Growing precarity

Fuel levies must be cut to ease the burden on consumers reeling under rising inflation

The latest inflation data based on retail and wholesale prices are yet again flashing cautionary signals as spiralling costs continue to dog the pandemic-hit economy. CPI-based inflation stayed stuck above the RBI's 6% upper bound for the second straight month, with June's provisional annualised 6.26% only a touch slower than the six-month high pace of 6.3% registered in May. Inflation at the retail level was largely propelled by sharp increases in key food item prices including oils and fats, which surged almost 35% from a year earlier and gained 2.9% from May's levels, as also egg, which jumped 19.4% year-on-year and 6.2% from the preceding month, and pulses and products, which climbed 10% from June 2020. As RBI officials reviewing the State of the Economy in the central bank's monthly Bulletin released on Thursday observed, fuel inflation, which excludes petrol and diesel, surged to a record 12.7% in June driven by LPG, kerosene and the rural poor's mainstay, firewood and dung-cake. And, disconcertingly, LPG and kerosene prices have also registered increases so far in July. Transport costs remain persistently high as both petrol and diesel prices continue to rise, with the former now averaging ₹102.92 a litre in the four major metros as on July 12, and diesel at almost ₹94, according to the Bulletin article. With global crude oil trending higher, the unabated rise in domestic transportation costs is bound to reflect in retail prices of farm produce and products shipped from factories.

Wholesale price inflation also stayed stubbornly high at 12.07% in June, after May's record 12.94%, as price gains in the fuel and power category soared 32.8% annually, and those of manufactured products edged up to 10.88%. Medium and small-scale industrial units, already struggling to cope with the pandemic's impact on demand and overall finances, now face rising raw material and input costs. With manufacturing activity contracting in June for the first time in 11 months as per IHS Markit's PMI, the economy is visibly struggling to regain traction in the wake of the second wave, which has eroded demand and consumptive capacity in both urban and rural markets. Add to this the looming possibility that this year's monsoon rains may be less than adequate, either temporally or spatially, disrupting agricultural output and the outlook for both inflation and growth gets significantly clouded. With cumulative rainfall since June 1 being 5% below average and 12 weather subdivisions spanning 37% of the country's area experiencing deficient rainfall as on July 15, and the pandemic still nowhere near under control, the risk of precarity and hardship rising in the rural hinterland is very real. The Government must, at the very least, cut fuel taxes to ease the burden on consumers.