

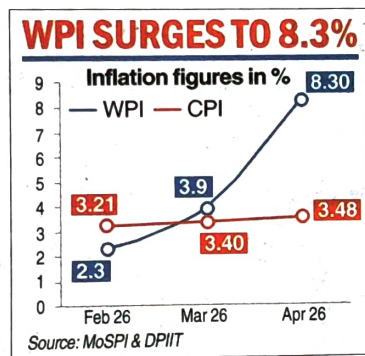
Rain, inflation cloud outlook

OUR BUREAU

Calcutta: India's consumption demand could face headwinds in the coming months as a below-normal monsoon, rising inflationary pressures and signs of moderation in economic activity begin to cloud an otherwise resilient economic outlook, the finance ministry said in its monthly economic review released on Saturday.

While domestic demand remains broadly robust, supported by strong automobile sales in segments including two-wheelers, passenger vehicles, commercial vehicles and tractors, some indicators are showing early signs of softening. Domestic air passenger traffic declined 1.3 per cent year-on-year, prompting the ministry to caution that a weaker monsoon and slower economic activity could weigh on consumption.

The review said high-frequency indicators such as e-way bill generation, purchasing managers' index and electricity consumption continue to point



to resilience in economic activity. However, indicators including the eight core industries index and fuel consumption have begun to moderate, suggesting that global headwinds are gradually filtering into parts of the domestic economy.

The ministry also flagged emerging inflationary risks. Although retail inflation rose only marginally to 3.48 per cent in April and remained below

the Reserve Bank of India's target, food prices have witnessed a sharp turnaround over the past four months, shifting from deflation to inflation.

Inflation in several non-seasonal food items, including animal protein, marine products and edible oils, rose by 5-15 per cent. Between March and April, inflation accelerated further in tea, coffee, refined oil, mustard oil and groundnut oil, which together account for 2.7 per cent of the consumer price index basket.

Reflecting the pass-through of higher commercial LPG prices, inflation in the restaurant and accommodation category rose to 4.2 per cent in April from 2.9 per cent in March. The report noted that eating out has become costlier, while hotel tariffs have risen at a slower pace.

In contrast to relatively contained retail inflation, wholesale inflation surged to 8.3 per cent in April, driven by elevated global energy prices, rupee depreciation and a favourable base effect (see chart). The ministry warned that these upstream cost pressures,

along with recent fuel price increases, could gradually feed into consumer prices through higher transportation, energy and food costs.

The India Meteorological Department's latest forecast of monsoon rainfall at 90 per cent of the long-period average adds to near-term concerns. Although rice and wheat buffer stocks remain comfortable at 817.53 lakh tonnes and reservoir storage is adequate, the report warned that a significant rainfall deficit, coupled with prevailing geopolitical tensions, could fuel food inflation, weaken rural demand and dampen growth.

The report identified disruptions in the Strait of Hormuz as the most critical variable for India's external and inflation outlook.

"Navigating FY27 will require agility across monetary, fiscal and structural dimensions to safeguard growth momentum and keep inflation durably anchored, even as the global environment remains uncertain," the report said.