Retail inflation eases to a 12-month low

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Why in news?

- Data released by the National Statistical Office (NSO) showed inflation, as measured by the consumer price index, rose an annual 5. 7% in December 2022.
- With this, the retail inflation has moderated to a one-year low in December.

What is Consumer Price Index (CPI)?

- CPI is a metric that measures retail inflation by collecting data on the prices of goods and services that are consumed by the retail population of the country.
- The National Statistical Office (NSO), Ministry of Statistics and Programme Implementation releases CPI.
    - CPI is released for all-India and States/UTs separately for rural, urban and combined (national).
- Currently, CPI is calculated using 2012 as a base year.
- Items for the CPI basket of goods and services classified across categories.
    - Few of the categories are; food and beverages, clothing, housing, fuel and light, recreation and etc.
        - All categories are assigned weights (as shown in the diagram).
    - Currently, CPI is calculated by taking into consideration 299 items.

Image caption: Consumer Price Index

News Summary: Retail inflation eases to a 12-month low

- Official data showed retail inflation grew by 5.7% in December — the fourth successive month when retail inflation has moderated.
- This was seen as a relief, given that inflation was the biggest economic story of calendar year 2022.
- The elevated inflation levels robbed people of their purchasing power and worsened India's trade deficit.
- This resulted in India's currency becoming weaker and the RBI losing significant forex reserves as it tried to stem the rupee's slide.

Does that mean inflation has been tamed now?

Inflation trend has moderated

- As per analysts, it is likely that the world has seen the worst of the inflationary spiral for now.
- This is due to the fact that another black swan event or an unanticipated spike in the hostilities between major powers is highly unlikely.
    - A black swan is a rare, unpredictable event that comes as a surprise and has a significant impact on society or the world.
    - E.g. – The outbreak of the Covid-19 pandemic.
- This implies that while central banks may still continue to raise interest rates, these hikes are likely to be smaller and fewer.

Level of core inflation is a concern

- Core inflation is the inflation when one ignores the prices of food and fuel.
- It is a measure of inflation in the broader economy and, typically, moves up and down far more gradually.
- As per the RBI, core inflation is a concern — it has stayed at the 6% mark since September, and in December inched up to 6.1%.
- This means Indian consumers will have to pay higher prices even if food and fuel prices come down.
  - This is due to the fact that higher prices have seeped through in the broader economy.
- This will cut into people's budgets and drag down overall consumption.

Why is economic growth a bigger worry in 2023?

- The elevated level of core inflation will curtail consumption and dampen the demand among businesses to invest in new capacities.
- Even while inflation hasn't completely gone away, the RBI's tighter monetary policy will take effect and drag down growth by making credit costlier.
  - Higher interest rates will bring down demand for money (both by consumers and producers) in the economy.
- The domestic slowdown will likely to be exacerbated by the likely global slowdown.
- Also, the economy is already losing momentum.
  - The First Advance Estimates of GDP for the current year released in the first week of January pointed to the economy slowing down significantly in the second half – that is, October to March.
  - India's GDP in the first six months of 2022-23 (April to September) grew by almost 10%, in the second half it is expected to grow by less than half that rate; just 4.5% to be precise.

Q1) What is inflation?

Inflation refers to a broad rise in the prices of goods and services across the economy over time, eroding purchasing power for both consumers and businesses.

Q2) What is Wholesale Price Index (WPI)?

The WPI is another popular measure of inflation. It measures and tracks the changes in the price of goods in the stages before the retail level. While WPI items vary from one country to other, they mostly include items at the producer or wholesale level.

Source: ExplainSpeaking | Inflation moderating, but the big worry this year is growth: Here's why | Ministry of Statistics and Programme Implementation | Times Of India