planning Commission deputy chairman Montek Singh Ahluwalia was optimistic that the pressure would ease once fresh supplies hit the market. "I think it clearly remains uncomfortable because of food inflation. Core inflation is still quite modest. I think the food inflation must come down," he told reporters. "I would certainly hope that on the supply situation will improve due to the decision to offload certain stock taken earlier (by the government). Some seasonal spikes in few items will get corrected." **Price pressures: Fresh worries in financial markets**

New Delhi: Overall food inflation remained at double-digit level, rising an annual 18.2%, data released by the commerce and industry ministry on Thursday showed.

Retail inflation data released on Tuesday showed the rate touched double-digits in October on the back of a sharp increase in vegetable prices, fuelling expectations that the central bank may tighten interest rates to tackle the price pressures.

The RBI has expressed concern over the stubborn retail and wholesale price inflation and said they are expected to remain elevated in the months ahead

The sharp upward revision of the August reading from 7% from the previous 6.1% raised fresh worries in financial markets about price pressures.

"WPI has seen a steady uptrend since May, largely due to two shocks that hit India almost simultaneously in the second quarter of 2013-14 — the INR depreciation and surge in vegetable prices," said Rohini Malkani, economist at Citigroup India.

"Going forward, while the currency has reversed a third of its fall, vegetable prices are yet to normalize. This coupled with the adverse base effect is likely to result in inflation remaining in the 6.4%-7% range in the coming months. We maintain our call of a 25 basis points hike in policy rates in the second half of the 2013-14 fiscal year," Malkani said.

