

Rising prices in Asia

A weight on their shoulders

Inflation in Asia is not as bad as it looks

SUPPORTERS of Mayawati, a member of India's downtrodden castes who is now chief minister of Uttar Pradesh, India's most populous state, show their appreciation by offering her garlands to wear around her neck. The one presented to her at an event earlier this month was enormous. It was estimated to weigh 65kg, according to the *Times of India*. The garland was made not of marigolds, but of crisp 1,000 rupee (\$22) notes.

That is as good a sign as any that money is too easy in India. Consumer prices for agricultural workers (among whom Mayawati has her supporters) rose by 16.5% in the year to February. Wholesale prices, which the central bank watches more closely, rose by 9.9% over the same period. That prompted the Reserve Bank of India (RBI) to raise interest rates on March 19th by 0.25 percentage points, without waiting for its scheduled meeting.

The central bank's decision follows rate hikes by the central banks of Australia, Malaysia and Vietnam. The RBI perhaps should have beaten them to the turn. But like other Asian central banks, it was nervous of raising rates while America's rates were on the floor. It also blamed rising prices on the worst monsoon since 1972, which hurt the harvest of foods that weigh so heavily in India's inflation indices, especially its four measures of consumer prices. In those circumstances, the central bank's duty is not to stop a one-time jump in prices. It is only to prevent this jump spilling over into broader inflation, creating expectations of future price rises that can become self-fulfilling.

Such a spillover is now visible. In a statement accompanying the rate rises, the RBI noted that wholesale prices of non-food manufactured goods, which had fall-

en by 0.4% in the year to November, were now rising by 4.3%. A survey by Hewitt Associates suggests that employers will raise salaries by 10.6% this year, compared with a 6.6% rise in 2009. And in an article in *Economic and Political Weekly*, an Indian journal, Rajiv Kumar of the Indian Council for Research on International Economic Relations and his colleagues note that rice retailers charged a markup of 12% over the wholesale price in December 2009, compared with 8% a year earlier. They believe this is suggestive of the "hoarding" that politicians like Mayawati love to blame for higher prices.

Having never fallen as steeply as elsewhere in Asia, India's wholesale prices are now rising faster than anywhere except Thailand (see chart). "India is at one extreme," says Robert Prior-Wandesforde of HSBC. Elsewhere, he says, the upward swing in the global price of commodities such as oil, food and metals, is beginning to show up in broader prices but the inflationary pressure is not remotely like 2008.

In that year commodity prices were rising much faster and Asia's economies were wound much tighter. After several quarters of robust growth, industrial production has caught back up with its long-term trend in all Asian countries except Japan, Singapore and Malaysia, according to HSBC. In 2008 it was far above this trend. Under those conditions, firms passed higher costs onto consumers quite promptly.

Mr Prior-Wandesforde believes headline inflation in Asia will peak soon. Having doubled last year, oil prices would have to double again to maintain the same rate of increase, he points out. But that does not mean Asian central banks can rest easy. Given the lags that afflict monetary policy, they must set rates today for the Asian economy of 18 months from now.

Their policies still reflect nervousness about a relapse in America and Europe. They are consequently too loose for a region that is recovering so briskly.

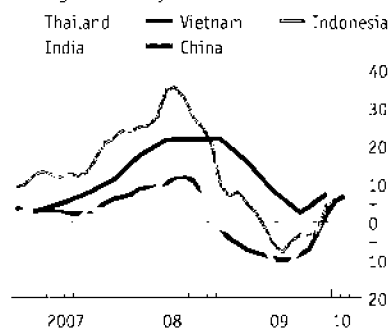
Even in India the spring harvest should help quell wholesale-price inflation. But these prices are a poor guide for India's monetary policy. They tell the central bank a lot about forces it cannot control, such as the monsoon and the global commodity markets. But they tell it little about the things it can hope to influence, such as domestic demand. The RBI, according to Mr Prior-Wandesforde, is "flying blind most of the time".

In its statement, for example, the central bank cited increasing capacity utilisation as an inflationary threat. By one measure, prepared by the National Council of Applied Economic Research in Delhi, capacity utilisation has returned to its pre-crisis peaks. But India lacks a robust measure of core inflation, or comprehensive measures of employment and wage pressures. Inflation watchers must instead take their cues from surveys, casual observation and telling anecdotes—as well as the weight of money garlanding politicians' necks. ■

It's back

Producer/wholesale prices

% change on previous year



Source: CEIC