

WHOLESALE INFLATION

14 May 2019

WPI food inflation rises sharply

WPI inflation moderated to 3.1% in Apr'19 from 3.2% in Mar'19 led by dip in fuel and power (3.8% in Apr'19 from 5.4% in Mar'19) and manufactured inflation (1.7% in Apr'19 from 2.2% in Mar'19). However, food inflation rose to 4.9% in Apr'19 (3.9% in Mar'19), a 25-month high, driven by higher vegetable and protein prices. With international oil prices hovering at US\$ 71/ bbl, a depreciating currency and rising domestic food inflation, we believe RBI may wait out in the June policy to assess the evolving growth-inflation dynamics.

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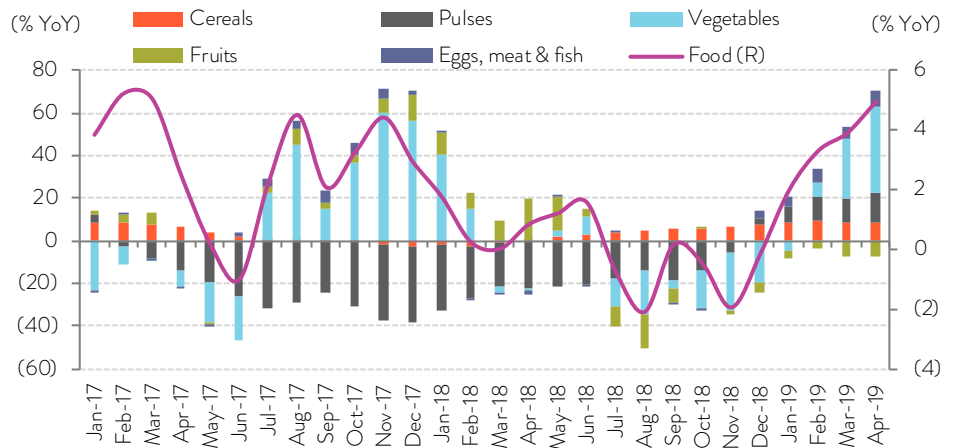
Uptick in food inflation: WPI food inflation rose to 4.9% YoY in Apr'19 from 3.9% in Mar'19, a 25-month high. The increase this month too was driven by acceleration in vegetable prices which were up by 40.6% in Apr'19 as against an increase of 28.1% in Mar'19. Retail prices will also see a gradual pass-through. Prices of pulses too accelerated to 15.3% in Apr'19 compared with 9.1% in Mar'19. So was the case with egg, meat and fish prices of which rose by 6.9%, climbing to almost 5-year high from 5.9% in Mar'19. However, cereal inflation has decelerated to 8.4% in Apr'19 from 8.9% in Mar'19 led by dip in wheat inflation to 7.5% in Apr'19 from 10.1% in Mar'19.

Fuel & power inflation decelerates: Fuel & power inflation retreated from 3-month high of 5.4% in Mar'19 to 3.8% in Apr'19. All sub components saw deceleration in rate of increase with electricity index easing the most at 2.3% vs 5% in Mar'19, followed by mineral oil index at 5.8% vs 7.3% in Mar'19. While international asset prices are falling on the back of trade dispute between US and China, oil prices seem to be holding on. Average oil prices in FY19 were at similar level as today. However, a depreciating currency and geo-political risks may trigger inflationary pressure.

Core inflation dips: Both core and manufactured product inflation cooled off in Apr'19. While core inflation fell to 1.9% in Apr'19 from 2.5% in Mar'19, manufactured product inflation eased to 1.7% from 2.2% in Mar'19. The moderation was led by wood, base metals, computer & electronic products, motor vehicles & other manufacturing products. Only 6 out of 22 items registered higher growth. The decline in international commodity prices has been transmitted in local prices. The current global backdrop favours the above trend to continue.

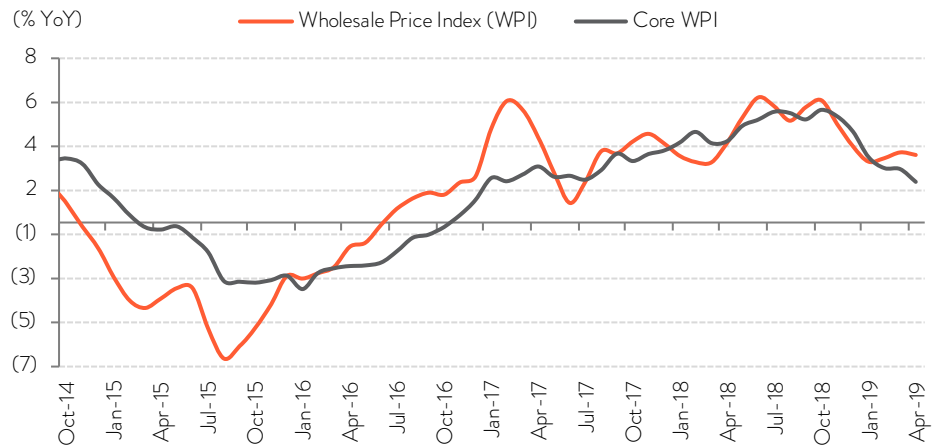


FIG 1 – WHOLESALE FOOD INFLATION TICKING UP



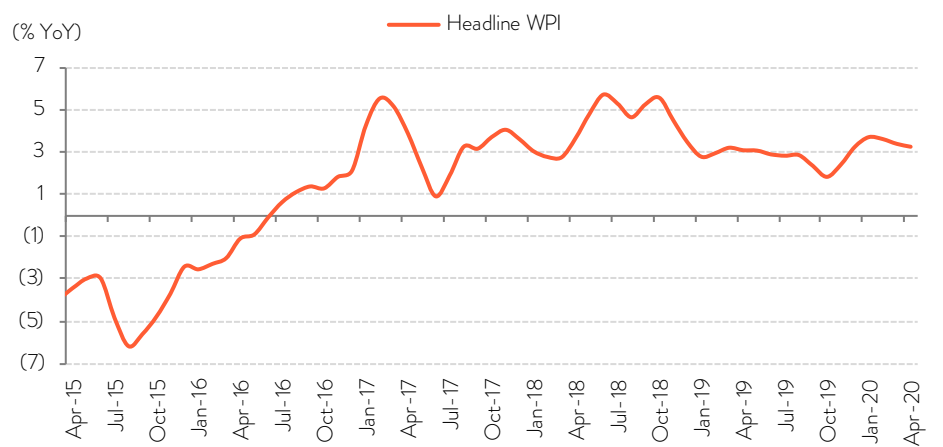
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION DIPS IN APR'19



Source: CEIC, Bank of Baroda Research

FIG 3 – HEADLINE WPI TO REMAIN MUTED IN COMING MONTHS



Source: CEIC, Bank of Baroda Research

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