

In a first, US beats India on consumer inflation

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Emerging markets such as India have always run higher inflation rates than developed economies such as the US and countries of Western Europe.

But for the first time in the past 30 years, the US reported a higher consumer price inflation (CPI) rate than India in five consecutive months.

The US reported a CPI rate of 7.5 per cent in January 2022 against 6.01 per cent in India and analysts expect the trend to continue for at least a few months more (see the adjoining charts).

Before this, inflation in the US was higher than in India on only four occasions -- November 1999, December 1999, May 2004, and June 2017. In the past 30 years, inflation in India has been higher than in the US by, on average, 4.75 per cent.

A sharp rise in the retail inflation rate in the US has raised fears of a quicker increase in interest rates in the world's biggest economy, which could hurt capital inflows into India and other emerging markets.

While lower inflation is generally believed to be a positive indicator for an economy, many experts say India's relatively low CPI is not beneficent but hints at a lack of demand in the economy.

"A low CPI in India largely indicates a lack of consumer demand, making it tough for firms to raise prices despite rising input costs. In the US, on the other hand, consumer spending has been exceptionally strong in the post-Covid period, allowing firms to raise prices," said Dhananjay Sinha, managing director and chief strategist, JM Finance Institutional Equity.

It shows in the personal or private consumption component of the GDP of the two economies.

Private final consumption expenditure -- the biggest component of GDP in both the countries -- has grown at a faster pace in the US than in India for the last five consecutive quarters now. As a result, consumer demand or personal consumption in the US has recovered from the pandemic shock and was nearly 11 per cent higher during the September 2021 quarter (on an annual basis) than the pre-Covid level in the March 2020 quarter.

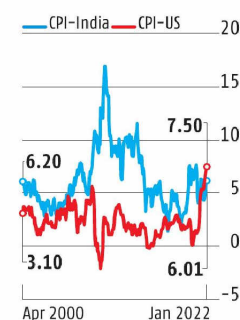
In contrast, consumer demand in India at current prices, when converted into dollars, is still nearly 1 per cent lower than its pre-pandemic level. Overall consumer demand in the US jumped to \$15,965 billion during four quarters ended September 2021 from \$14,439 billion in March 2020. Consumer spending in India was estimated to be \$1,721 billion in the September 2021 quarter (on an annual basis) against \$1,732 billion during the four quarters ended March 2020.

Strong consumer demand, coupled with supply chain bottlenecks due to lockdowns, globally has fuelled retail inflation in the



COMPARING THE NUMBERS

The historical trend of Consumer Price Inflation in India and United States YoY (chg (%))



US and other developed markets such as Western Europe.

Strong consumer demand in the US has been attributed to a big rise in government spending in the past two years.

"Higher inflation pressure in the US is largely because the fiscal stimulus was much bigger there than in India," said G Chokkalingam, founder and managing director, Equinomics Research & Advisory Services.

According to the International Monetary Fund (IMF), the US government has spent nearly \$5.3 trillion on pandemic relief since January 2020. That is equivalent to around 25.5 per cent of the country's GDP.

Additional fiscal spending in India, on the other hand, amounted to \$109 billion, equivalent to 4 per cent of GDP.

The inflation gap has also been attributed to the difference in the composition of the price indices in the two countries.

"India's CPI is dominated by food with nearly a 45 per cent weighting in the index. In contrast, the US price index has a much higher weighting of things like fuel, transportation, manufactured goods, and services where price inflation has been much higher due to a global rally in energy and metal prices," said Madan Sabnavis, chief economist at Bank of Baroda.

Food inflation has been benign in India owing to record production, besides generally lower demand in the pandemic period.

This has led to a situation where inflation in the US is demand-driven while India faces cost-push inflation. It shows in the gap between the consumer and the wholesale price inflation (WPI) numbers.

The WPI rate in India, which reflects the prices of key industrial and agricultural commodities, has been 13 per cent, on average, in the past six months against a CPI rate of 5.1 per cent during July-December 2021.