

WHOLESALE INFLATION

14 June 2019

WPI eases to 22-month low

WPI inflation fell to near 2-year low of 2.5% in May'19 from 3.1% in Apr'19 led by dip in fuel and power (1% in May'19 from 3.8% in Apr'19) and manufactured inflation (1.3% in May'19 from 1.7% in Apr'19). However, food inflation rose to 5.1% in May'19 (4.9% in Apr'19). With lower international oil prices, now at US\$ 60/ bbl and benign core CPI inflation we expect RBI to cut Repo rate by 25bps as growth is likely to be lower than RBI's estimate of 7% in FY20.

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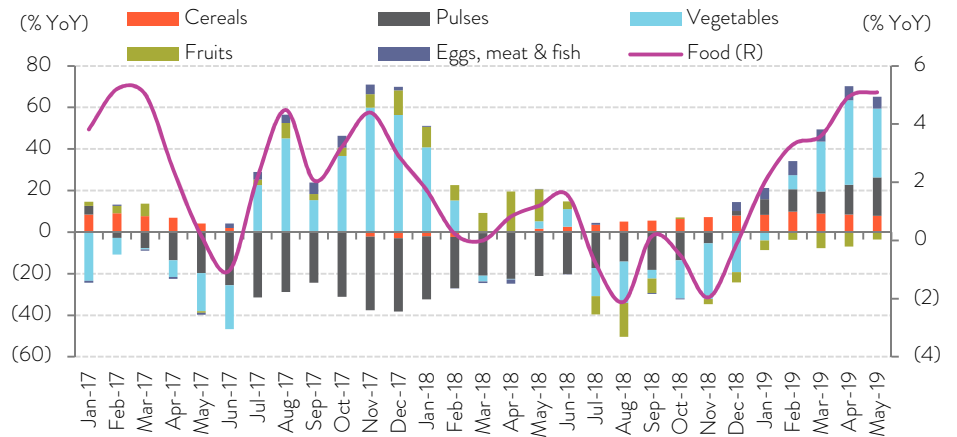
Food inflation inches up: WPI food inflation edged up to a 27-month high of 5.1% YoY in May'19 from 4.9% in Apr'19. The uptick was driven by foodgrain prices which were up by 9.6% in May'19 compared with 9.3% in Apr'19. Within foodgrains, pulses inflation moved up to 18.4% in May'19 compared with 14.3% in Apr'19. On the other hand, the pace of inflation in veggie prices moderated to 33.2% in May'19 from 40.6% in May'19 led by drop in prices of potato. Even cereal inflation moderated to 7.9% in May'19 from 8.4% in Apr'19 as prices of both wheat and paddy eased in May'19.

Fuel & power inflation dips further: Fuel and power inflation fell to 1% in May'19 versus 3.8% in Apr'19, on account of base effect (12.7% in May'18) and (-) 8.7% YoY decline in international crude prices in May'19. This is the second consecutive decline in fuel inflation. Amongst the sub-indices only coal inched up (0.5% vs 0.4% in Apr'19). Electricity index dipped sharply. In the near term, subdued global growth and on-going trade tensions will keep oil prices towards the lower end of the spectrum. In Jun'19, despite (-) 3.1% depreciation of INR, a (-) 19.1% decline in Brent prices is likely to keep fuel inflation muted.

Core inflation decelerates: Both core and manufactured product inflation cooled off again in May'19. While core inflation fell to 1.2% in May'19 from 1.9% in Apr'19, manufactured product inflation eased to 1.3% from 1.7% in Apr'19. The moderation was led by tobacco, basic metals, fabricated metal products, chemicals and rubber products. Only 7 out of 22 items registered higher growth. International commodity prices too declined by (-) 6.8% in May'19 on a YoY basis. In Jun'19 the trend is downward (-7.5%) again.

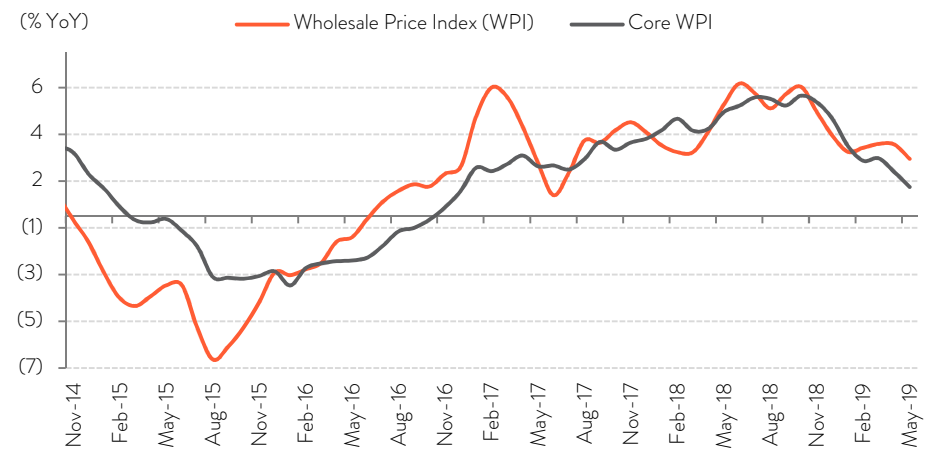


FIG 1 – WHOLESALE FOOD INFLATION STEADY IN MAY'19



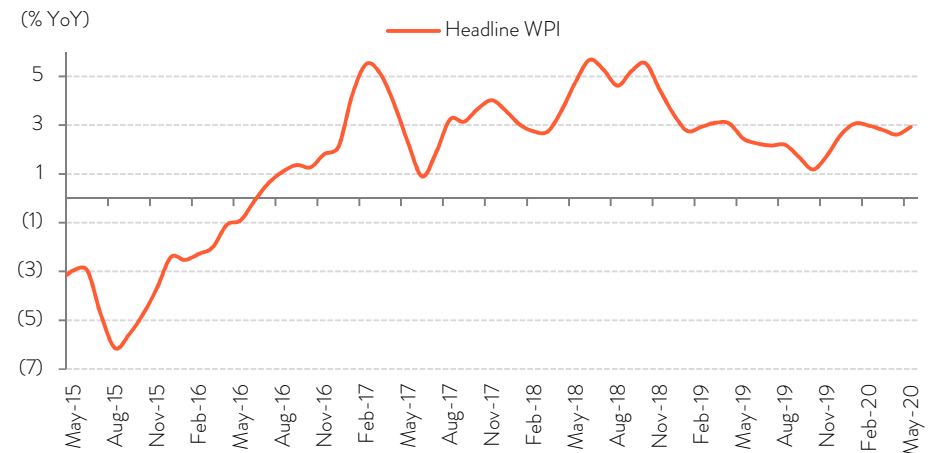
Source: CEIC, Bank of Baroda Research

FIG 2 – CORE INFLATION DIPS FURTHER IN MAY'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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