# Pain From Prices

The article is related to General Studies-Paper-III (Indian Economy)

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**More fuel tax cuts are needed to prevent inflation from hurting the recovery.**

The latest inflation data, both retail and wholesale, point to accelerating price gains that could potentially undermine the fragile economic recovery by pushing up costs and depleting consumers' purchasing power. November's Consumer Price Index (CPI) shows year-on-year inflation at the retail level quickened to a three-month high of 4.91%, from 4.48% in October.

Even on a sequential basis, last month's CPI reveals prices are estimated to have risen 0.73% from October with as many as 10 of the 12 constituents of the food and beverages category witnessing month-on-month inflation. Food was in fact a major driver of the quickening in price gains on an annual basis. Vegetable prices surged from October, logging 7.4% month-on-month inflation. Also, the Union government's belated and marginal reduction in excise duty on petrol and diesel, which was followed by cuts in local value added taxes by many States, barely slowed the pace of inflation in the transport and communication category: the rate eased 88 basis points from 10.90% in October, to 10.02% in November.

Clothing and footwear, housing, health, education and recreation were among the other key product and service categories that contributed to the sequential trend in price gains underlining the fact that inflation excluding food and fuel, otherwise known as core inflation, remains disconcertingly sticky and elevated at around 6%.

Nor does the data on wholesale prices provide any reason for cheer, with provisional inflation based on the wholesale price index racing to a record 14.2% in November, from October's 12.5%. The fuel and power sub index surged 39.8% year-on-year, and all three major groups comprising the WPI posted sequential accelerations as well.

Persistently high and climbing wholesale prices of basic metals, chemicals and chemical products, and textiles among manufactured products have the potential to feed through down-the-line to retail prices and add to inflationary pressure for consumers.

While manufacturers in some sectors may opt to absorb rising input costs, at least in the short term till demand gets more entrenched, the signs including from automobile makers are far from reassuring. The tariff increases announced by telecom service providers last month are also expected to feed through into retail inflation in December and international semiconductor shortages and logistics bottlenecks are roiling the outlook for prices of electronics and other products reliant on global supply chains.

With the rupee continuing to weaken against the U.S. dollar, policymakers also face the challenge of contending with imported inflation including the landed cost of crude oil shipments. The onus is clearly on the Centre to deepen the fuel tax cuts and address other supply-side issues to prevent inflation from hurting the recovery.

## Expected Question (Prelims Exams)

**Q. Which of the following can be caused by high inflation?**

**(a)** There will be a negative impact on the growth rate of the economy.

**(b)** Food prices may rise.

**(c)** There may be a negative impact on exports.

**(d)** All of the above.

## Expected Question (Mains Exams)

**Q. How is high inflation causing negative impact for the Indian economy at present? Discuss with example.**

**(250 Words)**

**Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.**