Inflation likely to rise further: Barclays

New Delhi: Inflation is likely to continue moving northwards and the country is expected to witness more controlling measures such as increase in retail fuel prices in the near future, a latest report by British banking giant Barclays says.

"Upward pressure on inflation is likely to continue throughout the year, largely due to rising food prices and elevated oil prices...the Indian government recently raised retail fuel prices by around 10%, and we expect there is more to come," Barclays Wealth Research said. The rise in the wholesale inflation rate is largely due to increase in food and oil prices, Barclays said in the latest report titled 'caging the beast'.

Inflation had surged to 12.44% for the week ended August 2. Fruit prices went up by 8.9%, pulses became dearer by 1.4% during the week. While, in the fuel category, the price of diesel oil rose by 16%. The annual rate of inflation for the week ended June 7, was revised from 11.05% to 11.66%. Earlier, the global investment banker had said, "We believe WPI inflation will remain in double-digit territory until May 2009. We expect WPI inflation of 17% by September 2008".

FOOD, OIL TO FUEL PRICE RISE

Various measures were taken to contain inflation, like export ban were imposed on items such as pulses, wheat, rice, cement and some steel products. Besides, on July 29, the Reserve Bank of India increased both the repo rate and the cash reserve rate (CRR) by 50 basis points and 25 basis points respectively, taking both to 9%. "But with real rates still very low, further action is needed in order to curb price pressures," Barclays Wealth Analyst Diogo Santos said. The UK-based wealth management firm further said private consumption level is expected to remain fairly strong, driven by growth in wages and salaries.

According to Hewitt Associates salaries have risen at an annual rate of 15% in 2007 and are expected to rise another 15% this year.

Rise in labour cost has put more burden on corporate profits and would eventually affect their willingness to invest. Besides, amid global slowdown and high oil prices trade balance deficit has hit a new record high of nearly $11 billion in May, Barclays said.

The report said, "after several years of strong growth of close to 9%, this year the rate would moderate to around 8% level and stay near there in 2009." The slowdown would largely come as a consequence of tighter monetary policy, that affected the capex levels and sectors that are more dependent on borrowing and because of a generalised slowdown in overseas economies. Regarding the Indian equity market Barclays said until this year the growth was very strong, but now investors would have to learn to live with risk and volatility.

"Equities have fallen but are not necessarily cheap. Given the macro picture, we may see further losses although the market should stabilise and pick up as risk aversion decreases," Barclays said. PTI

Economy to grow at 9.4%: CMIE

Mumbai: The Indian economy would continue to clock a robust over 9% growth in FY '09, the Centre for Monitoring Indian Economy (CMIE) said in its monthly report on Monday. "We had predicted a growth of 9.1% in our first forecast in February 2008, which was revised up to 9.5% in June 2008. We now believe that the economy would grow by 9.4% in FY '09," CMIE said. This marginal change is because of a downward revision in its estimate of the growth of the industrial sector.

CMIE had predicted a growth of 11.4% in industry. However, following a slowdown in the output of a few industries, "We now believe that the industrial sector would grow by 11.1% and not 11.4% as predicted earlier," the report said. Prominent industries that have warranted a decline were cement, sugar, glassware and milk powder, CMIE said. PTI

SOURCE - TOI (19/8/08)