

RETAIL INFLATION

13 May 2019

Food inflation inches up; core moderates

Retail inflation increased to a 6-month high of 2.9% in Apr'19 led by higher food inflation at 1.1% (0.3% in Mar'19). Within food, vegetable and meat prices rose the most. However, core inflation moderated to 4.5%, an 18-month low, and the decline was quite broad-based. While a backdrop of worsening global growth favours a rate cut, sticky international oil prices, a depreciating currency and uncertainty over onset and spatial distribution of monsoon imply RBI is likely to remain on hold in its next meeting.

Sameer Narang

+91 22 66985713

chief.economist@bankofbaroda.com

Dipanwita Mazumdar

dipanwita.mazumdar@bankofbaroda.com

Aditi Gupta

aditi.gupta3@bankofbaroda.com

Food inflation inched up: Food inflation rose to a 9-month high in Apr'19 at 1.1% from 0.3% in Mar'19. The increase was led by vegetable prices which increased by 2.9% in Apr'19 (-1.5% in Mar'19), after remaining in deflation since Jul'18. The rate of price increase for meat and fish category also accelerated to a 35-month high of 7.5% in Apr'19. On the other hand, cereal inflation remained steady at 1.2%. While prices of pulses declined by (-) 0.9% in Apr'19, the extent of deflation was lower from Mar'19 level. Same holds true for fruits.

Core inflation decelerated: CPI inflation excluding food and fuel edged down to 4.5% in Apr'19 (lowest since Oct'17) compared with 5% in Mar'19 and 5.9% in Apr'18. All categories of core inflation saw a moderation from Mar'19 level, helped in part by a base effect. The dip in core inflation was led by household goods and services and personal care and effects (100bps each). Despite higher international oil prices (6.9% rise in Apr'19), the pass-through has been lower this month. Core excluding transport and communication also declined by 50bps at 4.9% in Apr'19 compared with 5.4% in Mar'19.

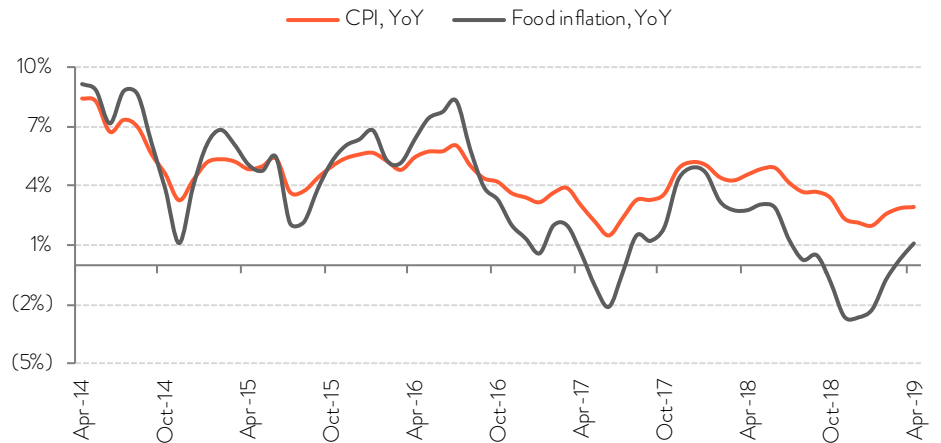
RBI to wait for now: RBI's estimate for Q1 inflation was 2.9% and Apr'19 print is on-track. While food inflation, led by vegetables, is inching-up, core inflation is moderating and is likely to decelerate further. A global backdrop of worsening growth outlook implies international commodity prices should also remain muted. However, oil prices have not shown a moderation in the last few days when most other asset prices have seen a decline. In addition, INR has seen a depreciation of 1.7% in May'19. While other Central Banks (Malaysia, Philippines, New Zealand) have responded with rate cuts in the last week, RBI was ahead of the cycle. For now, it will have to wait for monsoon and impact of US-China trade war on growth and asset prices before any further policy action.

KEY HIGHLIGHTS

- CPI inflation rises to 2.9% in Apr'19 led by a pickup in food.
- Food inflation picks up to 1.1% from 0.3% in Mar'19 led by vegetables (2.9%) and meat and fish (7.5%).
- Core inflation at an 18-month low of 4.5%.

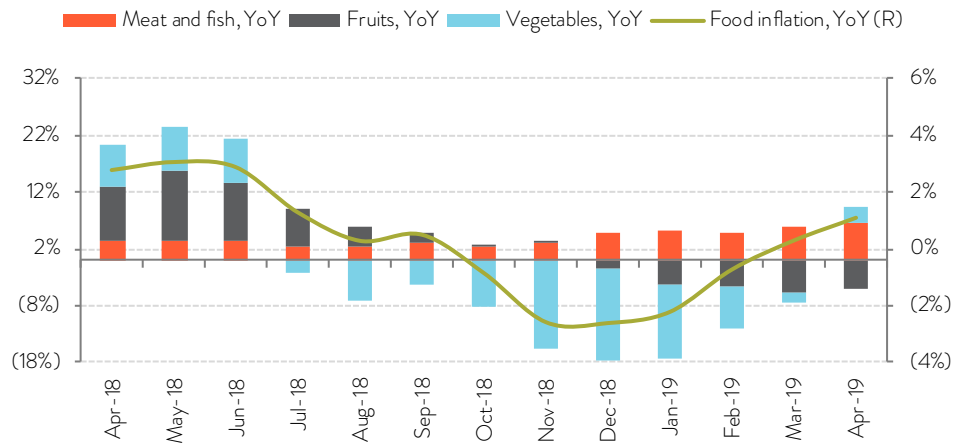


FIG 1 – FOOD INFLATION INCHES UP



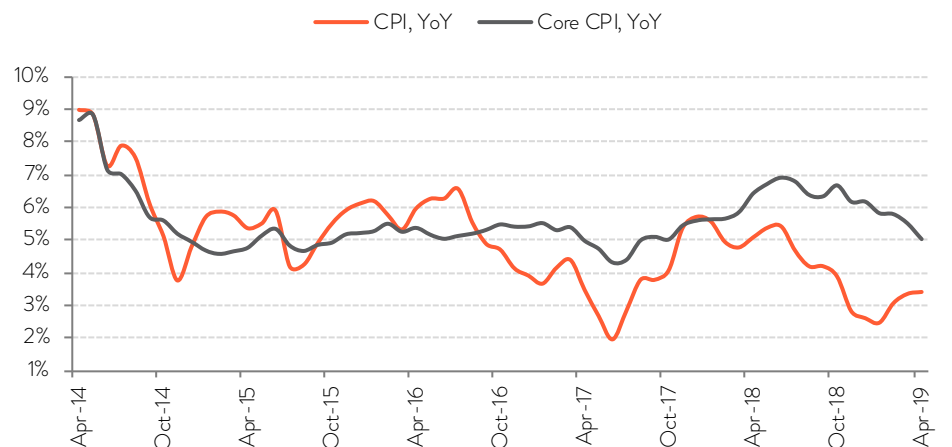
Source: CEIC, Bank of Baroda Research

FIG 2 – LED BY HIGHER VEGETABLE PRICES



Source: CEIC, Bank of Baroda Research

FIG 3 – CORE CPI EASES TO 4.5% IN APR'19



Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com