

## Where and How Inflation Hits

### Why in news?

Over the last few months, as most economies have started to recover, inflation has emerged as an important challenge.

### What is the issue?

- Data from October showed the highest year-on-year spike in inflation in over 30 years in the United States.
- There are other countries too - inflation in Germany is 4.5%, Russia over 7%, Brazil 10%, Turkey 20%, and Argentina over 50%.
- The sharp and steady increase in prices has been mainly due to the unexpectedly fast demand recovery along with supply bottlenecks.
- The term “**stagflation**” which was popular in the 1960s and the 70s has regained currency.

*Inflation is the rate of increase in prices over a given period of time.*

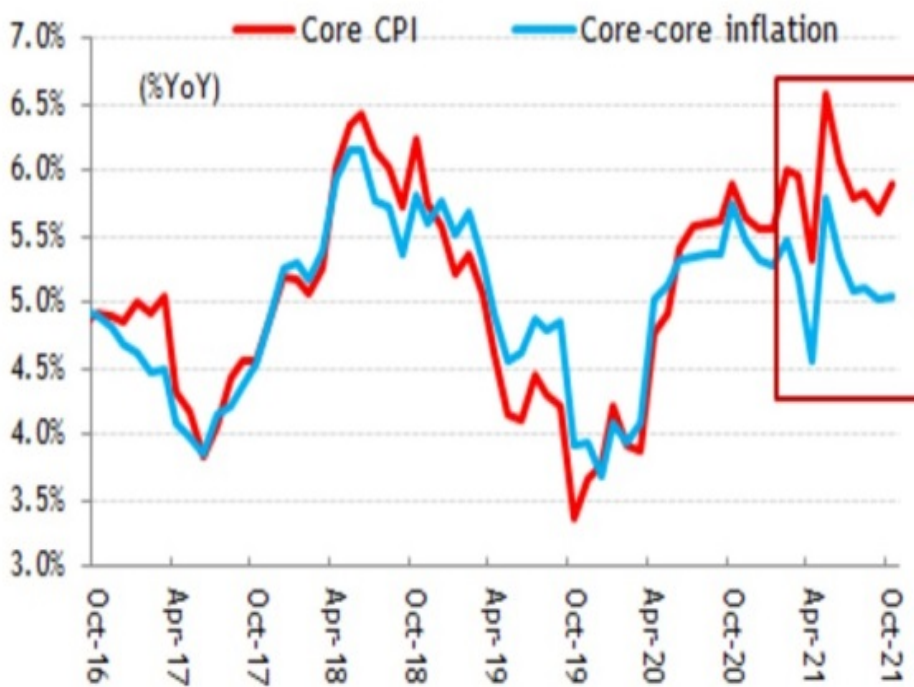
*Stagflation describes a situation of stagnant economic growth, along with persistently high inflation.*

### What is the situation in India?

- India does not face a serious stagflation situation, but it has its own set of inflation worries.
- Over the past few months, headline retail inflation measured by the Consumer Price Index (CPI) has been well within the RBI’s comfort zone of **6% at the upper end**.
- But Indians are likely to face sustained inflationary pressures till the next financial year (2022-23).
- In India, high inflation occurred even before the start of the pandemic, mostly in food and fuel prices which is usually a temporary phenomenon due to short-term or seasonal factors.
- But if these prices stay up for long, they tend to seep through the **core inflation which is now higher than headline inflation**.

- A major reason for high headline inflation in India was the high inflation in food prices but food price inflation has simmered down over the past few months.
- Core inflation is close to 6% now, and unless international crude prices come off sharply, core goods inflation may stay elevated.

**Chart 2: Core inflation stays elevated, at close to 6%** 



*The headline inflation measure demonstrates overall inflation in the economy. It is more volatile compared to core inflation.*

*Core inflation is the change in the costs of goods and services but does not include those from the food and energy sectors.*

### **Who has been worst affected by high inflation of late?**

- Crisil Research published a detailed paper explaining how the same level of inflation affects different sections of India differently.
- During the last of 2020-21 and in the first half of 2021-22, it was the urban poor (bottom 20% in the income category) that faced the highest inflation rate.
- But since April, food prices inflation have come down sharply, fuel inflation has soared, while core inflation has stayed high.
- In the urban areas, fuel price inflation has been soaring at almost 15% and the worst affected are the urban poor who spend almost 11% of their

income on buying fuel.

- In rural areas, people belonging to the bottom 20% income bracket have some relief as food and beverages which account for over 60% of their total consumption, has an inflation rate of just 3.5%.
- The rich who spend much of their total consumption on goods and services that are neither food nor fuel will face a tougher time since core inflation is likely to stay high for some time.

**Table 1: CPI inflation across different income classes\* (y-o-y %)**



Income segment	FY21		H1FY22	
	Rural	Urban	Rural	Urban
Top 20%	5.9	6.4	5.4	5.4
Middle 60%	5.9	6.8	5.2	5.5
Bottom 20%	5.9	7.0	5.2	5.6

*\*with share of commodity groups in basket as weights*

*Source: NSSO, National Statistics Office (NSO), CEIC, CRISIL*

## Reference

1. <https://indianexpress.com/article/explained/explainspeaking-why-high-prices-are-here-to-stay-inflation-india-7623034/>



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