

## WHOLESALE INFLATION

14 February 2019

### WPI inflation dips sharply

WPI moderated to 2.8% in Jan'19 from 3.8% in Dec'18. The drop was led by fuel and power (1.8% in Jan'19 from 8.4% in Dec'18) and manufactured inflation (2.6% in Jan'19 from 3.6% in Dec'18). However, food inflation rose to 1.8% in Jan'19 (0.1% in Dec'18). Going forward food inflation is likely to increase led by higher prices for certain food grains. However, lower crude and commodity prices will negate the impact of higher food inflation. A similar trend is likely to play out for CPI thus ensuring benign inflation scenario.

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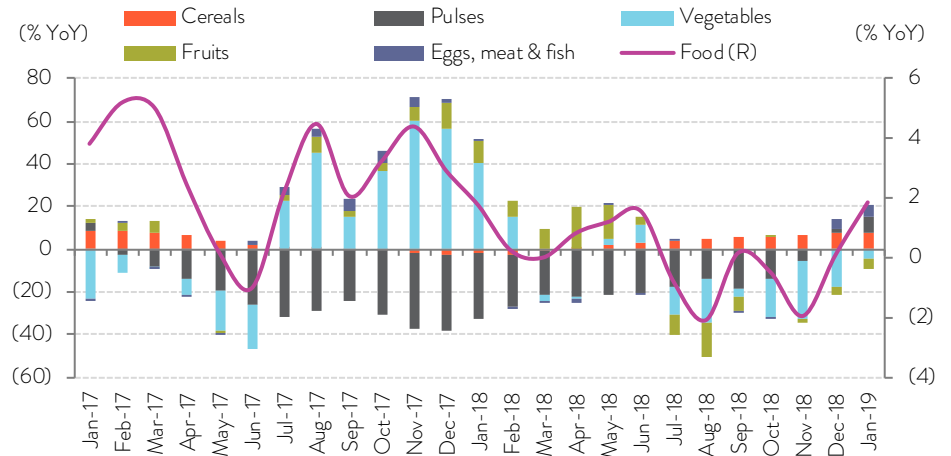
**Food inflation accelerates:** WPI food inflation rose to 1.8% in Jan'19 on a YoY basis from 0.1% in Dec'18. The increase was led by pulses with an inflation rate of 7.6% in Jan'19 from 2.1% in Dec'18. In addition, vegetable prices fell by (-) 4.2% in Jan'19 compared with (-) 17.5% fall in Dec'18. Within cereals, while wheat prices increased by 9.9% in Jan'19 from 9.6% in Dec'18, that of rice increased only by 2.9% compared with 4% increase seen in Dec'18. Food inflation may go up further as base effect plays out in the next few months. However, given the global oversupply in cereals such as rice and wheat, prices are unlikely to increase materially.

**Fuel & power inflation slips further:** On the back of lower international oil prices (-13% YoY decline in Jan'19), fuel and power inflation reduced sharply to 1.8% in Jan'19 from 8.4% in Dec'18. Mineral oils index fell to 0.1% from 8.9% in Dec'18. With crude below US\$ 65/bbl, we expect fuel inflation to remain under control in 2019 as crude prices averaged US\$ 72/bbl last year.

**Core inflation falls below 3%:** Both core and manufactured product inflation eased further in Jan'19 to 2.9% and 2.6% from 4.2% and 3.6% respectively in Dec'18. The decline was fairly broad-based, led by basic metals, tobacco, and other manufacturing items. This was in line with softening international commodity prices (-6.9% in Jan'19 vs -5.4% in Dec'18) on a YoY basis. Wearing apparels, leather products and pharma items on the other hand contributed positively to the manufactured inflation.

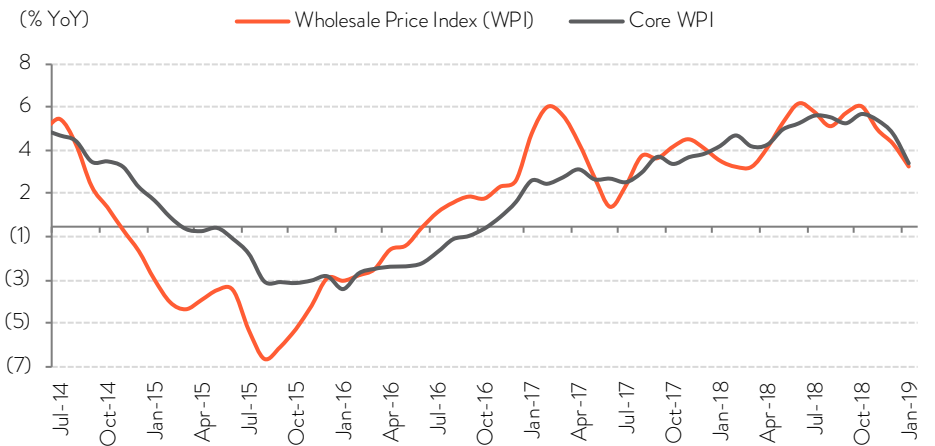


**FIG 1 – WHOLESALE FOOD INFLATION RISES**



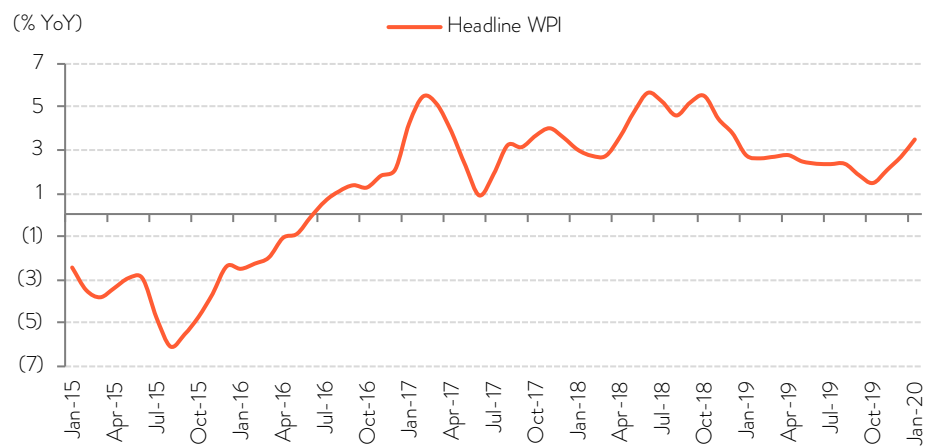
Source: CEIC, Bank of Baroda Research

**FIG 2 – HEADLINE WPI AND CORE SLIPS FURTHER**



Source: CEIC, Bank of Baroda Research

**FIG 3 – HEADLINE WPI TO REMAIN MUTED IN NEXT FEW MONTHS**



Source: CEIC, Bank of Baroda Research

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